Journal of Economics and International Finance Vol. 4(10), pp. 252-259, October, 2012
Available online at http://www.academicjournals.org/JEIF
DOI: 10.5897/JEIF12.075
ISSN 2006-9812 ©2012 Academic Journals

Full Length Research Paper

Financial inclusion by Zimbabwean commercial banks in a liquidity constrained environment

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Accepted 23 October, 2012

The study investigates the trends and challenges of financial inclusion by commercial banks in Zimbabwe after the adoption of the multiple currency regime. Results showed that some commercial banks made efforts to ensure financial inclusion. New innovations like cell phone banking and internet banking were positive steps towards ensuring financial inclusion by Zimbabwean commercial banks. The foreign owned commercial banks in Zimbabwe however were not doing much as compared to the locally owned commercial banks. A number of challenges to financial inclusion were identified, chiefly being the liquidity challenges and high bank charges. Based on the research findings, we recommend the structuring of sustainable financial products and establishment of supportive infrastructure to enable Zimbabwean commercial banks to mitigate the challenges of financial inclusion in a liquidity constrained environment.

Key words: Financial inclusion, commercial banks, liquidity constrained environment, strategies.

INTRODUCTION

Financial inclusion is the process of ensuring access to a full suite of quality financial services, provided at affordable cost, in a convenient manner, and with dignity to the entire population without discrimination of any type particularly against vulnerable groups such as weaker and low income groups (Rajan and Zingales, 2003; Personal Finance Research Centre 2007; Reserve bank of India, 2011). As banking services are in the nature of public goods, financial inclusion should therefore be viewed as availability of banking and payment services to the entire population. Gardeva and Rhyne (2011) highlighted the key factors that drive financial inclusion as illustrated in Figure 1.

The Centre for Strategy and Evaluation Services (2010) alluded that the objective of financial inclusion is to extent the scope of activities of the organised financial system to include within its ambit people with low incomes. This is only possible if an organisation is pursuing an appropriate business model. Devlin and Gregor (2008) concur that the services must meet requirements of individuals ranging from consumption to basic education, health and other services. This study then sought to investigate and evaluate interventions employed by Zimbabwean commercial banks in financial inclusion in a liquidity constrained environment.

The Zimbabwean banking sector underwent a period of impeded development in the 10 years to 2009 due to the hyperinflationary environment which prevailed in the economy. Regrettably the banking crisis of 2003/4 resulted in the closure of some of the newer banks and this resulted in a flight to quality by the investing public. This also increased the general risk aversion amongst average investors with most of them being wary of any financial product that was not generic. The hyper-inflationary environment also made investments meaningless with most people preferring to hold assets such as property to store value. In the second half of 2008, the world was hit by a financial services crisis whose systemic effects resulted in a worldwide economic crisis. Countries within the region, Zimbabwe included were not spared, although there were delayed effects. The impact was that inter-bank lending was ground to a halt, thereby freezing credit markets. Corporations and individuals found it difficult to use debt to finance

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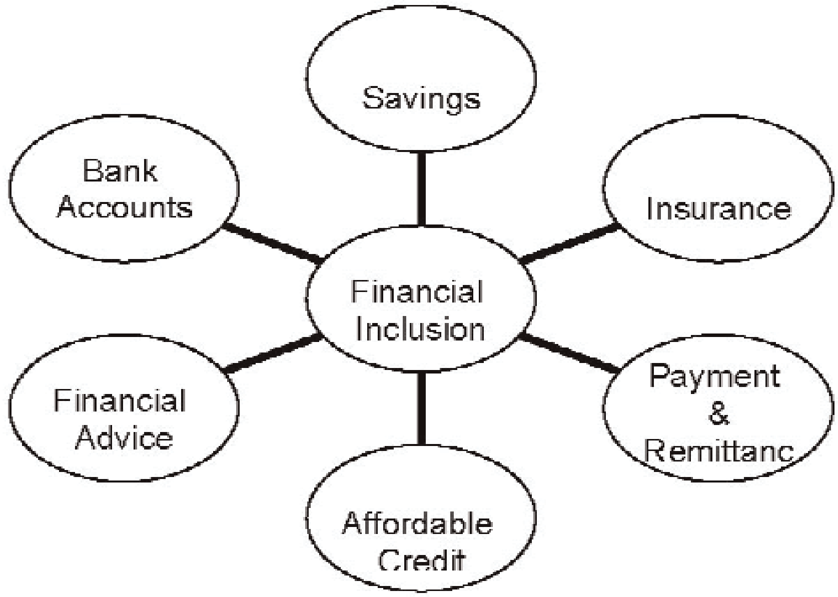

Figure 1. Key factors that drive financial inclusion. Source: Gardeva and Rhyne (2011).

purchases. For the banking industry, like other sectors of the economy, one of the consequences of the crisis was that organisations sought to streamline operations.

However, things took a turn following the adoption of multi currency in 2009. According to the Reserve Bank of Zimbabwe (RBZ) (2011), the Zimbabwean banking sector experienced a gradual improvement in its intermediation role since the introduction of the multiple currency regime in January 2009. In spite of the growth in the number of financial institutions, the bank penetration rate as measured by the collective number of accounts held by banks was not more than 20% of the entire adult population (RBZ, 2011). Geographical representation of branches was concentrated in major cities and towns. Accordingly, 70% of the country's population which is in the rural areas is served by only 11.7% of the banks' total branch network (RBZ, 2011). Rural communities and the informal sector continue to be shunned by some banks. The objective of the study is to ascertain if Zimbabwean banking institutions were taking adequate strategies that promote inclusive banking after the adoption of the multiple currency regime. The period covered is 2009 to 2011. The research also intends to establish the challenges to financial inclusion and to ascertain if the Reserve Bank of Zimbabwe created conducive regulatory framework that promoted financial inclusion.

RESEARCH METHODOLOGY

To achieve our objective, the research used a descriptive survey research design so that relationships between interventions used and level of financial inclusion achieved could be unraveled. The descriptive survey design was chosen because it allowed data obtained to be presented and analysed using both quantitative and qualitative methods. Given the divergences between the banks in terms of size, age, and organisational and environmental factors, there was a wide variation in terms of interventions employed and levels of financial inclusion outcomes as well. Thus, the adoption of the survey methodology with data collected from all banks allowed us to discern variations in the data gathered and find effects among variables as well as to verify the nature of theoretical relationships that had been proposed. Most of the information for this research was derived from primary sources but however secondary sources were also used. Data was collected using questionnaires and interviews. This helped to offset the weaknesses that each of the techniques carry. The study population had 16 institutions, with 15 commercial banks and the Reserve Bank of Zimbabwe. From each commercial bank, four participants were selected through use of judgmental sampling technique. For commercial banks, information was collected from management at head offices in Harare. Focus was on head offices because all information about branch networks and products on offer is available at head offices. Data from Reserve Bank of Zimbabwe was collected from management in the bank licensing, supervision and surveillance division. Questionnaires were sent to 64 participants. To compliment the questionnaires, interviews were done on 15 participants.

DATA PRESENTATION AND DISCUSSION

Response rate

From a sample target of 64 participants, there were 48 responses. This indicated an average response rate of 75%.

Strategies for reaching the unbanked and under banked public

To achieve the objective of the study, we investigated on

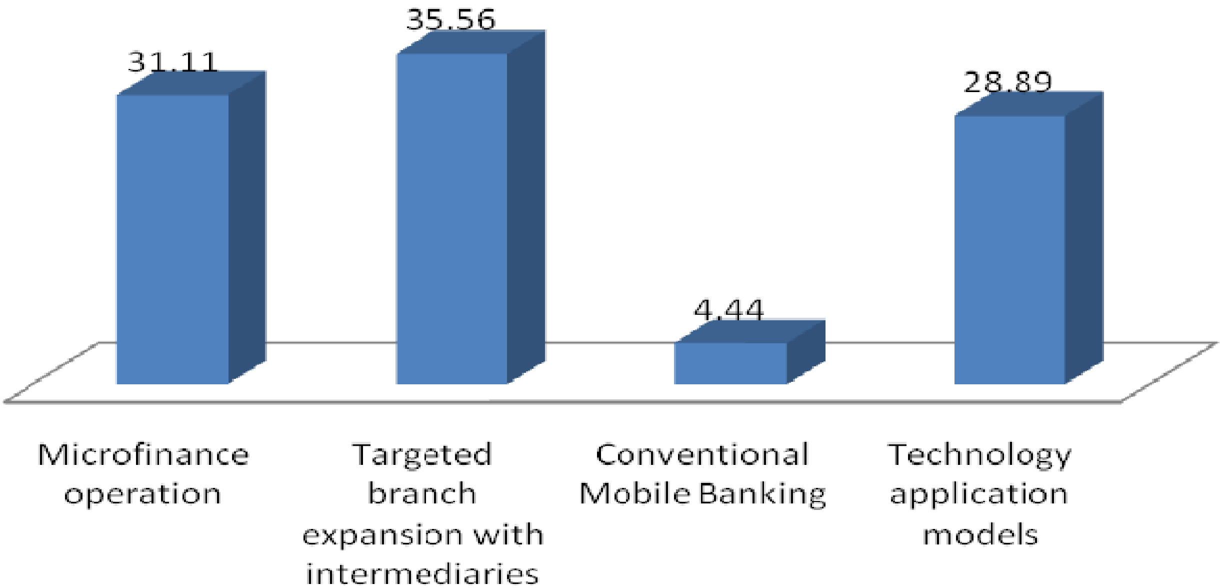

Figure 2. Models adopted by banks.

the models that were being used by banks on the unbanked sector. This focused on products offered and the distribution channels. From the survey, 60% of the respondents confirmed that their banks did not have the unbanked as their target market whilst 40% confirmed that their business models encompass the unbanked as a target market. This at least partly explains why a larger section of the rural communities remains excluded.

Models adopted by banks

The specific models Zimbabwean commercial banks adopted to reach out to the unbanked are presented in Figure 2.

From the survey, it is clear that many banks had moved away from the conventional mobile banking where banks would be moving around in mobile units to offer their services. 31% of the respondents indicated that their organisations had adopted a microfinance model, 36% indicated that their institutions were pursuing a targeted branch expansion model, 29% had adopted a technology application model. To compliment this, the breakdown of the commercial banks and the specific models they were using are presented in Table 1.

The study revealed banks that made a conscious decision to go into the unbanked space, reconfigured their models to encompass a microfinance wing to service this sector. The same banks also developed electronic banking channels given the geographic reach of the targeted segment. There were only 5 banks still undertaking the conventional mobile banking at strategic locations. The seemingly wide branch network with ATMs was resident in cities and not the rural areas. The survey also revealed that many banks had the technological capacity to deliver services to the unbanked but few had an appetite for this market. Reasons that were cited as barriers included high information, transaction and monitoring costs, inaccessibility due to poor infra-structure, dispersed and intermittent demand for financial services, seasonality of deposits and lack of collateral.

The research also revealed that the majority of banks had internet banking technology albeit accessibility was restricted to the affluent and established corporate clients. The delivery channel was the most appropriate for the unbanked segment in the far flung rural areas and other remote locations. The conventional mobile banking was wilting down given the attendant costs involved as compared to the cell phone banking route. These results conform to the results by Lyman et al. (2006, 2008). Table 2 gives a market comparison of cell phone banking products that were launched in by different players stampeding for a share of business in the unbanked and rural market space after the adoption of the multiple currency.

In the banking sector, Kingdom Bank and Tetrad Investment Bank were the first innovators with their virtual mobile-banking packages. Both the Kingdom Cell Card and Tetrad's E-Mali offered customers a platform to transact using cell phones. Despite this, the banks' small branch network in the country and market presence, the majority of the population did not have access to these products and did not know about them. But as pioneers, Kingdom and Tetrad laid a foundation for others to follow suit.

The launch in October 2011 of cell phone banking

Table 1. Adopted models broken down by institution.

Organisation	Microfinance	Electronic banking technologies	Mobile banking	Branch network/ATMs
ZB Bank	X	X	X	X
FBC Bank	X	X	X	X
TN Bank	X	X		X
Stanbic Bank				X
Standard Chartered		X		X
Barclays Bank		X		X
MBCA		X		X
Metropolitan Bank		X		X
ZABG				X
CBZ Bank	X	X	X	X
Agribank			X	X
BancABC		X		X
Kingdom Bank	X	X	X	X
NMB Bank		X		X
Premier Bank		X		X
Total	5	12	5	15

services by Econet Wireless Zimbabwe and Telecel Zimbabwe charted a new era in delivery of banking products to the public. With EcoCash from Econet Wireless, subscribers could send and receive money instantly through cell phones. The Telecel system was technically different from Econet's EcoCash and was cited as having the advantage of offering a wide range of products to its users due to its strategic partnership with ZimSwitch participating banks. Respondents cited it as an ecosystem, where they were exploiting the core competencies of ZimSwitch partners. ZimSwitch is a financial platform that was used to connect and carry out transactions amongst banks and has been operational for the past 15 years with 19 financial institutions connected through it. Together they had more than half a million customers, which is almost half the number of banked individuals in Zimbabwe (RBZ, 2011). It was expected that by end of 2011 about 85% of banks would be ZimSwitch ready. The greatest advantage of connecting through ZimSwitch for the mobile banking service was that the banks would enjoy synergies of being already connected to a web of institutions where users were able to send and receive money through any ZimSwitch-ready outlet, be it a bank or an agent (ZimSwitch Report, 2011).

The survey also revealed that the most imposing of competitors was EcoCash whose major strengths were a powerful subscriber base, a very wide and growing agent network and a well funded and strategic advertising campaign. It was interesting to note that through this product, Econet was competing for deposits directly with financial institutions. The findings from this study clearly show the need for commercial banks to enter into strategic partner-ships with mobile phone operators. The biggest beneficiary of this innovation would be the unbanked market. Whilst the transaction fees were still considered high during the time the research was undertaken, it was expected that these would go down as competition sets in and make mobile banking services more affordable.

Challenges to financial inclusion in Zimbabwe

The other objective of the research was to ascer-tain the challenges being faced by commercial banks. A number of challenges to financial inclusion were identified. High bank charges and inadequate funding on the part of banks were cited as major challenges. Table 3 shows the challenges that were indentified and how partici-pants rated them.

The study revealed that liquidity or inadequate funding on the part of banks was the major challenge followed by high bank charges. Of the respondents, 73% indicated that inadequate funding was a very big challenge and rated it extremely high whilst high bank charges were rated high. These findings are in sync with Rutherford and Arora (2009) who concurred that high bank charges and lack of funding are barriers to financial inclusion.

Other challenges cited by the respondents included socio-economic factors (e.g. financial education, low and irregular income and geography), regulatory factors (stringent account opening requirements e.g. provision of identity documentation and proof of residence to open accounts) and product design factors (e.g., minimum account balance requirements and bank charges which are high). On the part of the banks, the respondents cited high information, transaction and monitoring costs, in-accessibility due to poor infrastructure, dispersed and

Table 2. Cell phone banking products.

Provider	FBC	Econet	Tetrad	Kingdom	CABS	NetOne
Product name	Mobile Moola	EcoCash	eMali	Cell Card	TextaCash	OneWallet
Attribute						
Transaction initiation	-POS -Mobile -ATM	Mobile	POS	- POS - Mobile	- POS - Mobile - ATM	- Mobile
Available functions	(Teller) Bal, Mini Stat, Dep, Withdraw, Send, Receive, Topup**, Bills, RTGS, PIN Change, HOT Card, Resey PIN (Merchant/Agent) Bal, Mini Stat, Send, Receive, Topup, Bills	Send, Receive, topup (Econet only), pay merchant (not on ZSW), Bal, Account Hist, PIN Change	Purchase, Deposit, Withdraw, Person to person transfer, Bills	Withdraw, Transfer, Topup, Bal, Change PIN, Mini Stat	Same as Mobile Moola	Send, Receive, Topup (Netone), NetOne bills
Limits	Min $5 and max $1,000	Up to $200			Min $10 and Max $1,000	Min $5 and Max $500
Access to networks	Receive from all networks, Send from Telecel**	Receive from all networks, Send from Econet	No mobile platform	Telecel	Receive from all networks, Send from Telecel**	NetOne
Access to banks	Potentially all banks on ZSW (currently POSB and CABS)	Partnership with TN; no function to transfer between wallet and bank	Tetrad	Kingdom	Potentially all banks on ZSW (currently POSB and FBC)	Partnership with FBC; no function to transfer between wallet and bank
Nature of ecosystem	ZimSwitch (ZSW) based – 19 banks and retail merchant network	Private	Private	Private	ZimSwitch (ZSW) based – 19 banks and retail merchant network	Private
Promotion and marketing	Introductory stage - press	Awesome! Direct and widespread – press, radio, TV	Press, radio, billboards, street campaigns	Good! Press, magazines, roadshows, street	Low tone. Introductory stage – press.	Strategic prime time radio campaign (albeit poor message), press
Future projection	Steady growth dependant on consistent message of shared platform advantage and creating access to remote parts.	Riding on subscriber base and market dominance. Its life will depend on how the ZSW based product will grow and how well it is marketed.	Private ecosystem not sustainable in the long run	Private ecosystem not sustainable in the long run	The future of mobile banking in Zim as more banks join the ecosystem.	Private ecosystem not sustainable in the long run. Least and dwindling subscriber base a huge negative.

Table 2. Cont

Agencies	Currently FBC branches. In future all FIs on the ecosystem. Needs aggressive agent partnering strategies.	Massive network across the country, presence in all provinces.	Reasonably wide including TM nationwide and Zimpost.	Branch network, TM, Community bankers	Currently CABS branches	NetOne shops

Table 3. Challenges in financial inclusion.

Rating	Extremely high	High	Moderate	Low
Challenge				
Financial literacy			X	
High bank charges		X		
Inadequate funding/liquidity	X			
Public mistrust of financial institutions			X	
Lack of interest by providers and policy makers				X
Poor infrastructure			X	
Political interference				X

intermittent demand for financial services, seasonality of deposits, lack of collateral and finding the regulatory space to innovate. For example, although there are 114 microfinance institutions, 98% of them were mere money lenders licensed under the Money Lending and Rates of Interest Act [*Chapter 14:14*], under which they were not authorised to take deposits, a key element necessary for deposit mobilisation to build capacity necessary for on lending.

Role of Central Bank in financial inclusion

Participants showed that RBZ had the role of ensuring financial literacy in Zimbabwe. It was also held that banks were direct beneficiaries of financial inclusion and were also to take the initiative for financial literacy. The study further revealed that RBZ was financially constrained and not in a position to provide adequate support to banks to ensure financial inclusion (Figure 3). The incapacity by RBZ to provide necessary support to banks was a major challenge to financial inclusion in Zimbabwe. This is because central banks naturally take a leading role in financial inclusion. Thirty participants (77.8%) agreed (both agree and strongly agree) that the Central Bank had the duty of educating public to foster financial literacy necessary for client protection. Fifteen participants (22.3%) (Jointly disagree and strongly disagreed) argued that commercial banks were the direct beneficiaries of financial inclusion and should take the initiative in ensuring financial literacy. Respondents from the central bank conceded that due to financial constraints, the RBZ was not discharging this duty. The RBZ was not visible particularly to the rural communities, the sector that requires education and protection most.

Strategies for reaching the unbanked and under banked public

All participants concurred that not all of the banks had products that were suitable for the poor and rural communities. The products that were identified include loans, micro insurance, and remittance facilities. It was also held that all banks had the capacity to provide high quality financial services to the poor. RBZ officials argued that commercial banks were required to have a minimum capital of US$12.5 million. Most banks had met the minimum capital requirements; implying that they had the capacity (financially) to provide high quality banking services.

On the issue of branch network, it was held that

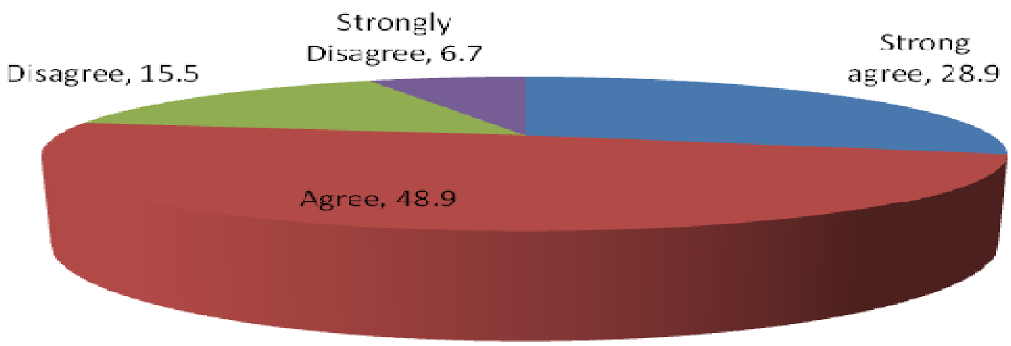

Figure 3. Central Bank's duty to educate the public.

few banks had branches at growth points and small towns. Participants also revealed that banks had developed innovative ways of reaching clients in remote areas.

These innovations included mobile technology and use of non banking agents. Nevertheless, RBZ officials shared the same sentiments with some respondents that the usage of mobile and internet banking were still very low.

Conclusions

Based on the above findings it can be concluded that;

Few banks, particularly the locally owned repositioned their business models to tap into the unbanked market. These had set up microfinance subsidiaries and introduced mobile banking technology in partnership with cell phone operators. The product offering however was still predominantly remittances and payment facilities which falls short of the full suite of financial services required in the unbanked space which include micro credit, micro insurance and financial advisory services.

Inadequate funding and high bank charges are the biggest challenges to financial inclusion in Zimbabwe. Other challenges identified were financial literacy, public mistrust of financial institutions and poor infrastructure.

The RBZ has the role of ensuring financial education of the unbanked and marginalised in Zimbabwe. Banks are direct beneficiaries of financial inclusion and should also take the initiative for financial literacy. Incapacity by RBZ to provide necessary support to banks is a major challenge to financial inclusion in Zimbabwe.

RECOMMENDATIONS

Based on the above conclusions, the following recommendations are made:

There is need for commercial banks to develop financial products that respond to the needs of diversified activities of the unbanked segment, giving due focus to loans, savings, insurance, remittance products and financial advisory services. The key to ensuring that the usage of financial products and services is sustainable is to make sure that these products and services address the real and very specific needs in their day-to-day realities. The development of banking institutions is at the sharp-end of increasing access.

Banks need to enter into strategic alliances with other support service providers like cell phone operators. Some players have gone on a frenzied rush to introduce mobile banking services as they battle to remain relevant due to the technology revolution sweeping across the globe that is redefining the way business is done. This has brought convenience and faster real-time transacting.

The RBZ has a key role to play in enabling policy and regulatory environment. This role is not in the delivery of services, but in laying out a clear policy direction and creating an enabling environment. The private sector players can then identify, invest and respond to opportunities in the market. Directly related to these policy moves, the commercial banks growing interest in new markets is demonstrated through product innovation and increased investment in new delivery channels in the form of branches, ATMs (Automated teller machine) and other electronic delivery channels. With the maturation of the micro-finance sub-sector, the RBZ should now move to provide a regulatory framework to license and regulate deposit-taking MFIs (money flow index). A number of institutions have now developed to the point where deposit taking from the public is a viable proposition. This will allow MFIs to broaden their product offer to include savings services – often the most important financial service demanded by low-income clients. This gradualist approach to regulation is important. Early regulation could have stifled an emerging industry.

There is need for ensuring, through the leadership and supervision of RBZ, that all players operate on a sustainable basis and are transparent in disclosing the results of their operations. Financial literacy is a prerequisite for client protection. It is therefore recommended that given its critical role, the RBZ must be adequately resourced to discharge its functions.

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