

**APPROVAL FORM**

The undersigned certify that they have supervised the student Registration number R121234W dissertation entitled; An Analysis of the role of Microfinance institutions in achieving financial inclusion in Zimbabwe submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours degree at Midlands State University

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## **DEDICATION**

A special dedication to my parents for their unwavering support.

## **ACKNOWLEDGEMENTS**

My special appreciation goes to my supervisor Mr Mbetu his guidance throughout the research. Through his commitment and patience he contributed to the success of this research. I would like to extend my special thanks to my friend Proud Matsika for his love and support. Finally, greatest thanks are directed to my family. Their love and support made me believe that I can do well in my research. Above all, I owe great praise to the almighty.

## **ABSTRACT**

This dissertation defines financial inclusion as ongoing access to a range of financial services in an affordable and convenient manner. As low income groups are often among those lacking financial access, Microfinance programmes providing financial services to them have emerged as a public policy instrument to promote financial inclusion. This dissertation analyses the contribution of microfinance programmes in promoting financial inclusion in Zimbabwe. The research questions in the dissertation were informed by relevant literature, particularly relating to microfinance and financial inclusion. The lines of enquiry were at microfinance service provider level, microfinance clients and the financially excluded. Primary data was collected in Gweru through interviews with 8 microfinance service providers, and questionnaires administered to 57 microfinance clients and 23 financially excluded persons. This enquiry enables the development of an explanatory framework for financial inclusion. The findings from microfinance providers included barriers to microfinance membership, requirements for a wider range of financial services particularly savings services and the need to enhance financial literacy. This study has implications for policy makers, microfinance service providers and members of the public who are financially excluded.

## TABLE OF CONTENTS

	<b>DESCRIPTION</b>	<b>PAGE</b>
	APPROVAL FORM	i
	RELEASE FORM	ii
	DEDICATION	iii
	ACKNOWLEDGEMENTS	iv
	ABSTRACTS	v
	TABLE OF CONTENTS	vi
	LIST OF FIGURES	vii
	LIST OF TABLES	viii
	LIST OF APPENDICES	xii
	<b>CHAPTER ONE: INTRODUCTION</b>	
1.1	Background of the study	1
1.2	Statement of the problem	4
1.3	Research questions	4
1.4	Research objectives	5
1.5	Justification of the study	5
1.6	Delimitations of the study	6
1.7	Limitations of the study	6
1.8	Definition of terms	6
1.9	Summary	7
	<b>CHAPTER TWO: LITERATURE REVIEW</b>	
2.0	Introduction	8
2.1	The history of Microfinance	8
2.2	Mobile banking	9
2.2.1	Mobile banking adoption	10
2.2.2	Feasibility of integrating Microfinance and Mobile banking	11
2.3	Financial inclusion	12
2.3.1	Financial inclusion in geographically remote areas	13

2.3.2	Reasons for rural financial exclusion	13
2.3.3	Challenges faced by people in rural areas in accessing financial services	14
2.3.4	Extend to achieving financial inclusion through Microfinance	14
2.4	Financial exclusion and social banking	15
2.4.1	Financial inclusion trends	16
2.4.2	Impact of microfinance	16
2.4	Microfinance policies	17
2.4.1	Regulatory issues	18
2.5	Microfinance credit	18
2.6	Chapter Summary	19
	<b>CHAPTER THREE RESEARCH METHODOLOGY</b>	
3.0	Introduction	20
3.1	research design	20
3.1.2	descriptive research	20
3.2	Research Population	20
3.3	Research sample	21
3.4	Sampling procedure	21
3.4.2	Sample size	21
3.5	Sources of Data	22
3.5.1	Primary sources	22
3.5.2	Secondary sources	22
3.6	Data collection instruments	22
3.6.1	Questionnaires	22
3.6.2	Interviews	23
3.7	Validity and reliability	24
3.9	Ethical considerations	24
3.10	Chapter summary	25
	<b>CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS</b>	
4.0	Introduction	26
4.1	response rate	26
4.2.	Nature of MFI clients	27

4.3	Type of clients served by MFI	28
4.4	Range of products	28
4.5	Products not offered that members ask for	29
4.6	Frequency at which the financially excluded try to access MFPs	30
4.7	Supply side barriers	31
4.8	Consumptive vs Productive loans	32
4.9	MFI clients Demographic Information	34
4.9.1	Age	34
4.9.2	Gender	35
4.9.3	Level of education	36
4.9.4	Level of income	37
4.10	Number of MFIs dealt with	38
4.11	Knowledge of MFI	39
4.12	Demand side barriers	40
4.13	Use of mobile money transfers	41
4.14	Chapter summary	42
	<b>CHAPTER FIVE: SUMMARY, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS</b>	
5.0	Introduction	<b>43</b>
5.1	Summary	<b>44</b>
5.2	Major Findings	<b>45</b>
5.3	Conclusions	<b>46</b>
5.4	Recommendations	<b>46</b>
5.5	Suggestion for further study	<b>47</b>



## LIST OF FIGURES

<b>Figure</b>	<b>Description</b>	<b>Page</b>
1.1	Geographic distribution of MFI	4
4.1	Nature of MFI clients	26
4.2	Type of MFI clients	27
4.3	MFI product range	27
4.4	Additional product request	28
4.5	MFI loan composition	31
4.6	MFI clients' age	32
4.7	MFI clients Gender	33
4.8	Level of income	34
4.9	Number of MFI dealt with	35
4.10	Knowledge of MFI by the financially excluded	35
4.11	Access to MFI	37
4.12	Use of mobile money transfer	38
4.13	Enactment of Public Private Partnership	44
4.14	Seeking international aid and technical assistance	45
4.16	Monitoring, evaluation and audit of correctional service funds	47
4.17	Reducing Sentences, release policies and parole	48
4.18	Reducing the number of non violent offenders	48
4.19	Establishing a monitoring and liaison mechanism	50
4.20	Prison reforms and expansion of prisoner's rights	51

## LIST OF TABLES

<b>Table</b>	<b>Description</b>	<b>Page</b>
1.1	Architecture of the Banking sector	3
3.1	Sample composition	21
4.1	Response rate	25
4.2	Frequency at which the excluded try to access MFPs	29
4.3	Reasons for failure to access microcredit	30
4.4	Level of Education	33
4.5	Demand side barriers	37

## LIST OF APPENDICES

<b>APPENDIX</b>	<b>DESCRIPTION</b>	<b>PAGE</b>
1	Cover letter	57
2	Interview guide for microfinance service providers	58
3	Questionnaire for microfinance service providers	59
4	Questionnaire for microfinance clients	60
5	Questionnaire for the Public	61

# CHAPTER ONE

## INTRODUCTION

### 1.0. Introduction

Microfinance is defined as the provision of a broad range of financial services which include deposits, remittances, and insurance and loans to poor and low income households and small to medium enterprises. However, provision of microcredit, that is, loans to the poor has dominated the microfinance sector globally. Microfinance is a very important potential contributor to financial inclusion. This chapter gives background of the study, statement of the problem, objectives of the study, research questions, significance of the study, delimitations of the study, limitations of the study and summary.

### 1.1. Background of the Study

#### Financial inclusion worldwide

The banking industry has shown tremendous growth in volume and intricacy of transactions during the last few decades. Although there have been significant improvements in areas which relate to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the marginalised sections of the society, into the fold of basic banking services. A large percentage of the population remains poor, particularly in the developing world. (Zhang and Wong, 2014).According to Bhanot et al (2012) 74 percent of the world population is currently excluded from the formal banking sector and countries with a large proportion of financially excluded population from formal financial sector show high poverty ratios.

#### The scope of financial inclusion

The scope of financial inclusion can be expanded in two ways:

- (a) through state-driven interference by way of constitutional endorsements (for instance the US example, the Community Reinvestment Act and making it a statutory right to have bank account in France).

(b) Through voluntary exertion by the banking community itself for developing various schemes to bring within the scope of the banking sector the large strata of society.

At that point when bankers do not give the sought of thoughtfulness regarding certain areas, the regulators have to venture in to remedy the situation. For this reason, the Reserve Bank of India has placed a lot of emphasis on financial inclusion. In India the focus of the financial inclusion at present is limited to ensuring a bare minimum access to a savings bank account without frills, to all.

Internationally, financial exclusion has been viewed in a much wider perspective. The ability to access a savings account or current account on its own is not regarded as an accurate indicator of financial inclusion. Financial inclusion and financial exclusion have multiple different levels. The 'super included', those in between and the excluded can be identified. The 'super included' are those that have access to a wide range of financial products at their disposal. At the other extreme, the financially excluded are those denied access to the even the most basic of financial products. In between are those who have access to basic banking services such as deposits and withdrawals of money. These persons do not enjoy the flexibility of access offered to the 'super included' clients.

### **Consequences of financial Exclusion**

The end result of financial exclusion differs depending on the nature and extent of services denied. These consequences may lead to increased travel expenses, higher prevalence of crime, general decline in investment, difficulties in gaining access to credit which leads to credit access from informal sources at exorbitant interest rates, and increased unemployment rates. The small business may suffer due to loss of access to middle class and higher-income consumers, higher cash handling costs, delays in remittances of money. According to certain researches, financial exclusion can lead to social exclusion. (Leeladhar, 2006). According to Carbo et al (2005), financial exclusion is a materialization of the broader problem of social exclusion. These social insinuations from financial exclusion arise when denial to institutional credit makes certain segments of the population prone to fall trap to loan sharks. This therefore means that achieving complete financial inclusion is not just limited to solving monetary and financial crisis of marginalised and disadvantaged group, but its ultimate goal lies in abolishing the state of social exclusion in the economy. (Rangaraj, 2008).

### **Financial inclusion in Zimbabwe**

The Reserve Bank of Zimbabwe noted that microfinance operations in Zimbabwe are currently skewed towards consumptive lending at the expense of productive sector financing, thus crowding out small and medium enterprises (SMEs). 53,30percent of loans in Microfinance Institutions is still going towards consumptive lending which predominantly comprises of salary based loans. (The Herald, 20 May 2015). The high levels of consumptive lending have also precipitated household over-indebtedness. According to Fin Scope 2014 survey, Zimbabwe’s financial inclusion is 77 percent, an increase from 60 percent in 2011 due to deeper penetration of mobile money.

As at 31 December 2014, the architecture of the banking sector was as shown below:

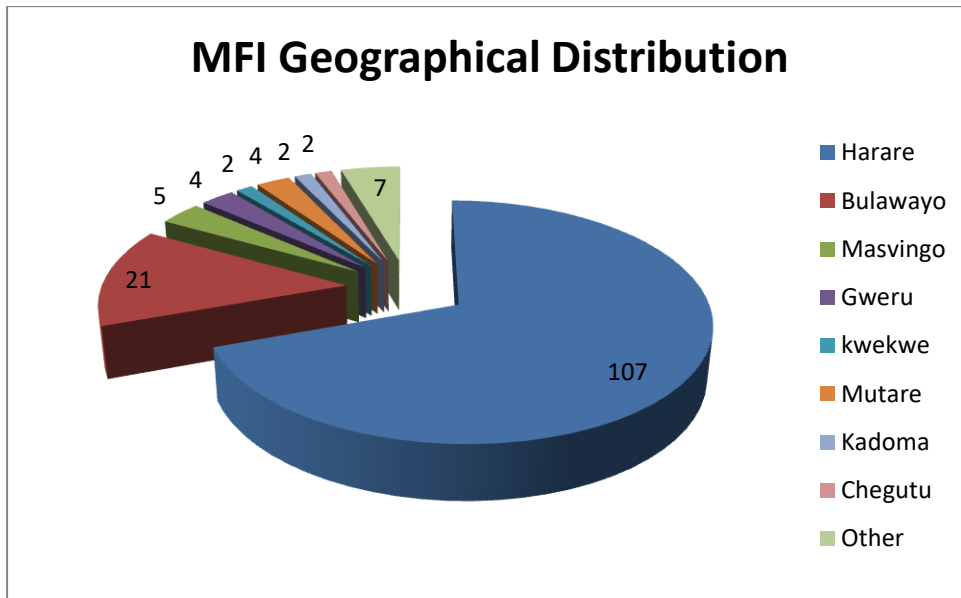
**Table 1.1: Architecture of the Banking sector**

Type of institution	Number
<b>Commercial Banks</b>	13
<b>Merchant Banks</b>	2
<b>Building Societies</b>	3
<b>Savings Bank</b>	1
<b>Microfinance Institutions</b>	147

*Source: RBZ January 2015 Monetary policy*

## Architecture of the Microfinance Industry

As at 31 March 2014, there were 153 registered MFIs which continue to be concentrated in the urban centres as shown in the pie chart below:



**Figure 1.1: Geographic Distribution of MFI as at 31 March 2014**

*Source: RBZ Quarterly Industry Report*

### 1.2. Statement of the Problem.

Microfinance, the world over, assumes a fundamental role in promoting financial inclusion through availing credit, facilitating employment creation, and providing access to financial services to marginalised communities. (Dhliwayo, 2014). The Reserve Bank has then again, noticed that microfinance operations in Zimbabwe are currently skewed towards consumptive lending at the expense of productive sector financing, thus crowding out small and medium enterprises (SMEs). This research therefore seeks to find out the role which microfinance institution can play in order to achieve financial inclusion in Zimbabwe.

### 1.3. Research Questions

1. Is it feasible to integrate microfinance and mobile banking to accelerate financial inclusion?
2. To what extent can rural financial inclusion be achieved through microfinance?

3. Is microfinance a suitable vehicle of achieving financial inclusion in Zimbabwe?
4. Are current microfinance policies conducive for achieving financial inclusion?
5. Which measures can be put in place to incorporate microfinance funding for productive purposes?

#### **1.4. Research Objectives.**

1. To investigate the feasibility of integrating microfinance and mobile banking to accelerate financial inclusion.
2. Determine the extent of financial inclusion in geographically remote areas.
3. To establish the feasibility of using micro financing in achieving financial inclusion
4. Evaluate the effectiveness of microfinance in Zimbabwe.
5. To establish necessary measures that will shift usage of microfinance funding from consumption to productive purpose.

#### **1.5. Justification of the study**

##### **To The Academia**

The research will add value to existing literature on microfinance and financial inclusion. It will also enhance knowledge and serve as a source of reference in future for related research.

##### **To The Microfinance institutions**

The findings of this study will draw lessons that can benefit financial institutions that which are offering microfinance services and assist in improving outreach of financial services to the marginalized. The research will also attempt to bring a paradigm shift to people's perception about microfinance. There is a misconception about microfinance in Zimbabwe; that is, microfinance institutions are perceived to be loan sharks.

##### **Policy Makers**

The research is of great importance to the regulatory authorities who are responsibility of making policies and standardizing microfinance operations in Zimbabwe. This study will assist in tailor making microfinance Industry in line with Zimbabwe's economic environment.



## **1.6. Delimitation of the study**

The study seeks to establish the role of microfinance only towards achievement of financial inclusion in Zimbabwe. It will not look into other financial products crafted to achieve financial inclusion. The area of assessment will be limited to microfinance institutions in Gweru.

## **1.7. Limitations of the Study**

### **Access to information**

Most microfinance institutions will not be ready to disclose information to researchers for the fear of breach of confidentiality. The researcher will deal with this constraint by relying on published annual reports and assuring the respondents that the information will only be used for academic purposes and will not be disclosed elsewhere.

### **Sampling**

A sample and not the entire population of microfinance staff and management will be interviewed and administered with questionnaires to obtain primary data therefore imposing a limitation on the study. In addressing this limitation, the researcher will design an objective questionnaire and interview guides for the respondents in order to reduce sampling error.

### **Financial constraints**

The student will be commuting from Mkoba to have her work reviewed by the supervisor. The researcher also needs to travel to the different Microfinance institutions in Gweru and to Harare to carry out interviews with the Policy makers at the Reserve Bank of Zimbabwe.

## **1.8. Definition of key terms**

### **Microfinance**

According to the RBZ handbook, microfinance is the provision of financial services to the unbanked and the under banked households and small to medium enterprises.

### **Financial inclusion**

Financial inclusion is the process of ensuring access to financial services, that is, savings, remittance, payments and timely and adequate credit where needed by the weaker sections and the low income groups at affordable cost.

## **Consumptive lending**

Lending which predominantly comprises of salary based loans. (The Herald, 20 May 2015)

### **1.9. Summary**

This chapter highlighted the importance of conducting this research as well as the current state in Zimbabwe's financial inclusion. This chapter covered an insight to the background of study, statement of the problem, objectives of the study, research questions, limitations, delimitations, and significance of the study, assumptions and definition of key terms.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0. Introduction

This chapter presents the literature and concept that is related to financial inclusion and Microfinance institutions, it reviews different authors' opinions on the topic under study. Impacts of Microfinance on financial inclusion, challenges faced by Microfinance in providing financial services, reasons behind financial exclusion and Microfinance policies are examined to give lessons to current study.

#### 2.1.The History of Microfinance

Ledgerwood, (2013:3) defines microfinance as the provision of financial services such as savings, insurance and credit to the low income group including the self employed. Microfinance has spread globally in both the developed and developing worlds from as early as the 1970s as a means to promote financial inclusion and to develop microenterprises. (Lashley, 2002:46). The scope of microfinance was initially limited to providing microloans to the underprivileged. (Germidis et al, 2010:25). Radhawa, (2004:70) states that the scope of Microfinance operations have evolved to encompass the provision of a wide range of financial services such as loan, insurance, deposits and remittances to low income group. The concept of microfinance gives the poorest people in developing countries the chance to access financial services outside the traditional banking system (Romero and Albino 2006:13). The traditional financial institutions are reluctant to provide financial services to poor people, because they are unable to counterbalance the lack of information about a client through the use of collateral arrangements to ensure the proper loan repayment. Banks do not provide loans if there is no security available.

Spearheading this new paradigm, Yunus (2013:51) states that the Grameen Bank which was established in 1983 as a Microfinance institution by Dr Muhammed Yunus was one of the earliest and yet successful pioneers. They exercised group lending with joint guarantees

which encouraged high repayment of loans. This enabled the sustainability of the Grameen banks in providing hundreds of thousands of microloans to the poor households in Bangladesh. This provision of finance to those with limited access has been relatively successful, but in some circumstances, microfinance as a tool in the development machine has lost its way. There has been success in certain arenas, but there have also been several failures, mostly due to a lack of appreciation of context and strategic direction.

Microfinance has a long history and includes a miscellaneous range of institutional formats, which range from individual money-lenders through to more formal institutions, such as state-owned banks for SMEs, credit unions, village banks and financial cooperatives

In order to achieve financial inclusion through the provision of micro-finance, there is need to undertake a variety of measures. The goal relates to identification of the poor and their microfinance needs. Overall, if the goal is poverty alleviation through micro-enterprise development, there is an integral need to identify the following:

- Who should benefit from Microfinance programmes that are the poor?
- Is credit alone that the poor need or are there other financial needs?
- What has been done by donors, Microfinance institutions and government to ensure that microfinance programmes benefit the poor?

According to Otero et al (2014:33) the rapid spread of Microfinance after the Grameen Bank was discovered was as a result of high level of political support, NGO and international donors. The US government's USAID arm was one of the first organisations into the microfinance field, right away pushing 'new wave' microfinance as 'best practise'.

## **2.1.Mobile Banking**

Lee and Chung, 2009 defined mobile banking as banking transactions using mobile devices such as cell phones and personal digital assistance. Tobbin, (2012:96) also defined mobile banking as the delivery of financial services through mobile devices such as a mobile phone. The rapid spread of mobile technology has made mobile phones increasingly common and available to users even in remote parts of the world. The mobile banking platform combines payments, banking and real time, two-way data transmission for on the move ubiquitous access to financial information and services. (Raghavendran, 2009:16). An electronic account is created through the installation of a banking application on the users SIM, this application

enables the user to deposit, withdraw funds or transfer funds from their account to other users. (Tobbin, 2010:96). Mobile banking entails the access of accounts and information, making payments and reconciliation of statements by customers using their mobile devices rather than paper to complete transactions. (Wessels and Drennan, 2010:18) Mobile banking is economical and provides value to consumers. This is achieved through ubiquitous access, time convenience and mobility. (Anckar, 2002 cited by Mawere, 2013:21 in a research)

### **2.2.1 Mobile Banking Adoption**

Many people in developing countries who do not have access to basic banking services have access to mobile phones. According to Greenwood, (2009:57) estimates in 2009 review that there are 1 billion people globally who do not have access to bank accounts but owns a mobile phone. International Telecommunication Union estimates by end of 2010 show that mobile phone coverage was at 90 percent of the world population, with 5.3billion people worldwide using mobile phones. (ITU, 2010:18) Zimbabwe's mobile subscriber base grew by 2.6 percent to reach 11.4million from 11.1million while mobile money transfers grew by 16.3percent to reach 4.9 million in the third quarter of 2014 from 4.2million in the second quarter. (POTRAZ, 2014:23). Reed et al (2014:79) noted that many people who do not have access to bank accounts are likely to have a mobile phones and this presents an opportunity for the mobile to fill a gap in the financial services infrastructure.

The rate at which mobile phone usage is increasing presents an opportunity to utilize mobile banking for financial inclusion. The adoption of mobile phone banking presents a catalyst through which Microfinance Institutions can invest in systems aimed at achieving Financial Inclusion in Zimbabwe.

### **2.2.2 Mobile banking initiative Models**

Chitokwindo et al, (2014:420) states that mobile banking initiatives have come from banks and Telecommunications Company, but not all banks are offering the full bouquet of m-banking. Chitokwindo et al (2014:420) gives the three models:

#### **Bank focused model**

Most banks have introduced mobile banking but their products are limited to SMS banking which is limited to balance enquiry and transaction alerts. Transactions have remained

traditional and those offered outside the banking hall are limited to ATMs and POS machines. This model does not bring on board that are financially excluded either due to price or condition barriers. The thrust is on giving convenience to existing customers. ATMs and branches are inseparable, thus they remain channels for the chosen few.

### **Bank Led Model**

Banks have partnered with mobile phone companies to offer mobile banking. The facility allows customers to enquire account balance, view account statement, purchase airtime, make inter accounts transactions, remittance and pay bills. The bank and the GSM network provider are linked through a mobile banking platform and the customer must have a bank account. This means that those without bank accounts are automatically excluded.

### **Non-Bank Led Model**

Telecommunication companies offer mobile banking services that are not directly linked to a bank. In Zimbabwe mobile banking has been pioneered by Econet wireless (ecocash), Telecel (telecash) and Netone (skwama).

### **2.2.3 Feasibility of Integrating Microfinance and Mobile banking**

Mobile remittances, micro-finance and micro-payment services are likely to fuel the growth of mobile banking in developing countries especially amongst the unbanked segment. (Amin, 2007:98). Mas (2008:50) noted that branchless banking has great potential to extend the distribution of financial services to the poor people who are not reached by the traditional bank branch networks. Mobile banking also lowers the cost of delivery, including costs both to microfinance institutions of building and maintenance of delivery channels and to customers of travelling and queuing to access services. The collaboration of mobile phone service providers and financial institutions makes financial services accessible, that is, take place at local retail outlets in areas where bank branches do not exist. (Metre, 2015:35) mobile money service providers are capable of cutting down transaction costs and extending access to formal financial services to poor and low income groups. Other studies have however questioned the extent to which mobile banking services are actually used by clients who previously did not have access to regulated bank services, rather than serving as an additional means of accessing money for those who already have bank accounts. (Mas, 2008:49)

Mobile telephony allows access of financial services to previously underserved people. The mobile service providers should join forces to ensure that the reach of microfinance expands in a sustainable manner that remain in line with the needs of the unbanked.

### **2.3. Financial Inclusion**

Usha (2006:23) explains that financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income segments of the society. The central focus of planning in India has been on equitable growth. In spite of achieving high growth targets in recent years, the fruits of economic growth have largely excluded the poor and the vulnerable. . (Bromwich and Saha, 2013:125). The suffering of most people from poverty shows that there is no economic growth or development. The active participation of the excluded population in the growth process makes inclusive growth possible. It is not possible if we can make them simple targets of development programme (Chakrabarty 2009:77)

Bhanot et al (2012:465) defined financial inclusion as the process of ensuring access to financial services, that is, savings, insurance, remittance, payments and timely and adequate credit where needed by the weaker sections and low income groups at affordable cost. The process should ensure that the vulnerable groups, that is the weaker sections have access to appropriate financial products and services they need at an affordable cost in a fair and transparent manner by mainstream Institutional players.

The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for rural population. The aim of financial inclusion is to promote sustainable development and generating employment for a vast majority of the population especially in the rural areas. (Rangarajan, 2008:223). Bhanot et al (2012:465) states that about 74percent of the world population is excluded from the formal banking sector and high poverty ratios are reported in countries with the largest proportion of financially excluded.

According to Hasnol et al (2015:162) those people who lack access to financial services may incur additional costs in undertaking essential financial transactions such as payment of household bills and may be restricted in affordable mainstream credit. It is therefore clear that the concept of financial inclusion infer the following:

- People from all levels of society should have access to formal financial services

- There should be no barriers to access formal credit.
- Credit should be provided adequately and timely.
- The need to be target weak and low income groups
- The need for cheap and affordable financial services.

### **2.3.1. Financial inclusion in geographically remote areas**

Only two to five percent of the 500million rural households in the world have access to institutional credit. (Christabel and Vimal 2012:21). Zimstat, (2012:8) shows that 65 percent of Zimbabwe's population live in the rural areas whilst 35 percent live in urban areas. According to Zimstat, (2011:6) only 12percent of adults in rural areas have or use commercial banking products. According to Fin mark, (2012:11) 51percent of rural adults are financially excluded whilst 27percent rural adults use informal financial services. Fin mark, (2012:25) estimates show that only 5percent of Zimbabweans in rural areas have access to a bank within 30minutes reach. A large section of the population resides in rural areas still remain outside the coverage of formal financial system where they do not have access to basic financial services such as savings, remittances, credit and insurance.

### **2.3.2. Reasons for Rural Financial Exclusion**

The poor have a disadvantage in accessing financial services due to residing in remote areas and low education levels or lack of formal education which reduces the interest of formal financial institutions to provide services for them. (Mandiwa, 2014:44). Commercial banks have always provided their services through branches but only those in towns have benefited much from this channel since banks shun opening branches in remote areas. Narajan and Meyer, (2006:86) noted that rural communities are highly underserved because formal financial institutions fail or avoid offering sustainable services in rural areas. The aim of meeting the economic objective of profit maximisation has led to most financial institutions resorting to operating within the urban areas, thereby denying the rural masses access to financial services.

Ranakrishnan, (2011:7) observed that most people do not have regular savings because of low level of financial literacy especially in the rural areas where most of the population is excluded from the formal financial system. One of the major forms of financial exclusion is access exclusion that is unavailability or remote availability of banking services. (Kempson and Whyley, 1998 cited in Bera, 2012) Distance from the nearest banking services is an



important determinant of access therefore residents of remote and hilly areas are more likely to be financially excluded. (Topoworski (1987) cited in Bera, (2012:471). In Zimbabwe the rural poor are excluded because financial institutions are mostly concentrated in urban areas.

### **2.3.3 Challenges faced by people in rural areas in accessing financial services**

According to Focus, (2008:14) institutions offering financial services such as banks, credit unions, microfinance institutions and insurance companies are hesitant to serve rural areas. This has resulted in the majority rural population not having access to the formal financial system and therefore relying on informal ways of accessing financial services. Informal and semi-formal financial institutions have become chief providers of financial services in rural areas; however, these informal providers often have weak institutional and managerial capacity. (Narajan and Meyer, 2006:83). They operate in isolation from the financial system and some of these providers charge exorbitant interest rates. Koku, (2015:656) also noted that the poor resort to alternatives to the traditional financial institutions such as money lenders, payday loans and pawnshops as a result of lack of access to financial services. These financial alternatives charge very high rates.

### **2.3.4. Extend of achieving rural financial inclusion through microfinance**

According to Christabel and Vimal, (2012:23) Microfinance Institutions play a vital role in facilitating inclusion as they are uniquely designed to reach out for the rural poor. Formal credit institutions rarely lend to the poor, so special institutional arrangements became necessary to extend credit to those who have no collateral to offer. Chitokwindo et al, (2014:423) noted that initially the scope of microfinance was limited to providing microloans to the disenfranchised. Recent studies suggest that expanding access to microloans alone has only modest effects on most outcomes. (Crepon et al 2011:102) Microfinance was defined as those programmes that provide technical assistance to poor persons and credit to self employed but nowadays it is viewed as more than credit, that is, the provision of savings, insurance, and remittance to a much wider range of financial services. (Micro Credit Summit, 1997; Tankha, 1999, cited in Christabel and Vimal, 2012:22) Although there has been recognition of the importance of financial services for rural development and the microfinance boom in recent years has once more underlined the importance of financial services, large parts of the world's rural population remains excluded from formal financial services due to high transaction costs and high risks of lending.

## **2.4. Financial Exclusion and Social banking**

Clamara et al, (2014:28) noted that financial exclusion can either be voluntary or involuntary and is associated with the discrepancy between use and access. Access of formal financial services is mostly related to supply whilst use is related to both supply and demand. Usage focuses on the permanence and depth of a financial service, that is, frequency, regularity and duration of use over time. Both voluntary exclusion and unfavourable risk returns characteristics may preclude a household or a small firm despite unrestrained access from using one or more of the services. (Hanning and Jansen, 2010:5). The major forms of exclusion that deter certain segments of population from being financially included are access exclusion, price exclusion, condition exclusion, marketing exclusion and self exclusion.

Barriers to bank access include distance, unaffordability to rural people, low income earners, inappropriacy of products offered, lack of documentation and lack of money. (Chitokwindo, 2014:420). According to Demirguc-Kunt and Lyman, (2012:71) access exclusion refers to the unavailability of banking services. Less educated individuals with lower income are more likely to perceive distance as a barrier of financial inclusion because they are unaware of the existence of alternative banking options such as mobile banking or they lack the confidence and skill to use them. Price exclusion entails high costs of financial products. Prices may be higher than what individuals are willing to pay. Financial services are expensive for a substantial part of the population. Condition exclusion involves inappropriate conditions being attached to financial products. The lack of documentation required to have a bank account for example certification of residence and an employment contract.

Self exclusion may be as a result of cultural or religious, psychological barriers and mistrust. People may lack trust in financial institutions.

### **2.4.1. Financial Inclusion Trends**

In recent years, there has been significant but uneven progress towards financial inclusion around the world. Success stories include:

- Kenya- Through mobile phone payment solutions, Safaricom a Kenyan telecommunications attracted 7.9million subscribers to short message service based transfer schemes. (Hanning,2013:14)

- Brazil achieved universal coverage of at least 5500 municipalities by banking through retail agents. Expansion was at least 12million clients in 6 years.(Tombini,2013:20)
  - Philippines’s mobile phone banking has expanded to serve 4million clients since 2002.(Bangko,2013:16)
  - In Zimbabwe Financial Inclusion increased from 60percent in 2011 to 77percent in 2014 and this was mainly driven by mobile money platforms (Herald,2015:3)
- The RBZ came up with a financial inclusion framework in 2007 which was based on enhancing provision of financial services to the excluded through institutions such as POSB, ZIMPOST, AGRIBANK and engaging commercial banks in rural areas. Even though these trends show impressive achievements, half of the world’s population is still excluded, that is denied access to savings accounts, insurance and other financial services and about 95percent of this unbanked population are in developing countries. (Chitokwindo et al, 2014:420)

#### **2.4.2. Impact of Microfinance**

Microfinance activities have a variety of impacts for example (Ledgerwood, (1997:47), cited in Radhawa, (2004:79) discusses three categories of impact:

1. Economic- through business expansion in the formal or informal sector and consumption.
2. Sociopolitical or cultural- microfinance institutions activities result in a change in the status of the subsector.
3. Personal or psychological- individuals receiving the benefit of microfinance institutions activities may feel a greater sense of empowerment.

The impact of microfinance institutions on household poverty alleviation is varied, for example in Asia the use of household village programmes had a positive impact on borrower incomes of the poor which increased from 12percent to 30percent in Bangladesh and India. (Cull et al, 2015:6). Microfinance also impacts on participants’ business, households, individual income and quality of life, therefore there is a positive relationship between borrowing and nominal income growth.

## **2.5. Microfinance Policies**

Most microfinance institutions are providing financial services and products outside the formal banking system. It can be argued that conventional regulatory framework such as that of formal banks and financial institutions is not appropriate and hence not required under the circumstances prevailing in many countries. Chitokwindo et al,(2014:420) states that “Zimbabwe has no law binding financial institutions to adopt financial inclusion and adoption has come as a result of service providers taking the initiative spurred by competition”. The core objective of MFI is poverty alleviation which differs from the formal financial sector but that does not downplay the importance of having some strategic monitoring measures that are compatible with MFI objectives.

According to RBZ, (2012:20) the microfinance policy recognizes the existence of credit only membership based microfinance institutions, that is, provision of micro-credit and remains prohibited from mobilizing deposits from the general public. Microfinance institutions are subjected to non-prudential regulation. Interest rates are regulated in a way that ensures that MFI can be sustainable while at the same time ensuring that clients are unduly exploited.

### **2.5.1 Regulatory issues**

Charitonenko and Rahman (2002:90) noted that the growth of Microfinance institutions and an increase in their vulnerable client base does not match with the small capital base that was used to launch the institutions. Immediate need for regulation arises when microfinance institutions seek to accept deposits. Chitokwindo et al, (2014:421) also states that the consensus in line with the importance of a commercial orientation for MFI raises a number of regulatory concerns. Policy makers took a big leap in the 1980s and 1990s arguing that microfinance institutions must be profitable or “financially sustainable” (Cull et al, 2015:7) the need to attain sustainability according to Radhawa, (2004:76) has encouraged microfinance institutions to use market based principles which have been referred to as the commercialization of microfinance. Donors encourage MFI to raise interest rates and commercialize to attract private investors.

Microfinance institutions have been weighed down by many negative perceptions involving management practices and transparency of operations and commercialization may serve a positive signal for investors and governments. The concern however is that commercialization may conflict with social objective of microfinance of financial inclusion if

it leads to exclusion of the neediest customers, that is, a decrease in credit availability and an increase in cost. There is a dispute on whether microfinance institutions should seek profits for sustainability as this has trade off between their social and commercial goals. Financial access is more important than its price.

## **2.6 Microfinance credit**

Loan portfolio is largely consumptive in nature, with consumptive lending constituting 55,36percentof total loans as at 30 June 2015. Greater part of lending is biased towards salary based lending. Under normal circumstances, the bulk of loans should go towards the productive sector and not consumption. The current state of affairs show that lenders prefer salary based loans to individuals and corporative. Rivlin, (2010:874) referred to these salary based loans as “payday loans”. Payday advances rely on the consumer having previous payroll or employment records. These tend to exclude those that are in the informal sector.

The Reserve bank noted that microfinance operations in Zimbabwe are currently skewed towards consumptive lending at the expense of productive sector financing. (Dliwayo, 2014). Consumptive lending is devised to increase household’s utility while productive lending is formulated to externally enhance production. Imondu and Ohosakponome, (2013:43) noted that small farmers become seriously handicapped in adopting profitable technology unless productive loans are made available. There is greater risk in lending money for consumptive purposes than for commercial purposes, since a commercial loans used in ways which provides means for repayment. (Chen, 2010:125).

## **2.7. Summary**

The literature primarily focused on assessing microfinance’s’ impact and to some extent its sustainability. There has been no detailed research before regarding the contribution of microfinance to financial inclusion. Cull et al, (2009:8) states that even though there are diverging views around the possibilities and limits of microfinance, there are areas of shared vision particularly on the need for financial services which can benefit a large number of people without access to banks. This emphasizes the role of microfinance institutions in promoting financial inclusion particularly in the context where a large proportion of the population is underserved.

The potential of microfinance with regard to financial inclusion needs to be studied in greater detail because the provision of financial services on a one-time basis does not amount to

financial inclusion. This research therefore defines financial inclusion as the continuous access to a range of financial services in an affordable and convenient manner. This implies that microfinance providers need to reliably offer certain kinds of services such as savings and hence this aspect needs to be analyzed. The next chapter describes the research framework and methodology of the study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0. Introduction**

This chapter is mainly concerned with the method that the research exploited in conducting the study. It outlines the data sources exploited in the research, the sampling criteria, research instruments and the manner in which the data was collected.

#### **3.1. Research design**

A research design is a plan and structure of investigation so conceived as to obtain answers to research questions. (Cooper and Schindler 2003:146) Research design is a plan for obtaining workable results from your research on which you can base justifiable conclusions. (www.emeraldinsight.com) Oppenheim (2012) identifies four types of research designs namely descriptive, explanatory, conclusive and casual research designs.

##### **3.1.2. Descriptive research design**

Boyd et al (2004) states that a descriptive survey design attempts to achieve a complete and accurate description of circumstances. For this research a descriptive survey research design was used. The descriptive design is flexible in terms of data gathering and is relevant in collecting data in its real setting and for measurement of attitudes for obtaining opinions from a large population. Also because it provides answers to questions who, why, when, what and how. Sekaran (2008) a descriptive survey research design portrays an accurate profile of persons, events or situations. This research design enabled the collection of data from the research sample and then employed various tools to make a detailed analysis of primary data.

#### **3.2. Research population**

According to Bush and Burns (1998), research population is the entire group under study as defined by research objectives. The population of this research includes 27 microfinance service providers, 380 microfinance clients and 150 marginalised potential clients.

### 3.3 Research Sample.

A sample is a part selected to represent a large group. Webster (2013 :) referred to a sample as a predetermined part of statistical population whose properties are studied in order to learn more about the whole population. However Oppenheim (1992) states that a sample that is not a representative of the population may not give a true picture of the population and therefore may not be reliable. The research therefore used stratified sampling method. This is because the target population is constituted by 27 bank management, 380 microfinance clients and 150 marginalised potential clients. The research was guided by Ritchie et al (2003) who revealed that qualitative samples often lie below 50 participants.

### 3.4 Sampling procedure

#### Stratified sampling

Stratified sampling is adopted when the population comprises of different subgroups which are of interest. Strata are made to ensure every group is included in the sample and a sample is chosen from each stratum. The research used stratified sampling since the population of interest is made up of Microfinance personnel, Microfinance clients, potential clients and policy makers.

#### 3.4.2 Sample size

A sample size was reached after the research takes into account King (2010)'s view in O'Connor (2011) that if a target population is small, a sample size of between 10 percent and 30 percent is a representative of the whole population. The research used 15percent sample size according to King (2010).

**Table 3.1: Sample composition**

Group	Target population	Sample size	Sample as a %
Bank/Microfinance Personnel	27	8	15
Microfinance clients	380	57	15
Marginalised potential clients	150	23	15

*Source: Author*



### **3.5 Sources of data**

In order to get full information about the research, the research used both primary and secondary sources of data.

#### **3.5.1 Primary data**

Craig (2011) defines primary data as data collected and analysed by the research through interviews, surveys, questionnaires and observations. Methods of collecting primary data also include focus groups and questionnaires. For this research questionnaires and interviews were used. The merits of using primary data include the ability to control the quality of data collected since data is obtained from the source. Primary data collection is however costly and time consuming.

#### **3.5.2 Secondary data**

This is data which was previously collected and analysed which is made available from other sources. Library text books, electronic journals and the internet for the research. The research also made use of monetary policy statements, RBZ publications and newspaper articles. Secondary data exists in large amounts and therefore facilitates in-depth analysis of data. It is also time saving and cheaper as it is easier to collect data in documented form. There is however no control over the quality of data as some sources have limited access due to confidentiality.

### **3.6 Data Collection Instruments**

Interviews and questionnaires were used to collect primary data. According to Wooside (2010) multiple methods approach is essential in eliciting both a conscious and an unconscious thinking process. The use of different data collection methods helps triangulate data, that is, use different sources of data to corroborate the same finding. Interviews are semi structured and questionnaires have both closed and open ended questions. Questionnaires were personally administered as well as distributed electronically.

#### **3.6.1 The Questionnaire**

Mclean (2006) refers to a questionnaire as a set of carefully designed questions issued in exactly the same form to a group of people with the objective of obtaining data on some topics which are of interest to the research. The research used questionnaires to allow

uniformity in the way questions are asked and also to ensure comparability of answers obtained. The questionnaires contain both open ended and closed questions.

#### Advantages

- Questionnaires are more objective because responses are gathered in a standardised way
- Participants are willing to give all the information because of anonymity
- Allows uniformity and in the way questions are asked and comparability in the answers obtained
- Participants were given more time to go through the questions and understanding them before responding.

#### Disadvantages

- Questions are standardised and it is not possible to clarify on questions that the participant may misinterpret.

### **3.6.2 Interviews**

Denzim (2012) suggests the type of interview chosen must motivate the participants to give relevant information. Face-to-face interviews are most suitable because they provide vast amounts of data through non-verbal responses such as facial expressions. The use of interviews ensures immediate responses and therefore immediate evaluation. They also give room for clarification on questions which in turn gives rise to accurate information being obtained. Microfinance personnel and Policy makers were interviewed.

#### Advantages

- The use of interviews gave room for clarity where the interviewee misunderstood the questions
- Allowed interview to probe more questions, some of which were not prepared for.
- More information is obtained through body language and facial expressions

#### Disadvantages

- Interviews do not give the respondents time to respond to questions and hence the respondent may give incorrect information.

### **3.7 Validity and reliability**

The research took into consideration validity and reliability in developing search engines. Validity is the ability of an instrument to measure what it is intended to measure. (Saunders et al, 2010) Siniscalco and Auriat, (2005) states that reliability is concerned with consistency of measure. Questionnaires and interviews schedules were pilot tested to ensure reliability as this revealed vagueness and conflicting items that were not significant to the purpose of the study. There was validity as the questionnaires were constructed in close guidance with the research questions.

### **3.8 Data Presentation and Analysis**

Creswell (2007) states that data analysis consists of preparing and organising data for analysis and then reducing data into themes and finally presenting the data in figures or tables. For this research, data is presented in tables, graphs and pie charts.

### **3.9 Ethical Considerations**

Ethics is “a subject that encompasses human behaviour and the motives and decisions that impact one’s actions” (Picardi et al, 2014:27) Ethical issues include respect for privacy of participants and maintenance of confidentiality of data provided by individuals. Picardi et al (2014) identified the ethical principles as respect for persons, beneficence and justice. In carrying out this research, participation of respondents was voluntary and any subjects that were determined to have diminished autonomy were protected. The research did not cause any harm to the participants and strived to have positive outcomes for the subjects. Participants were also informed on why the study was being conducted.

### **3.10 Summary**

This chapter has looked into the research methodology, research instruments, sampling strategies and the presentation format of data. The next chapter presents and analyses the data that was collected using the research instruments as discussed above.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter examines data gathered and draws necessary inferences. It focuses on the presentation, analysis and discussions of findings based on responses obtained from Microfinance providers, Microfinance clients and the general public. The results are presented under the individual headings as they were asked in the questionnaire and interviews and as guided by research questions and objectives.

#### 4.1 Response Rate of Research instruments

The table below shows the representation of the whole responses obtained and interviews made.

**Table 4.1: Response Rate**

Group of Respondents	Sample selected	Respondents	Respondents rate %
Microfinance providers	8	8	100%
Microfinance clients	57	57	100%
General public	23	23	100%
Total	88	88	100%

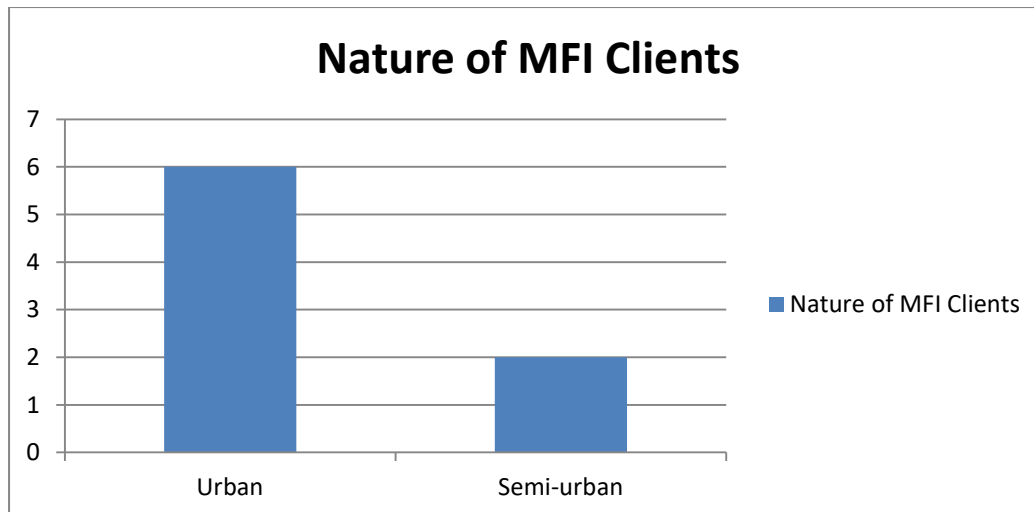
*Source: Author*

Although some authors such as Kelly et al (2013) suggest that for research results to be regarded as accurate the rate of response should be at least 65%, the table above shows that a rate of 100% response was obtained. Interviews with microfinance providers were done successfully, giving a 100% response rate. This was because the objectives of the research were explained fully and emphasis was given on confidentiality.

Fifty seven questionnaires were administered to microfinance clients while twenty three were administered to the public who are not microfinance members. All questionnaires were administered successfully and the respondent rate was 100%. This was as a result of making the respondents anonymous. The nature in which these questions were asked was also in such

a way that nothing could be linked to the respondent and thus the respondents did not hesitate to respond to the questionnaires.

#### 4.2 Nature of Microfinance Clients



**Figure4. 1: Nature of MFI Clients**

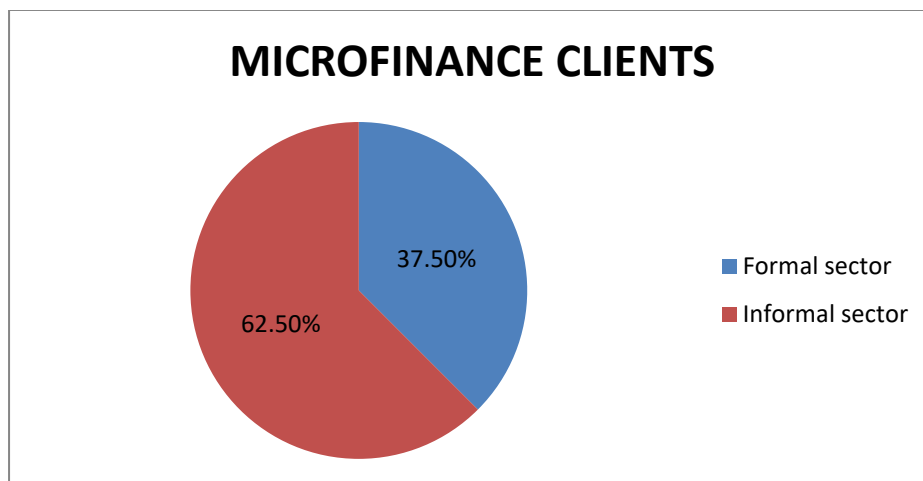
*Source: Primary data*

Out of eight microfinance institutions interviewed six serve urban clients while two serve semi-urban clients. There were no Microfinance institutions that serve rural clients or had rural branches. According to the Microfinance Industry report (2015) Microfinance institutions are still dominant in the urban areas. MFIs only serve those in urban, semi urban areas and those in remote but accessible areas. This results in the rural inhabitants being highly financially excluded.

MFIs are reluctant to provide loans to rural population since most of them may not have income generating activities in which to invest their loan funds. They become high risk clients in that they may not be able to repay the loans amounts and the interest charged by Microfinance providers.

The cost of setting up operations in rural and remote areas could also act as barriers to Microfinance institutions. These costs could include infrastructure development, educating people on financial products and deploying employees to remote areas.

### 4.3 Type of clients served by MFI



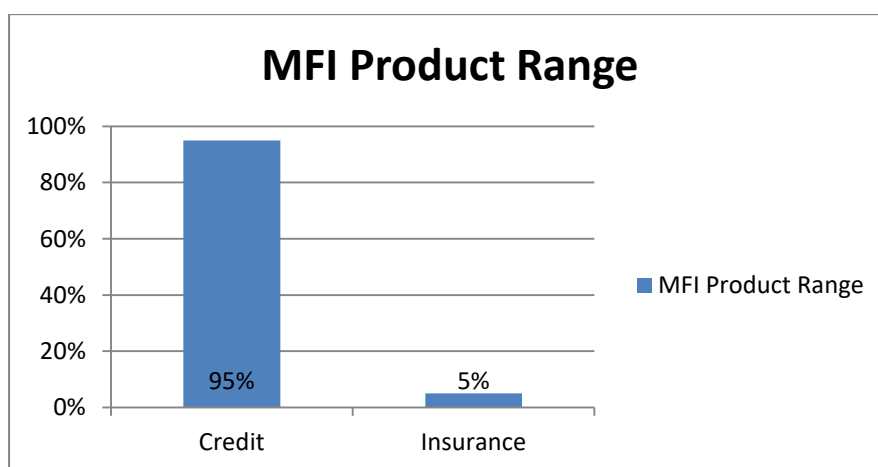
**Figure4.2: Type of Microfinance Clients**

*Source: Primary data*

Out of eight microfinance institutions interviewed, three serve the formal sector clients whilst five serve both the formal and informal sector clients. This indicates that there are MFPs that prefer to serve civil servants and most of them prefer salaried employees. This may be because they want to avoid situations where client default repayment.

Most MFI offer payday loans and the reason for serving the formal sector clients over the informal ones could be because they have fixed or defined pay dates compared to the informal sector clients.

### 4.4 Range of products



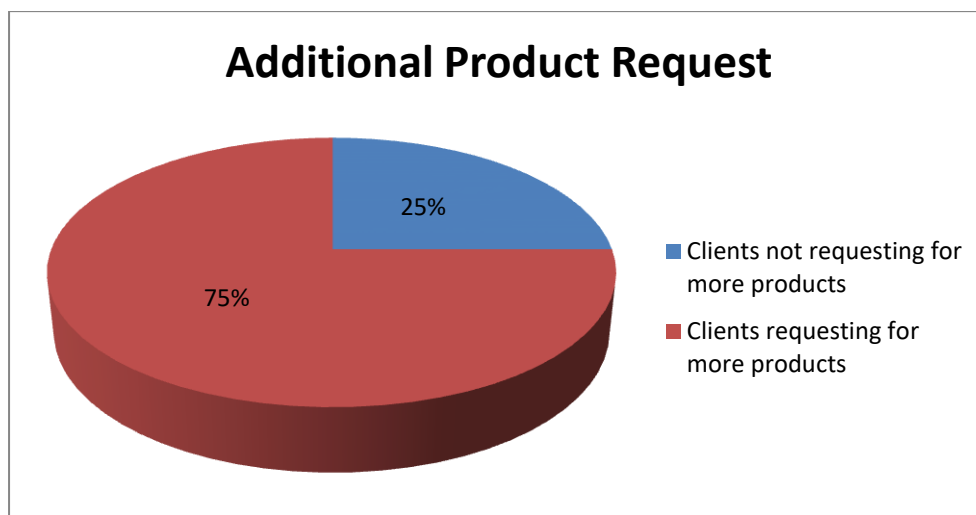
**Fig4. 3: MFI Product Range**

*Source: Primary data*

Microfinance Service Providers were asked to state the products which they offer. 95% of their products are credit whilst the other 5% is insurance. The products offered by microfinance providers include Credit and insurance only. The mainstay for microfinance institutions has been credit but some institutions have also begun to offer insurance service to clients as an additional product to the credit they offer. Insurance is not viewed as a stand-alone product.

#### 4.5 Products not offered that members ask for

75% of the microfinance providers confirmed that their clients have not asked for additional products on top of credit. The other 25% however have had their clients request for additional financial products.



**Figure 4.4: Additional product request**

*Source: Primary data*

The products that microfinance members ask for include Savings and insurance. Only a few clients have requested for additional financial services and this implies that most customers are not educated on financial products. It could also be because Microfinance institutions are perceived loan sharks and thus customers do not expect more products from them.

Some Microfinance clients are requesting for higher loan amounts. This request shows that the need for loans has not been met fully. Upon inquiry with microfinance clients, they mentioned that the high loan amounts required could be used as business loans or housing loans. It could also be because clients are aware of the core business of MFI which is loan provision and hence more of the same product is required. Microfinance providers have

referred to these loans as high risk; business loans have stringent cash flows that disallow repayments.

Clients are also requesting for savings services from their Microfinance providers. Rutherford (2001) cited in Shankar (2011) in a research observed that low income individuals see value in saving. Most Microfinance providers mentioned that lending is the only financial service they focus on. This is due to regulatory reasons that prevent them from taking deposits and therefore savings services cannot be offered.

#### **4.6 Frequency at which the excluded try to access MFPs**

Microfinance Service providers were asked whether they had come across financially excluded people who tried to access Microfinance products and the frequency at which tried to access financial products. The question seeks to establish whether the financially excluded wanted to access financial products. All Microfinance providers have come across a situation whereby a financially excluded person wanted to join the MFI but could not access financial services due to various reasons. Table below shows the frequency at which Microfinance service providers have come across such instances.

**Table 4.2: Frequency at which the excluded try to access MFPs**

<b>Frequency</b>	<b>Number of Microfinance Institutions</b>
<b>Everyday</b>	1
<b>Once a week</b>	4
<b>Once a month</b>	3
<b>Once a year</b>	0

*Source: Primary data*

One out of eight MFIs (12.5%) come across financially excluded persons who try to access credit on a daily basis. Four MFIs (50%) reported a frequency of once every week for request to join MFI by the financially excluded. Three MFIs (37.5%) come across such people once a month.



These results show that the financially excluded are in need of financial services but cannot access them due to non-compliance with microfinance requirements. It also means that people are aware of the existence of Microfinance Institutions.

#### 4.7 Supply Side Barriers to financial inclusion

Microfinance providers have certain requirements which the clients should meet first before accessing credit. These requirements act as barriers to microcredit to the poor and low income groups. Even though the interviews with the Microfinance providers were held separately, their responses were similar. These responses are therefore consolidated and presented as the views of all MFIs. The requirements include payslip, 6 months bank statement, guarantees and collateral among others. The table below shows the main reasons that restrict some individuals from accessing financial services.

**Table4. 3: Reasons for failure to access Microcredit**

<b>Reasons for not being able to Access Microcredit</b>	<b>Percentage of Microfinance service provider responses that referred to the reason</b>
<b>Lack of proof of residence</b>	28%
<b>Lack of proof of employment</b>	35%
<b>No collateral</b>	13%
<b>No economic activities</b>	25%
<b>6 month bank statement</b>	58%

*Source: Primary Data*

Lack of proof of employment ranked highest. Requesting for a payslip for one to access microcredit means that microcredit can only be accessed by salaried individuals. The country's economic system is going informal and most people are self employed and some engage in small businesses and they cannot produce payslips. The microfinance social objective cannot be met as the microfinance institutions are excluding the excluded.

Microfinance providers are aware that they do not reach all the people who do not have access to financial services. Only the poor people who have the ability to engage in income generating activities are selected. Those that do not have income generating activities to

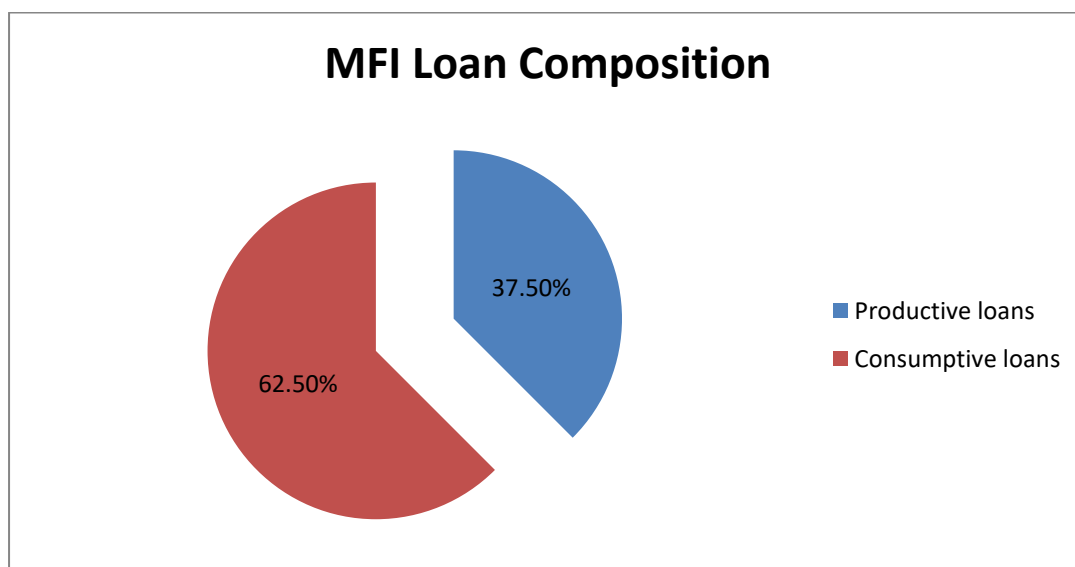
invest their loan funds are regarded as high risk clients and so Microfinance providers hesitate to offer those loans.

Most people come from semi urban areas and some are tenants. These individuals hesitate to go through the process of obtaining proof of residents. For tenants to obtain proof of residence, they need to obtain an affidavit from the house owners who usually hesitate for the fear of losing their property when the tenant defaults.

It was observed that most financially excluded people are failing to access microcredit because MFI require a six month bank statement before extending credit to them. This means that only the ‘banked ‘ can access loans from MFIs, therefore excluding the excluded.

Some Microfinance providers require collateral that is three times the loan amount. The collateralisation of assets which is by far in excess of the value of the loans being secured is exploitative and unfair to the borrowers. People then go on to seek loans from alternative sources such as borrowing from relatives.

#### 4.8 Consumptive vs. Productive loans



**Figure 4.5: MFI Loan Composition**

*Source: Primary Data*

Consumptive loans are offered more in comparison to productive loans. Five out of eight (62.5%) MFI interviewed offer consumptive loans only whilst three (37, 5%) offer productive loans. According to the Microfinance industry report (2015) Consumption lending constituted

55, 36% in comparison to productive loans as at 30 June 2015. Dhliwayo (2014) also states that Microfinance loans are skewed towards consumptive lending.

These consumptive loans are usually salary based which makes them low risk lending. This implies that Microfinance providers want to guard against huge losses in case a member defaults. Consumptive loans also take shorter periods of repayment and this means that MFP make profits at a faster rate.

Shorter payment periods could also assist MFIs on sustainability as they quickly get their money back plus the interests. This also makes it possible for them to lend to the next group of borrowers.

### Microfinance clients' inquiry

#### 4.9.0 Demographic information

##### 4.9.1 Age

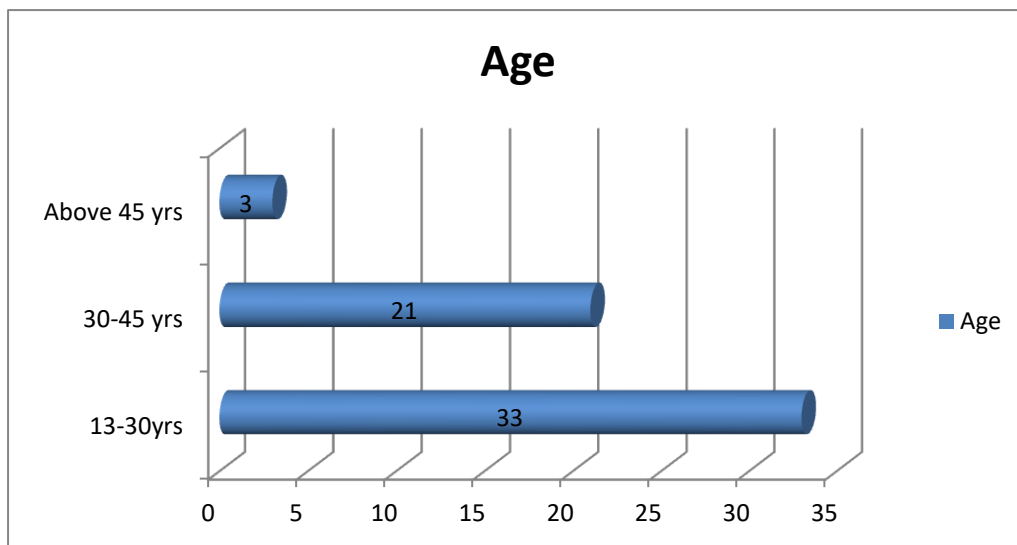


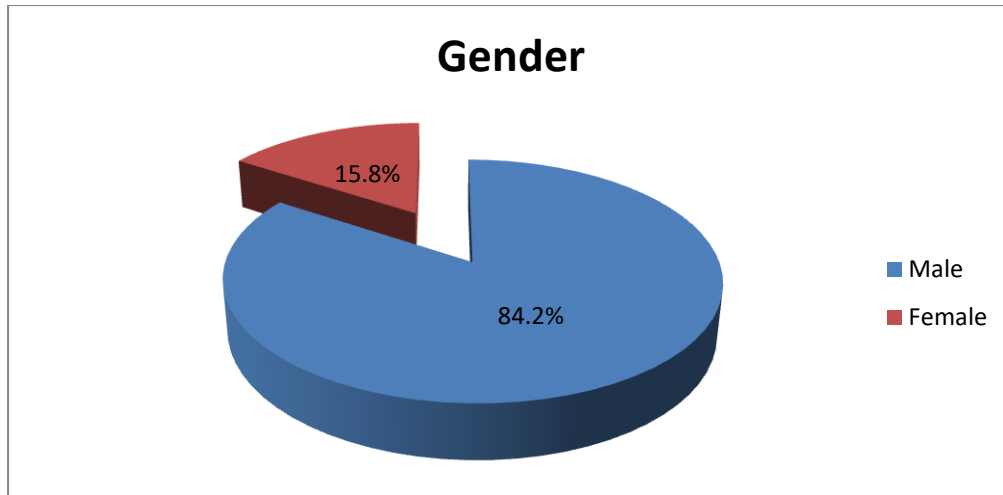
Figure4. 6: MFI clients' Age

Source: Primary Data

Thirty three respondents fall between the ages of 18 to 30 years. The range of 30 to 45 years consists of 21 respondents. Respondents above the age of 45 years were 3. This trend indicates that the youth and more economically active constitute the highest percentage of microfinance clients. This group could be the risk taking group which explores all the ways of obtaining financial products. People within this range are the most financially included whilst those above the age of 45 comprises of the most excluded.

Respondents within the range of 30 to 45 years ranked second. This could be because most of them are already absorbed in the formal financial system which is the banking sector.

#### 4.9.2 Gender



**Figure4. 7: Gender**

*Source: Primary Data*

Forty eight out of fifty seven (84.2%) Microfinance clients are males while only nine (15.8%) are Females. This implies that women are the most financially excluded. Microfinance providers are aware that they do not reach females who do not have access to financial services. This could be because males as heads of the households borrow on behalf of the whole family and women find no need in accessing microloans.

Most females do not engage in either economic activities or are unemployed and therefore they are not able to access microfinance services. Some females when they get married relocate to rural areas and this also reduces their chances of being financially included since MFI are dominant in urban areas.

### 4.9.3 Level of Education

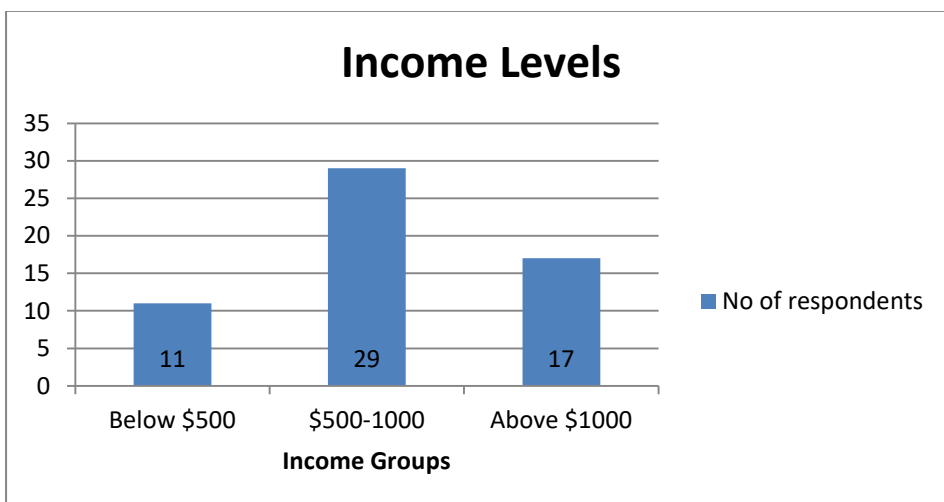
**Table 4.4: Level of Education**

Level of Education	Number of Clients
None	Nil
Primary	Nil
Secondary	Nil
College	39
University	11
Postgraduate	7

*Source: Primary Data*

Thirty nine microfinance clients have college diplomas, eleven have university degrees and seven are postgraduates. It was observed that Microfinance clients are literate as all of them are educated. This implies that there is a direct relationship between the level of education and financial literacy. The results show that there are no respondents with secondary, primary and with no education at all. This means that these people are financially excluded. The reason for their exclusion may be as a result of financial illiteracy. The financial illiterate either do not know of the existence of Microfinance Institutions or they know of their existence but do not know of their role in financial inclusion.

### 4.9.4 Microfinance clients Income levels

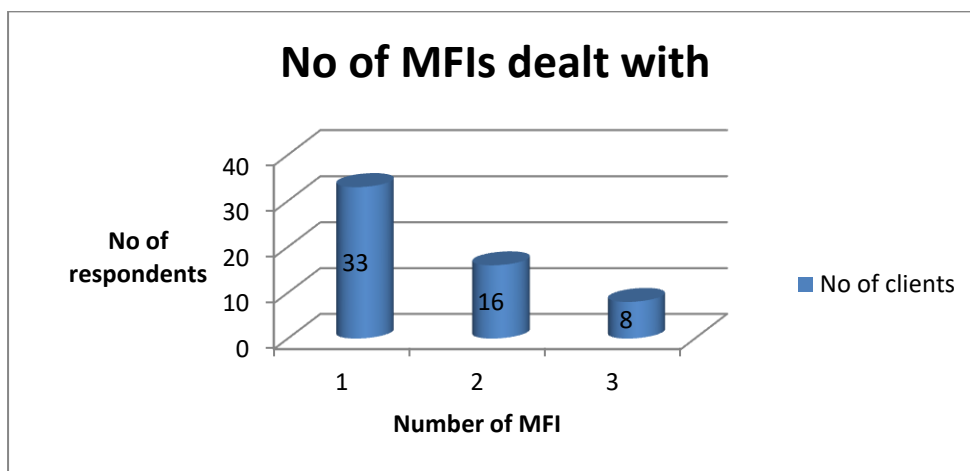


**Figure 4.8: Income Levels**

*Source: Primary Data*

Eleven respondents earn incomes below \$500 and they ranked lowest. The income group of \$500-\$1000 income ranked highest with twenty nine respondents. Above \$1000 income earners are 17. It was observed that the MFI are dominated by clients of between \$500 and \$1000 instead of low income clients they are intended to serve. This observation shows that MFI are not attaining their social objective but rather concentrating on the financial objective of profit making.

#### 4.10 Number of microfinance Institutions dealt with

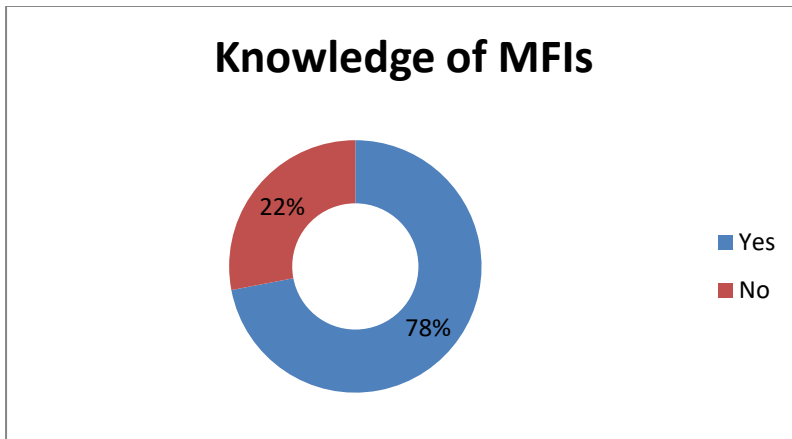


**Figure 4.9: Number of MFIs dealt with**

*Source: Primary Data*

On a scale of one to above 4, clients were asked to indicate the number of Microfinance institutions that they have dealt with. Thirty three clients mentioned that they had dealt with only one MFI. Sixteen clients have dealt with two MFIs and eight clients have dealt with three MFIs. The people that dealt with one MFI show that Microfinance access is temporary. Members may choose to discontinue membership because there is no longer need to borrow. Respondents that have dealt with more than one MFI show that some members move from one MFI to another comparing the interest rates and services provided. This shows that there is no uniformity in Microfinance interest rates.

#### 4.11 Knowledge of Microfinance institutions

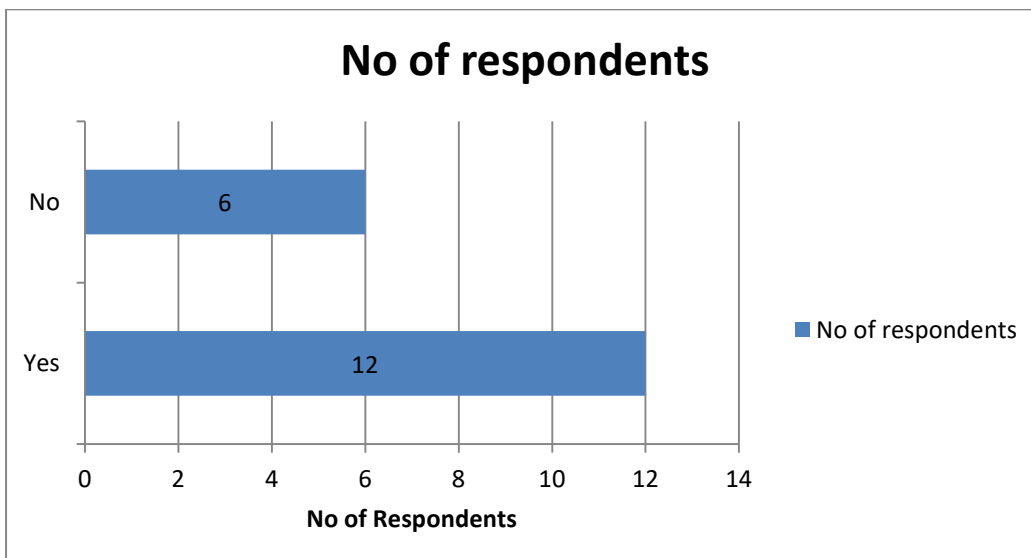


**Figure 4.10: Knowledge of MFI**

*Source: primary Data*

When asked on whether they knew any microfinance Institutions, 18 respondents confirmed that they knew them whilst 5 did not know any around their area. This observation shows that most people are aware of the existence of MFIs. A few are yet to be educated on the existence of MFI as well as their role in the society.

The number of respondents who have tried to access microfinance services



**Figure 4.11: Access to MFPs by the financially excluded**

*Source: Primary Data*

Twelve respondents have tried to access Microfinance services whilst six have not. The graph above reflects that most financially excluded persons are in need of financial services but have not been able to join due to several factors. The other twenty five respondents did not attempt to join due to their own fears. A greater population of the excluded is in need of financial services.

#### 4.12 Demand side barriers to financial inclusion

Eleven respondents mentioned that they could not access financial services from Microfinance providers due to failure to meet Microfinance requirements. Seven respondents who have knowledge about the existence of Microfinance institutions chose not to join Microfinance institutions due to several factors. The other five respondents did not join microfinance institutions because they did not know any around their area. The table below show the reasons mentioned by respondents for choosing not to join MFIs.

**Table 4.5: Demand side Barriers to financial Inclusion**

Reason for not joining MFI	No of respondents who gave that response
Fear of inability to pay back loans	1
Fear of losing high value property for small amounts of money borrowed	2
High interest rates	3
Unreliable (no fixed area of aboard)	1

*Source: Primary Data*

Seven respondents chose not to join MFIs due to the reasons shown in table 5 above. One respondent mentioned that they did no access MFPs because of the fear of defaulting. This fear could have been as a result of the perception that MFI charge very high interest rates which make it difficult for clients to pay back the interest and the principal amounts.

Two respondents chose not to access MFPs due to fear of losing high value property for small amounts borrowed. MFI are known for requesting for collateral of assets which are by far in excess of the value of the loan being secured. One respondent mentioned that they had witnessed a neighbour losing a high value motor vehicle as a result of failing to meet the deadline of repayment of a loan which was less than \$2000.

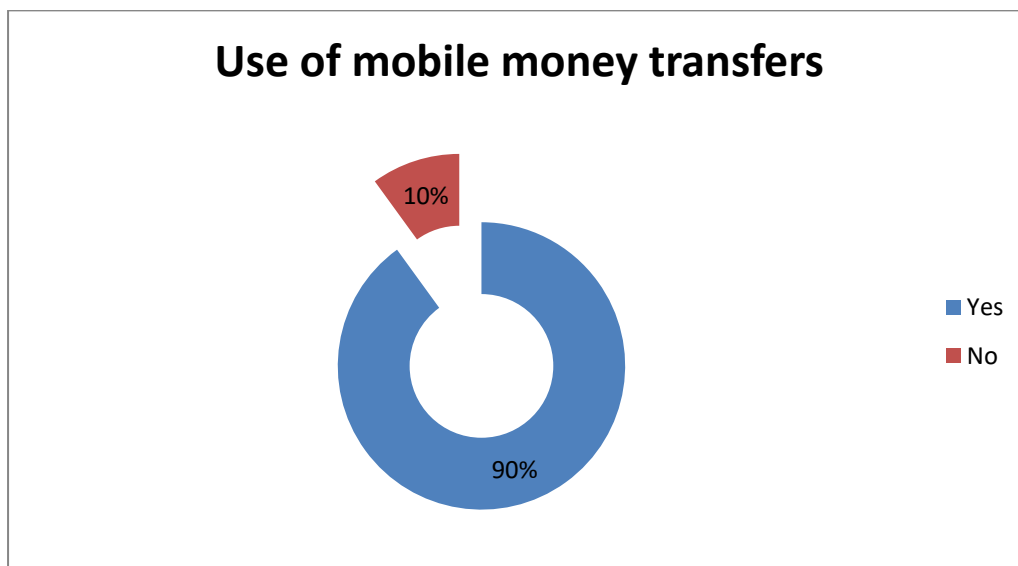


Three respondents did not join MFI because of the high interest rates. The cost of borrowing become high than the benefits thereof and this makes it undesirable for people to access loans that have high interest rates.

One client mentioned that they did not access Microcredit because they thought that MFI are unreliable. This unreliability could be because MFI have no fixed place of aboard and some people fear that they could disappear with their collateralised assets. The dollarization incident where clients ended up paying more than they owed could also be the reason why some people think that MFI are perceived to be unreliable.

#### 4.13 Use of mobile money transfer

Respondents were asked whether they have used mobile money transfer platforms. This question seeks to see if collaborating MFI with mobile banking can help achieve financial inclusion.



**Figure 4.12: Use of Mobile Money Transfers**

*Source: Primary Data*

Mobile money transfer platforms include ecocash, telecash and skwama in Zimbabwe. 90% of the respondents confirmed of having used these platforms for remittances services. Only 10% have not used mobile money transfers. The 10% could be as a result of financial illiteracy and hence they do not find the need to join these platforms. Most of them still use the traditional means of sending money, which are sending by public transport and through other people. This could be because they still view these ways as cheaper.

#### **4.14 Summary**

In this chapter the research analyzed the various aspects of financial inclusion and exclusion. They were based on the responses of Microfinance service providers, Microfinance clients and members of the general public that are financially excluded. As cited by the respondents, the mentioned variables can be changed and as such, the following chapter gives the summary, conclusions and recommendations to achieve financial inclusion in Zimbabwe.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

The preceding chapter presented findings of the research on the Role of Microfinance Institutions in achieving financial inclusion in Zimbabwe. This chapter gives the summary of the research. Conclusions made are based on the findings presented in chapter 4. Recommendations are made that address problems highlighted by the study in conclusion.

#### **5.1 Summary**

This research was carried out to analyse the role of Microfinance Institution in achieving Financial Inclusion in Zimbabwe. The introductory chapter brought about background of the study, statement of the problem which highlighted that Microfinance operations are currently skewed towards consumptive lending at the expense of productive sector financing. Chapter one presents research objectives which include to investigate the feasibility of integrating microfinance and mobile banking to accelerate financial inclusion, determining the extend of financial inclusion in geographically remote areas, establishing the feasibility of using MFI in achieving financial inclusion, evaluate the effectiveness of MFI in Zimbabwe and establishing necessary measures that shifts the usage of MFI funding from consumptive to productive purpose. Research questions, significance of the study, delimitations and limitations of the study are also given. Chapter two presents the literature that is on financial inclusion and microfinance institutions and reviews different authors 'opinions. The chapter highlighted the barriers to financial inclusion, the feasibility of integrating mobile banking with MFIs, microfinance policies and regulatory issues. Chapter three was concerned with the research methodology exploited in conducting the study, the sources of data which are primary and secondary sources. Data collection instruments which are interviews and questionnaires are also given. It outlines the data sources, sampling criteria, research instruments and ethical considerations. Chapter four examined the data gathered, presentation of data and analysis of the data gathered. Data which was analysed include responses obtained from interviews with Microfinance service providers and questionnaire issued to Microfinance clients and the financially excluded.

## 5.2 Major findings

1. The majority of people have used mobile money transfer platforms for remittance services. Findings reveal that this rate of mobile money transfer usage is as a result of the rapid spread in mobile technology. The benefits associated with mobile money transfer platforms which include lower transaction costs, elimination of travelling costs and lower risk as compared to the traditional ways such as sending by bus has also attracted this large mass of users.
2. The interviews carried out with Microfinance providers reveal that MFIs only serve urban and semi-urban clients. Microfinance providers are reluctant to serve the rural population because most of them do not have economic activities to which to invest their loan funds. Failure to meet MFIs requirements such as proof of residents, collateral and proof of employment has also led to rural financial exclusion.
3. Findings revealed that failure to access MFI services is due to failure to produce six month bank statements. Microfinance institutions are failing to achieve financial inclusion because by requesting bank statements, they are excluding the excluded. Findings also revealed that high interest rates being charged by MFIs makes it undesirable for borrowing as the costs outweigh the benefits.
4. Financial inclusion refers to the provision of a range of financial services including saving, remittances, insurance and credit to everyone. Microfinance institutions are currently offering credit and to some extent insurance which is an add-on product to credit and is not viewed as a stand-alone product. Research has also revealed that MFI are focusing more on the financial objective of profit making at the expense of the social objective of financial inclusion.
5. Microfinance providers mentioned that a large proportion of MFI loans constitute consumptive loans. These consumptive loans are salary based. Productive loans are viewed as high risk loans as they are associated with stringent payments disallow repayment.

### **5.3 Conclusions**

The research on the analysis of the role of Microfinance institutions in achieving financial inclusion seeks to identify the how Microfinance Institutions can be structured to achieve the objective of financial inclusion. From the data gathered, it can be concluded that Microfinance policies are restricting Microfinance institutions from achieving financial inclusion. Microfinance requirements and high interest rates have also contributed to financial exclusion.

### **5.4 Recommendations**

1. Microfinance institutions should collaborate with telecom companies in promoting mobile banking. The rate at which mobile phone usage is increasing presents an opportunity to utilize mobile banking for financial inclusion. The adoption of mobile phone banking presents a vehicle through which MFIs can invest in the systems aimed at achieving financial inclusion.
2. An increase in the scale of Microfinance lending may no longer be desirable, expansion in the scope of microfinance activities especially savings to provide full financial inclusion. Microfinance policy makers should allow Microfinance institutions to accept deposits so that they can offer a full range of financial services. Accepting deposits also enables sustainability of MFI and hence they might charge lower interest rates as they are currently relying on high interest rates for sustainability.
3. Based on the conclusions drawn, high interest rates were identified as one of the barriers to financial inclusion. There is also need to put interest rate caps on Microfinance loans which help provide for transparency in interest rates.
4. Financial illiteracy was observed even among microfinance clients. A financial literacy programme should be set up to educate the clients and the financially excluded who hesitate to access financial services. The financial literacy program also helps in consumer protection.

### **5.5 Suggestion for further study**

The researched looked at the role which Microfinance institutions play in achieving financial inclusion in Zimbabwe. Access to MFIs services is viewed as temporary; therefore a more encompassing study on how Microfinance institutions can retain their clients is necessary.

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## Appendix I-Cover letter

Midlands State  
University  
Established 2000



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Midlands State University

Faculty of Commerce

Department of Accounting

P O Box 9055

Gweru

21 September 2015

**Dear Sir/ Madam:**

**RE: AUTHORITY TO CARRY OUT RESEARCH**

I am a fourth year student at the above-mentioned institution and I am carrying out a research on “**Analysis of the role of Microfinance institutions in achieving financial inclusion in Zimbabwe**” The research is being carried out in partial fulfilment of the Bachelor of Commerce Honours Degree in Accounting that I am currently undertaking.

I am kindly asking for your support in completing the questionnaire attached to this letter. The information that you provide on this questionnaire will be highly confidential and used strictly for academic purposes only.

Your cooperation is greatly appreciated

Yours faithfully

**Chadzingwa Jacqueline (R121234W)**

## APPENDIX 2

### Interview Guide for Microfinance service provider

My name is Jacqueline Chadzingwa, a final year student in B.com Accounting Honours Degree at Midlands state University. I am carrying out a research on the role of Microfinance Institutions in achieving financial inclusion in partial fulfilment of my studies. I will be grateful if you could take some of your valued time to respond to this questionnaire. All your responses will be treated with confidentiality and will be used for academic purposes only.

- 1) What type of clients do you serve?
- 2) Which products do you offer?
- 3) Are there any products that you do not offer that members ask for? If yes, what are the problems preventing their launch?
- 4) What are the requirements in offering credit to your clients?
- 5) Which loans do you offer most?
- 6) Have you ever come across a situation where by a financially exclude person could no access microcredit?
- 7) If yes, approximately how often do you come across such cases?
- 8) What are the main reasons for their failure to access microcredit?
- 9) Are there any measures that you have put in place as an organisation in order to accommodate the unbanked?

## APPENDIX 3

### Questionnaire for Microfinance service provider

My name is Jacqueline Chadzingwa , a final year student in B.com Accounting Honours Degree at Midlands state University. I am carrying out a research on the role of Microfinance Institutions in achieving financial inclusion in partial fulfilment of my studies. I will be grateful if you could take some of your valued time to respond to this questionnaire. All your responses will be treated with confidentiality and will be used for academic purposes only.

Name of Organisation .....

Number of clients handled .....

Nature of Clients

Urban       Semi-urban       Rural

1. What type of clients do you serve?

Informal sector       Formal sector       Both

2. Which products do you offer?

Savings       Insurance       Credit       Remittances

3. Are there any products that you do not offer that members ask for? If yes, what are the constraints preventing their launch

.....

4. What are the requirements in offering credit to your clients?.....

.....

5. Which loans do you offer most? Consumptive       productive

6. Have you ever come across a situation where a financially excluded person could not access microcredit?

Yes       No

7. If yes, approximately how often do you come across such cases?

Everyday       Once a week       once a month       Once a year

8. What are the main reasons?

No proof of residence                       No proof of employment

Does not have any economic activities

Other reasons, specify.....

9. Are there any measures that you have put in place in order to accommodate the unbanked?.....

.....  
.....

## APPENDIX 4

### Questionnaire for Microfinance Clients

My name is Jacqueline Chadzingwa , a final year student in B.com Accounting Honours Degree at Midlands state University. I am carrying out a research on the role of Microfinance Institutions in achieving financial inclusion in partial fulfilment of my studies. I will be grateful if you could take some of your valued time to respond to this questionnaire. All your responses will be treated with confidentiality and will be used for academic purposes only.

#### Demographic Information

Age 18-30  30-45  Above 45

Gender Male  Female

Level of education

None  Secondary  University 1<sup>st</sup> degree

Primary  College  Post graduate

Occupation.....

#### Interview Questions

1. What is your monthly household income?

Below \$500  \$500-\$1 000  Above \$1000

2. Which financial products do you have access to?

Savings  Insurance  Credit  Remittances

3. Are there any products that your MFP is not offering which you might want to access? If yes, please specify.....

4. Do you access credit as an individual or as a group?

Individual  Group

5. How many microfinance institutions have you dealt with?

1  2  3  4  Above 4

6. What are your suggestions or recommendations to microfinance providers?

.....  
.....  
.....



## APPENDIX 5

### Questionnaire for Public

My name is Jacqueline Chadzingwa , a final year student in B.com Accounting Honours Degree at Midlands state University. I am carrying out a research on the role of Microfinance Institutions in achieving financial inclusion in partial fulfilment of my studies. I will be grateful if you could take some of your valued time to respond to this questionnaire. All your responses will be treated with confidentiality and will be used for academic purposes only

#### Demographic Information

Age

18-30       30-45       Above 45

Gender:      Male

Female

Level of Education

None       Secondary       University 1<sup>st</sup> degree

Primary       College       Post graduate

Occupation.....

#### Interview questions

1. Do you know any microfinance institutions around this area?

Yes       No

2. Have you ever tried to access financial services?

Yes       No

3. What      restricted      you      from      accessing      financial  
services?.....

.....  
.....

4. If you had the opportunity to access financial services, Which products would you want to explore.

Saving

Insurance

Credit

Remittances

5. Have you ever used mobile banking platforms before? Yes  No