An Insight into Financial Inclusion of the Informal Sector in Masvingo, Zimbabwe [1]

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ABSTRACT

The purpose of the research was to explore the level of Financial Inclusion among the informal sector section of the population of Masvingo and the reasons behind An exploratory research design was used to achieve the envisaged aims of the study. Overall, the results showed that the majority of the informal sector in Masvingo remains largely financially excluded. The main reasons they cited was low income to save as a result of harsh economic environment that exist in the country and lack of confidence on the formal banking system. The banks on their part cited high cost of doing business for them to effectively mobilise financial inclusion. The implications of the study are that the Government of Zimbabwe should vigorously promote economic stability and restore public confidence in the banking sector before Financial Inclusion can be finally achieved

Keywords: Financial Inclusion Mobile Banking Financial Literacy

INTRODUCTION

From numerous studies previously carried out, it has been established that economic growth and development is difficult to achieve if a large portion of the population is wallowing in poverty. According to Kunt and Klapper (2012), well – functioning financial systems serve a vital purpose, offering savings, payment to people with a range of needs and more inclusive financial systems – allowing broad access to appropriate financial services are likely to benefit poor and other disadvantaged groups. Financial Inclusion has had many definitions from different scholars. Thorat (2006) offers that financial inclusion implies providing affordable financial services such as access to payments and remittances facilities, savings, loans and insurance services by the formal financial systems to those who tend to be marginalised. Empirical evidence confirms that countries with a large section of their population that is not financially included tend to have higher poverty ratios and inequality. The results of such imbalances include high crime rates and a potential source of social unrest. (Sharit 2013). Financial Inclusion will raise capacity for investment and develop savings and entrepreneurial abilities within the

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population which often lead to higher incomes and consequently better lives (Chakrabaty 2009)

Overview of Banking in Zimbabwe

Presently, the financial sector comprises the Reserve Bank of Zimbabwe (RBZ) at the apex, discount houses, commercial banks, merchant banks, finance houses, building societies, the People's Own Savings Bank (POSB), insurance companies, pension funds, venture capital companies, asset management companies, developmental financial institutions, the Zimbabwe Stock Exchange, microfinance institutions and money transfer agencies (that intermediate remittances). As at the end of 2018 there were 28 banking institutions (down from 32 as at 31December 2003), 17 asset management companies and 75 operating microfinance institutions (see Table 1). What is clear from Table 1 is that the instruments of financial inclusion, namely microfinance institutions, have suffered the brunt of macroeconomic instability.

TABLE 1: Number of Banking Institutions

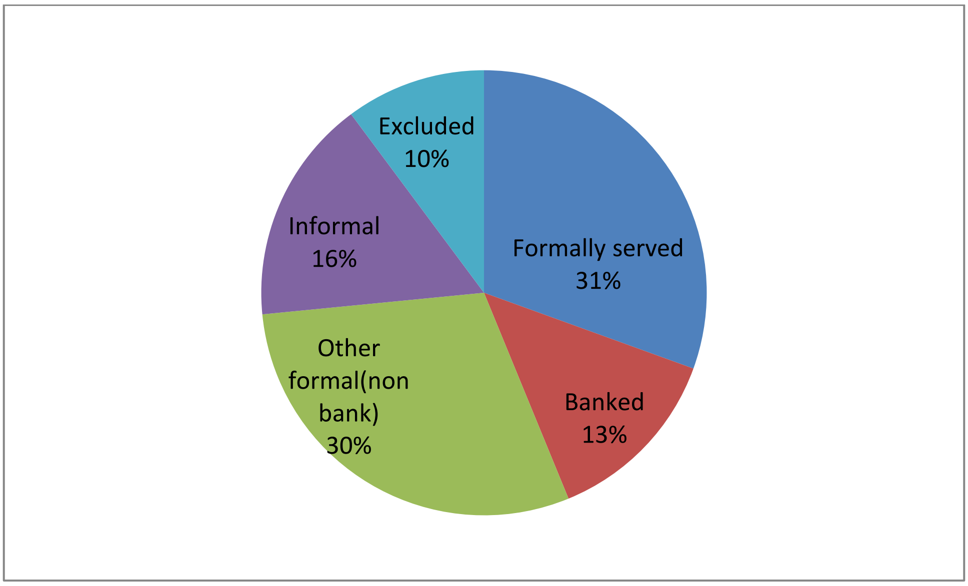
Type of Institutions	December 2003	December 2018
Commercial Banks	13	15
Merchant Banks	5	6
Discount Banks	6	3
Finance Houses	4	0
Building Houses	4	4
Total	32	28
Asset Management Companies	N/A	17
Microfinance Institutions	1700	147

While most institutions have the majority of their branches in major towns, there is a relatively good spread of branches throughout the provinces of the country, with the POSB and Central Africa Building Society (CABS) having networks that extend to rural and remote areas.

According to a survey by the National Task Force on Microfinance concluded in 2006, the size of the market not served by existing financial institutions is still large. The average banking density was found to be one financial institution outlet per 17,000 inhabitants. In the rural areas it was found to be one financial institution outlet per 6,000 inhabitants which meant that less than three percent tof rural households have access to financial services.

In Zimbabwe according to Fincsope Consumer Survey (2017) thirty percent (30%) of the adult population are banked while the remaining seventy (70%) were unbanked. Sixty nine percent (69%) had access to financial services as opposed to only 38% in 2011. The improvement is largely due to the increase in cell phone banking, debt cards ATM cash points. Of the formally served in 2018 30% have access to bank products while 67% have access to non – formal financial products and services

Figure 1 Financial Inclusion in Zimbabwe



Source: Reserve Bank of Zimbabwe (Review report November 2018)

OBJECTIVES OF THE STUDY

The main objective of the study was to assess the extent of the financial inclusion of the informal sector in Masvingo City in Zimbabwe. The specific objectives were the following:

- ✓ To establish the role of the financial institutions in fostering financial inclusion of the informal sector
- ✓ To determine the challenges that financial institutions face in dealing with the informal sector

- ✓ To establish the challenges the informal sector face in accessing banking services

LITERATURE REVIEW

According to Myanmar (2010) financial services play a critical role in enabling poor people to sustain livelihood and improve living conditions. Various scholars are agreed that economic growth and development of a country is almost impossible to achieve if large sections of the population are suffering from poverty. Financial Inclusion avails financial products to the poor creating for them credit facilities that suit their needs. There are three dimensions of Financial Inclusion: access (physical proximity to and availability of formal regulated financial services), usage (regularity, frequency and duration in obtaining financial services and products) and quality (development of financial products that are well tailored to client needs for all income levels) (African Development Bank 2013)

Sharit (2010) also agrees that Financial Inclusion should be premised on targeting of weak and low – income people, financial services should be cheap and affordable and that there should be no barrier to formal credit. There are a number of reasons why, despite a population exhibiting high financial literacy (awareness of financial opportunities), its large section can remain financially excluded. These can range from low levels of educational attainment, low income security, living in remote or interior groups to dependence upon informal sector (Bhowmik and Saha 2010)

The 2014 Global Financial Development Report (World Bank, 2014) identifies four major forms of financial exclusion, which are classified into voluntary and involuntary exclusion. Voluntary exclusion refers to the segment of the population or firms that choose not to use financial services either because they do not need those services due to the lack of promising projects while involuntary lack of participation caused by unavailability or unaffordability of financial services. Demirgüç-Kunt and Klapper (2012) state that globally, 20 per cent of unbanked people have identified distance as a key barrier to financial inclusion, and this rises to 31 per cent in sub-Saharan Africa. Overall, the reach of financial infrastructure has been very limited in countries in Africa and according to Allan et all (2014) in Kenya, the average distance of people from their nearest bank branch is 19 kilometres and the average cost of travel was $2.5040, Allan et al, 2014).

Financial Institutions also face problems in fostering Financial Inclusion. The transaction costs of rural lending in developing countries are high, mainly due to small loans size, high frequency of transactions, large geographical spread, the heterogeneity of borrowers as well as the lack of a rural bank branch network is an additional problem (Sercadoti, 2005). Given the extent of rural poverty in developing countries, the amount of financial services required tends to be small. The small size of rural loans, resulting in a high transaction cost per loan, exacerbated by the heterogeneity of borrowers, makes it difficult for formal financiers to cover costs. The geographical spread of customers in rural areas further drive up administrative costs after the loan is granted (Olayide *et* *al.,* 1980). Borrower supervision costs are high, as are compliance costs for customers. Financiers thus, have to achieve a delicate trade-off between minimizing the loan default rate and minimizing administrative and collection costs (Basu, 2006).

To add on the above high costs when using a bank account, commercial banks does not give interest on deposits of less than US$ 800 and the minimum amount is US$ 696 per customer in savings account – most customers do not earn any interest. Customers need to maintain a minimum balance of US$ 100 and pay maintenance fee (US$ 5) monthly to operate a bank account 72.3% of the population (9.5 million people) earn approximately US$ 3.6 per day – cannot afford to spend 13% of their annual salary to operate a bank account.

METHODOLOGY

An exploratory research design was considered the most suitable approach in view of the nature of the problem being investigated .A structured questionnaire was administered to the members of the informal sector .The instrument was pre-tested with a sample of two hundred participants randomly picked from the province's seven districts. The questionnaire was divided into four sections. Section A captured basic demographic information of the member of the informal sector. Section B captured information about the adoption and usage formal banking services. Section C sought to determine the perceived benefits of banking services and while section D captured information about the nature of the challenges faced in the adoption and usage of formal banking. The last two sections used a five-point Likert Scale battery where the respondents were asked to indicate the extent to which they agree/disagree with various statements. In- depth interviews were carried out with fifteen bank managers of each different bank to obtain data on problems bank face in fostering Financial Inclusion as well as the involvement of government regulators in this.

EMPRICAL RESULTS

Benefits of using formal banking services among the informal sector.

The respondents were asked questions, relating to their perceived benefits of using formal banking services on a five-point Likert Scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Their responses are shown in the figure 2 below. Overall the perceptions of banking benefits 12%, in the strongly agree category, 15% in the agree category,23% were indifferent ,31 were in disagreement and finally 19% strongly disagreed. It can thus be concluded that the majority of the respondents do not appreciate any benefit that accrues from using formal financial platforms.

The main reasons offered for their reluctance was lack of faith in the banking sector. This may be because of their experiences of 2008 financial turmoil where the citizen lost their entire savings and led the country to adopt the multi-currency system and abandon its own currency. The second main reason was low level incomes which did not warrant any savings against bank charges involved. This can be explained by the fact that with unofficial annual inflation rate of around 700% (the government has since stopped releasing its own figures) it will be futile for one to think of savings as they will be rendered useless in no time. A small section, about 6% indicated that they were indebted to moneylenders or other sharks from which they could not get out.

Another obstacle to Financial Inclusion among the informal sector involved adoption of Mobile Banking which is one of its key drivers. This is however against the background that about 70% of the adult population in Zimbabwe own a mobile phone.

Table 2: Factors hampering the use of mobile banking

	Agree	Disagree	Not sure
I do not have Internet access	14 (66.7%)	7 (33.3%)	Nil
I do not have a computer at home	15 (71.4%)	6 (28.6%)	Nil
I am not good at computers	14 (66.7%)	7 (33.3%)	Nil
I am not good at using the Internet	11 (52.4%)	10 (47.6%)	Nil
Cost of Internet access is very high	13 (61.9)	6 (28.6%)	2 (9.5%)
Internet / Mobile banking is not safe	13 (61.9%)	5 (23.8%)	3 (14.3)
No need	1 (4.8%)	18 (85.7%)	2 (9.5%)
I have not heard of Internet / Mobile banking	9 (42.9%)	12 (57.1%)	Nil

From the above table, 66.7% of the respondents indicated that they do not have Internet access, 71.4 percent revealed that they do not have computers at home, 52.4% confirmed that they are not good at using computers and 66.7% indicated that they would be happy to receive training in computers. The above findings agree with the research by Cloete and Ramburn (2006:4) which argued that the accessibility of electronic banking is hindered by a number of factors namely, poor Internet penetration, customer inflexibility to new technology, low educational levels and computer literacy. 61.9 percent of the respondents indicated that they did not believe that electronic banking was safe .According to Benamati and Serva (2007), security concerns provide for the creation of risk barriers as customers are forced to consider password integrity, privacy, data encryption, hacking and protection of personal information. These factors are the main reasons given by non-users for their reluctance to adopt mobile banking. Interestingly, 42.9 percent of the respondents confirmed that they have never heard of electronic banking which means that the bank must do more advertisements to bring awareness and actively promote this innovation.

Banks' efforts in promoting Financial Inclusion

- From the interviews carried out with bank management it was established that all banks were in agreement that fostering Financial Inclusion among the informal sector could not be done without looking at the broader macro-economic problems bedevilling the country. They highlighted the fact that even for those who are financially included already, from the banks' side it was not very profitable given the transitionary nature of the deposits and high cost of doing business in Zimbabwe. The researchers also concluded that the effects of the advanced banking methods like electronic banking should be more visible to customers in the form of lower service and transactional fees if Financial Inclusion is to be achieved.

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