Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.7, No.7, 2016

Urban Financial Exclusion in Zimbabwe: An Exploratory Study

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Abstract
The study sought to explore the major reasons as to why the urban poor are financially excluded despite their proximity to major financial institutions. To achieve the overall aims of the study, an exploratory research design was used as it was deemed necessary to provide the how and why things happen. A sample of 200 footpath fruit and vegetables vendors, 50 pensioners, 100 students, 10 Reserve Bank of Zimbabwe Official, 10 banks, 100 small scale farmers, 100 MFIs, 200 small to medium enterprises (SMEs), was used. The study was carried out in the five major cities of Zimbabwe. These respondents provided information on the major reasons for financial exclusion in urban areas. Most of the data was gathered using a questionnaire as well as telephone interviews. Data was captured in SPSS and presented in the form of tables while descriptive statistics were computed and used in the interpretation of the findings. The findings showed that self-exclusion, financial literacy, lack of a saving culture, structural changes in the labour market, high bank charges, and stringent account opening requirements, risk assessment criteria and low disposable income were the major reasons for the poor urbanites to be financially excluded. However, the research revealed that service providers cited demand and societal factors as reasons for financial exclusion while the urban poor gave demand and supply factors as major reasons. Evidence showed that there is a perception gap between the service providers and the poor urbanites. Thus the research confirmed that financial illiteracy and self-exclusion as well as the low levels of disposable income play a major role financial exclusion in Zimbabwe. The study recommended that government fund not for profit organizations that conduct financial education programmes and commission researches to investigate causes of financial exclusion. The research further recommends that the RBZ facilitate opening of bank accounts by low income groups.
Keywords: Financial Exclusion, Financial Inclusion

1. Introduction

Zimbabwe's financial sector is relatively complex. It is made up of the Reserve Bank at the apex, discount houses, commercial banks, merchant banks, finance houses, building societies, Microfinance Institutions (MFIs), the People's Own Savings Bank, insurance companies and pension funds as well as the Zimbabwe Stock Exchange (ZSE). According to Chitokwindo et al (2014), in 1980, the Zimbabwean government inherited the best financial system in Africa which was only second to South Africa, at which time the majority of blacks were excluded from the financial system. In order to address this problem, according to the Cleaner Production Centre for Zimbabwe (CPCZ), Kanyenze et al (2011), the Zimbabwean government liberalized the financial sector in 1991. The liberalization gave rise to the establishment of indigenous banks, this according to the Reserve Bank of Zimbabwe (RBZ), led to improved efficiency and the expansion of a wide range of financial sector products. Ultimately this translated into the tailoring of financial services towards the wealthy sectors and high net worth individuals (CPZC). Thus both the rural and urban poor remain excluded from the financial system.

However, the Zimbabwean financial system began to collapse in 1998 with the fall of the United Merchant Bank (UMB) and in 2004 with the fall of most indigenous banks. Such banks include Trust Bank, Royal Bank, Time Bank and Barbican Bank, whose licenses were withdrawn and placed under curatorship and later amalgamated to form the Zimbabwe Allied Banking Group (ZABG), RBZ(2005) ,Mashamba et al(2014). This led to more exclusion of the banking public. Then came 2008, the financial system totally collapsed during the crescendo of the hyperinflation period the country experienced. In February 0f 2009, the Zimbabwean government dumped the Zimbabwe dollar in favour of a multicurrency regime. Depositors did not only lose their savings but also lost their confidence in the financial sector. This further exacerbated the problem of financial exclusion.

Currently as at 30 June 2015, there were 18 operating banking institutions comprising 13 commercial banks, 3 building societies, I merchant bank, 1 savings bank and 147 MFIs (RBZ, 2015). Efforts have been made since 2007 by the RBZ to deal with the challenge of financial exclusion. The FinScope Survey of 2014 revealed that great strides have been made in expanding financial inclusion in Zimbabwe since the year 2011(RBZ 2015). The results showed that 23% of Zimbabweans are financially excluded which is a reduction from the 40% in 2011. Furthermore, the results indicated that 37% of Zimbabweans rely on informal financial products, a reduction from 41% in 2011. The results further revealed that 69% are formally served and that of the 69%, 30% have access to banking services.

In his address in 2015, Mr N Mataruka, a director with the RBZ lamented the great prevalence of financial exclusion and had this to remark…

"…*Despite the geographical and functional reach of the commercial banks and microfinance institutions* *in Zimbabwe, a large number of people remain financially excluded. Small farmers, small scale enterprises, women, the self-employed, unemployed, pensioners, etc remain excluded from opportunities provided by the formal financial sector…"*

Chitokwindo et al (2011) and Tembo and Dhlamini (2013)'s studies alluded to the fact that financial exclusion was dominant in the Zimbabwean economy especially in the rural areas. It is the essence of this study to unravel the major reasons as to why, despite the efforts by the powers that be at the apex of the financial sector, the majority of the urban poor remain excluded from the formal financial sector. The study also sought to find solutions as to why urbanites are shunning the formal financial sector despite their proximity to the commercial banks and MFIs. Thus the study sought to answer the following questions

a) What is the root cause of financial exclusion in urban areas in the absence of geographical and functional reach of financial institutions?
b) What recommendations are there to circumvent the adverse effects of financial exclusion?

2. Literature Review

2.1 Financial Exclusion defined

Lammermann (2010) defined financial exclusion as the inability by individuals, households or groups to access necessary financial services in an appropriate form. Thus exclusion can arise from problems with access, prices, marketing or financial literacy, or from self-exclusion in response to negative experiences or perceptions. It can also be defined as a situation where people have constrained access to mainstream financial services (Kempson and Whyley, 2010). The RBZ(2015) defined financial inclusion as the sustainable cost effective provision of a wide range of financial services at affordable cost to the majority of the population, and this enables households and micro, small and medium enterprises to engage in income generating activities which improve their economic welfare. It therefore follows that financial exclusion can also be defined as the unsustainable cost effective provision of financial products and services at an unaffordable cost to the majority of the population. Also financial exclusion hampers households and SMEs from engaging in income generation so as to enhance their economic welfare. A person is financially excluded when they have no access to some or all of the services offered by financial institutions or if they do not make use of these. The study 'Financial services provision and prevention of financial exclusion' (Réseau Financement Alternatif 2008) establishes a list of basic financial services considered essential to daily life, that is, a bank account to receive income, a transaction account to make payments from, a savings account to store money and access to unsecured credit to manage temporary cash shortages and unexpected expenses. However it should be noted that financial exclusion is not an absolute concept but rather a relative one with the degrees of exclusion.

2.2 Causes of Financial Exclusion

The Reserve Bank of Zimbabwe cited high costs of financial services including high bank charges which erode and discourage savings, stringent account opening requirements, lack of financial information on products and services as well as poor financial literacy as the major deterrents to achieving maximum financial inclusion (RBZ, 2015). In addition Tembo and Dhlamini (2013) posit that reasons for financial exclusion include high information, transaction and monitoring costs, inaccessibility due to poor infrastructure network, dispersed and intermittent demand for financial services, seasonality in deposits and lack of collateral security. However Lammermann (2010) divided the reasons for financial exclusion into three distinct categories that is societal, supply and demand factors. Societal factors take into account the diversity of financial institutions and services caused by the liberalization of the financial services market. This makes it difficult to understand and gain an overview of the sector and the opportunities available. Societal factors also take into account structural changes in the labour market and demographic evolutions; these tend to increase people's vulnerability to financial exclusion. Supply factors include the financial institution's criteria for accepting a client, the fees it charges, and the requirements. Supply factors also take into account the primary cause of financial exclusion which is the geographical location of the institution. Demand factors incorporates the client's priorities, cultural context and concerns, lack of a habit in saving money and the reluctance to deal with banks because of past experiences and prejudice (self-exclusion).

2.2.1 Financial Exclusion in Europe

For a citizen in Europe, financial exclusion is a reality and the levels of financial exclusion vary widely. The Eurobarometer reports that 7% of the population in EU-15 is considered to be financially excluded. This means that the 7% do not have access to deposit accounts, savings account or revolving credit (European Commission 2004b). Greece, Portugal and Italy have the highest levels of financial exclusion while Luxembourg, Netherlands, Denmark and Sweden have the lowest rates in the EU-15. In the EU-10, where the standards of living are low, 34% of the population is financially excluded with Latvia and Lithuania having the highest rates while Slovenia has the lowest rates of financial exclusion. In Europe, people with low levels of income, less education, those with a migrant background, the old (65+), the young (18-25), students and the unemployed tend to be more financially excluded than others, (Lammermann, 2010)

2.2.2 Financial Exclusion in India

Rajeev and Vani (2010) carried out a study to investigate the causes of urban financial exclusion in the Karnataka region despite the innumerable branches of private and public sector banks. In this region physical access to the financial services is much higher as compared to rural areas. What surprised them most was that the majority of the disadvantaged and low income groups were financially excluded yet they required funds for running their businesses. These traders earned substantial income after factoring in costs despite the time of the year and thus have enough surpluses to save. However, it was seen that they rarely patronized the banks for credit and savings. The study revealed that 45% of respondents have no linkage with the formal banking system and another 34% was severely excluded. The study found out that the major determinant of exclusion was illiteracy. Also interviews with bank officials revealed that small borrowers tend to be crowded out in urban areas as banks dealt with the educated and the affluent.

2.2.3 Financial exclusion in Southern Africa

Most African countries are still facing challenges in moving towards greater financial inclusion. According to the Finscope Consumer Survey (2011), South Africa is the most financially inclusive with only 27% of its adult population being financially excluded while Mozambique has serious challenges of financial inclusion with 22% of its adult population being financially inclusive. Zimbabwe has 60% of its adult population being financially inclusive.

3. Research Methodology

In view of the nature of the problem at hand, an exploratory research design was deemed necessary since it could assist the researchers in determining the how and why things happen. The target population was made up of service providers and the urban poor. The sample was made up of 10 RBZ analysts, 10 banks, 100 MFIs, 200 Small to Medium Enterprises (SMEs), 100 foot path fruit and vegetables vendors, 50 pensioners, 100 small farmers, 100 students and. Respondents were drawn from 5 major cities of Zimbabwe which are Harare, Bulawayo, Gweru, Masvingo and Mutare and the results are assumed to be representative of all other cities.

The study employed both probability and non-probability sampling procedures of stratified random sampling and convenience sampling techniques respectively. The population was grouped into homogeneous groups where simple random sampling and convenient sampling was carried out. In order to gather primary data, questionnaires where administered to the urban poor while interviews were carried out with the service providers. Out of the 670 questionnaires send out, 616 were returned representing a 92% response rate. The high response rate may be attributed to the economic significance of the research upon completion. The Statistical Package for Social Scientists (SPSS) was used in the analysis of data while descriptive statistics were computed and employed in the analysis of results. Data were thus presented in the form of frequency tables.

4. Results and Analysis

This subsection presents the research findings and results of the analysis of the questionnaire responses from service providers and the urban poor on the reasons behind financial exclusion in the absence of the primary cause of exclusion i.e. geographical location. Table 1 below indicates the frequencies of responses from the service providers' perspective. Respondents were asked to rank the factors in ascending order and the results are what obtain in the following table.

Table 1: Reasons for exclusion from the service provider's point of view

Factors	Percentage (%)
Societal	
Complexity and diversity of financial institutions and services(Liberalization)	2
Structural changes in the labor market	10
Demographic evolutions	9
Supply	
High Bank charges	3
Stringent Bank account opening requirements	4
Risk assessment(criteria for accepting a client)	5
Poor product design	1
Demand	
Poor financial literacy	22
Cultural concerns	0
Lack of collateral security	1
Reluctance to work with banks because of past experiences and prejudice	16
Lack of a habit in saving money	11
Low disposable income and affordability	13
Seasonality in deposits	1

In the absence of the primary cause of financial exclusion, service providers cited poor financial literacy as the major deterrent to financial inclusion. This is shown by the highest figure of 22%. This reason resonates well with Rajeev and Vani (2010)'s findings in the Karnataka region in India. The service providers also cited self-exclusion, low disposable income, lack of a saving habit and structural changes in the labour market as well as demographic evolutions as the major causes of financial exclusion. This maybe so given that according to Tembo and Dhlamini (2013)'s findings, most Zimbabweans do not trust the financial system because of the prejudice suffered after the introduction of the multi-currency system. For that reason, the majority remain excluded. Of late with the Supreme Court ruling of 2015 that employees maybe dismissed without reason after giving three months' notice, the majority of employees were rendered jobless and their participation in the financial sector dwindled since most accessed their salaries through banks. Interestingly the service providers do not think cultural concerns contribute towards financial exclusion, an indication that religion does not play a major role in this part of the world. Cited among the least causes of financial exclusion were poor product design, seasonality in deposits, lack of collateral and the complexity and diversity of the financial system.

Table 2: Responses from the urban poor's perspective.

Factors	Percentage (%)
Societal	
Complexity and diversity of financial institutions and services(Liberalization)	4
Structural changes in the labor market	5
Demographic evolutions	1
Supply	
High Bank charges	16
Stringent Bank account opening requirements	10
Risk assessment(criteria for accepting a client)	11
Poor product design	4
Demand	
Poor financial literacy	3
Cultural concerns	0
Lack of collateral security	9
Reluctance to work with banks because of past experiences and prejudice	24
Lack of a habit in saving money	0
Low disposable income and affordability	13
Seasonality in deposits	0

Reluctance to work with banks because of past experiences and prejudice (self-exclusion) was ranked the most reason why the poor urbanites were financially excluded. The urban poor stated that high bank charges, low disposable income, risk assessment criteria and stringent bank account requirements were some of the major causes of financial exclusion. Least among the reasons was cultural concerns. Most urbanites do not think seasonality of deposits, lack of a saving habit, demographic evolutions and poor financial literacy are major reasons for exclusion.

Table 3: Comparison between service providers and the urban poor's perceptions on the causes of financial exclusion in Zimbabwe.

Rank	Service Provider's Perspective	Poor Urbanites' perspective
1	Poor Financial Literacy	Self-exclusion
2	Self-exclusion	High bank charges
3	Low disposable income	Low disposable income
4	Lack of a saving habit	Risk assessment(criteria for accepting a client)
5	Structural changes in the labour market	Stringent Bank account opening requirements
6	Demographic evolutions	Lack of collateral security
7	Risk assessment(criteria for accepting a client)	Structural changes in the labour market
8	Stringent Bank account opening requirements	Complexity and diversity of financial institutions and services(Liberalization
9	High bank charges	Poor product design
10	Complexity and diversity of financial institutions and services(Liberalization)	Poor Financial Literacy
11	Lack of collateral security	Demographic evolutions
12	Seasonality in deposits	Lack of a saving habit
13	Poor product design	Seasonality in deposits
14	Cultural concerns	Cultural concerns

For both service providers and the poor urbanites, self-exclusion and low disposable income were cited among the five most serious reasons for financial exclusion. However, the other major problems by service providers of poor financial literacy, lack of a habit in saving as well as structural changes in the labour market differed from those noted by the urbanites. The urbanites gave high bank charges, risk assessment and stringent bank opening account requirements as the most reasons for financial exclusion. It can be easily noted that service providers noted demand and societal factors as major reasons for financial exclusion while the poor urbanites noted demand and supply factors as major reasons also. The observed discrepancy clearly indicates that the service providers and the poor urbanites hold views that are different in as far as the causes of financial exclusion are concerned. Therefore a perception gap between the two exists. This calls for an immediate action to bridge this gap.

This perception gap clearly shows that the banks have completely ignored this segment of the market because banks are supposed to know the concerns their markets before they come up with new products.

On the other end, both sets of respondents agreed that cultural concerns weren't a major hindrance to financial inclusion.

5. Conclusions and Recommendations

This study explored the major reasons as to why the poor urbanites were shunning the financial sector when in fact functionally and geographically they weren't deprived of it. The results of the study showed that on the basis of the historical challenges that Zimbabwe has faced regarding its currency, there was very little probability that the urban poor would have so much confidence in the financial sector. Thus self-exclusion becomes inevitable. The study revealed that there was a perception gap between service providers and the urban poor on the major causes of financial exclusion. However, self-exclusion and low disposable income were cited as the major causes by both service providers and the poor urban. Thus, it was concluded that there was need to address the perception gap between the service providers and the urban poor.

The researchers therefore came to a conclusion that self-exclusion, low disposable income, high bank charges, risk assessment, stringent bank account requirements, poor financial literacy, structural changes in the labour market and lack of a saving culture were major causes of financial exclusion in urban locations of Zimbabwe.

Based on the research findings and conclusions above, the following are recommended to all stakeholders involved:

- RBZ to carry out massive education and awareness programmes on financial literacy among the general populace thus building financial capability. This in turn enables individuals to identify and use appropriate financial products and services in order to build and preserve their assets overtime.
- The Ministry of Finance in conjunction with the ministries of Education incorporates programs into the school curricula that seeks to improve financial literacy in the country
- The Apex bank to work on guidelines to guide the market on agent banking operations.
- RBZ to encourage banks through the Bankers Association of Zimbabwe to provide low cost bank accounts.
- Register more deposit taking MFIs to bring financial services to the poor.
- Create a credit registry to avail credit information so as to improve credit risk management processes of

financial institutions.

- Banking institutions to set up SMEs divisions to provide financial services and capacity building to SMEs.
- RBZ to come up with full deposit insurance system to ensure assets are ring-fenced should the unthinkable happens
- The Government to provide funds to nonprofit organizations conducting financial education programmes that brings the provision of financial services to low income people.
- Government to fund and commission research projects to investigate the causes of financial exclusion and recommending measures to combat them.
- Government to encourage MFIs initiatives and provide funding for advice and counselling services
- Government to include Financial inclusion/exclusion in National strategic reports.

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