ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

ZEPARU

pursuing inclusive financial development for economic growth

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options and strategies

October 2011

ZEPARU Working Paper Series (ZWPS 06/11)

ABSTRACT

The focus of this paper is on promoting inclusive financial development, where the informal sector, the marginalised and the unbanked sector would be incorporated into the financial sector in order to increase savings base, liquidity in the formal financial system and promote financial deepening. This is on the observation that the mopping up of liquidity is being hamstrung by the exclusion of some critical sectors into the financial system, despite the critical role they play in the economy. The government can anchor Inclusive Financial Development (IFD) on community based institutions (bottom-up approach), on Micro Finance Institutions (middle of the road approach) or on commercial banks (top-to–bottom approach). In terms of strategy, the government can use technology in financial service; use community financial agencies and merchants; promote rural agriculture financing; support improvement of policies and regulations; provide information about inclusive finance; promote savings among the poor, utilize donor funding, promote financial innovation and promote economic activity in marginalised areas.

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AFI	Alliance for Financial Inclusion
CBZ	Commercial Bank of Zimbabwe
GDP	Gross Domestic Product
IFD	Inclusive Financial Development
MFIs	Micro Finance Institutions
MFB	Micro Finance Banks
MFI	Micro Finance Institutions
ML	Money Lending
NACSCUZ	National Association of Credit and Savings Cooperatives
NGO	Non-Governmental Organisation
POSB	People's Own Savings Bank
RBZ	Reserve Bank of Zimbabwe
ROSCAS	Rotating Savings and Credit Associations
SACCOS	Savings and Credit Cooperatives Societies
SEDCO	Small Enterprises Development Cooperation
SME	Small and Medium Enterprises
ZAMFI	Zimbabwe Association of Micro Finance Institutions

ACKNOWLEDGEMENTS

This study benefited from the insightful comments, discussions and review done by Mr Mverecha, then, Head of Economics and Strategy at ZB Bank. It also benefited from comments from Dr Daniel Ndlela, Director of ZimConsult, Mr David Govere, of EMCOZ and all the delegates that participated at the Discussion Workshop held on 8 December 2011, in Harare, where this paper was presented. Mention should also go to Mr Chitambo Director at ZAMFI, Mr. T. Rusheche, Managing Director at MicroKing Microfinance, Mr. Maeresera of CBZ Bank and Mr Rushwaya of CSHF Microfinance for the valued information they provided during stakeholder constitutions.

1.0 INTRODUCTION

1.1 Overview

Economic theory suggests an unambiguous relationship between economic growth and financial development although the direction of causality effect, in terms of what drives the other, has always been debatable. There has been a general acknowledgement among economists that financial development can drive economic growth. Financial development in developing economies has taken the form of progression of established institutions and markets which serve a small proportion of the population. This leaves the marginalised and informal sectors, which form the greater part of the economy, out of the financial system. It is widely acknowledged that financial inclusion in most developing economies is very low. In Zimbabwe, the financial sector is regarded as diversified and the sector is expected to drive economic growth. Zimbabwe has an estimated population size of 12 million, of which 35% are based in urban areas and of these only about 21% has bank accounts, as at March 2011. The country also has a total of 28 Banking Financial Institutions which had total deposits of USD2.95 billion in August 2011. The current situation characterised by liquidity challenges and undercapitalisation of financial sector raises questions on the whether the sector is capable of driving economic growth. According to the 2011 budget statement, the percentage contribution to GDP of the financial sector was 3.9% in 2009, when the sector added about US$222 million. This is a drop from an average of 7.1% between 1980 and 1999. This comes on the backdrop of the fact that the Zimbabwean economy is currently highly informal and most financial activities occur outside formal financial system. The Minister of Finance is on record saying that the GDP and total money supply of the country is under estimated since the Ministry cannot account for activities in the informal sector. There is a lot of economic activity and unrecorded financial transactions in the informal activity which is not directly accounted in the formal system. It is estimated that the size of informal sector is about USD2.5 billion.

This research suggests options and strategies which enhance Inclusive Financial Development (IFD) for purposes of stirring economic growth as viewed from both the supply side (financial service providers) and the demand side (marginalised user of financial service). From the supply side, the research touches on the depth and reach of financial products, establish strategic options which established financial institutions could use to reach the marginalised and unbanked. The study also reviews the role of government and the role of microfinance in inclusive finance. From the demand side, the research identifies the financial products which are on demand and put to the fore salient issues about the characteristics of marginalised financial services users. Overall, this paper identifies, analyses and recommends optimal strategies of incorporating the financially marginalised into the formal financial sector in order to spur economic growth.

1.2 Research Objectives

a) To determine the financial services which the unbanked and marginalised communities require;
b) To determine how developing the financial sector through incorporating the marginalised can facilitate economic growth;
c) Establishing the options which providers of financial service can adopt in order to extend service to the poor and marginalise; and
d) Explore strategies of inclusive financial development.

1.3 Research Questions

i. What are the options and strategies of extending financial services to the poor and marginalised?
ii. What are the financial products and services that the marginalised and poor need?
iii. What challenges does the financial sector face in trying to promote inclusive financial development?

1.4 Study Justification

The characteristics of the financial sector in Zimbabwe are embedded with some contradictions. On one hand there is a large number of financial institutions (predominantly commercial banks), which some argue are too many for the size of the economy. In other words the economy is over banked. On the other end, there are high levels of financial "exclusion" where majority of the population do not have access to financial services. About 70% of economically active population in Zimbabwe is excluded from access to formal financial services (Makina 2009). The situation was further compounded by the introduction of the multicurrency system where majority of people could not afford bank accounts and most economic transactions are now done outside the formal financial system (partly due to lack of confidence in the system and high costs of transactions). There are liquidity challenges in the formal financial system (partly also due to lack of off shore financing) and the financial sector needs to mobilise funds from the untapped areas as well as generate sustainable business in these areas. The corporate sector, which has been the anchor of banking, is currently facing challenges of low capacity utilisation ranging between 40 and 50%, inadequate capitalization and high operating costs.

The current economic environment requires change in the dynamics of banking and there is need for a shift from traditional practice where banks relied more on corporate clients with small enterprises and individual clients being neglected. High levels of competition in the sector, the current liquidity challenges, slow growth in the traditional financial sector, shrinking deposit base and low capacity utilisation by companies prompt innovation for survival of financial institutions. This comes on the backdrop of increasing dominance of the informal, micro and SME sector. This sector can be an avenue for the financial sector to mobilise savings and generate business. Given the low levels of financial inclusion, it therefore becomes important for the financial sector to tap into this niche market. Some commercial banks have already embraced the concept of inclusive financial development through such initiatives as microfinance and SME finance. This research is therefore critical to give theoretical analysis of the possibility of promoting inclusive financial development through evaluation of options and strategies of incorporating the poor and marginalised. The poor and marginalised is the only remaining area for expansion of the financial sector given the current thin clientele and deposit base. The research also assists economic policy makers in terms of how the financial sector can assist in poverty alleviation initiatives, rural development and economic empowerment.

1.5 Methodology

The research identifies options and strategies for promoting IFD that drives economic growth. Information is generated from both the supply side (financial service providers) and the demand side of inclusive finance. Research utilises key stakeholders in the inclusive financial development who include Micro Finance Institutions, Banks, SACCOs and individuals who are knowledgeable about IFD. Information from these stakeholders was collected through interviews. Secondary information was collected from publications and books, and internet sources. In order to get information on regulation and policy matters, interviews were held with the regulator of the financial sector, the RBZ. The outcome of the consultations as well as review of literature on IFD and reviewing of other countries experiences in IFD formed the basis for analysis and policy recommendations.

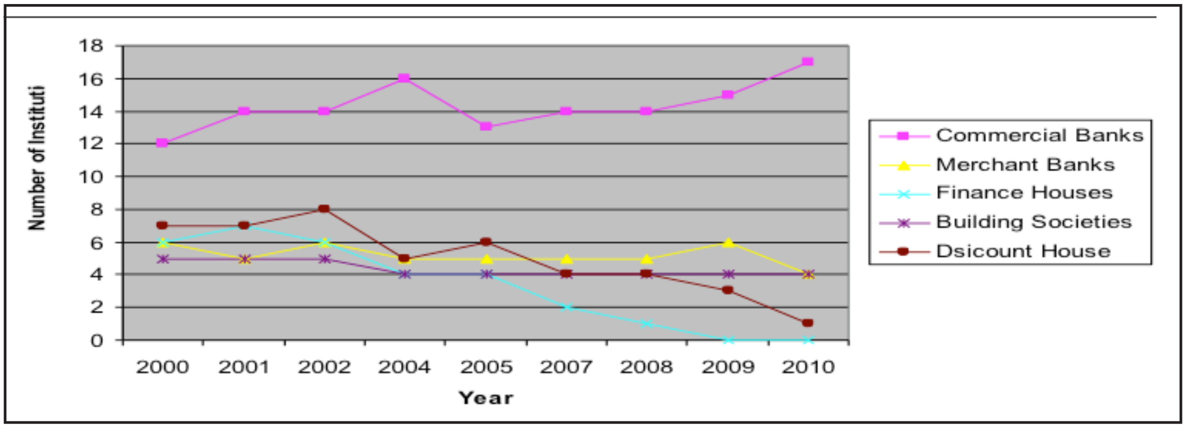
2.0 OVERVIEW OF THE FINANCIAL SECTOR IN ZIMBABWE

2.1 Financial Sector Development in Zimbabwe

At independence in 1980, Zimbabwe inherited a largely oligopolistic financial sector, characterised by a few players. In 1980, there were 5 commercial banks, 4 merchant banks, 2 discount houses, 6 finance house and 3 building societies (RBZ publications). During the first decade of the 1980s, there was high financial repression which included interest rates and credit controls, high reserve requirements and other restrictive operational requirements. In 1990 the Zimbabwean government introduced an IMF-prescribed Economic Structural Adjustment Programme (ESAP) which required minimum government intervention in the market implying liberalization of the economy. In 1991, financial sector reforms were introduced that were inclined towards financial liberalization. The reforms undertaken resulted in new entrants in the sector and this led to the birth of "indigenous" banks, asset management companies among other companies.

The year 2000 marked the declining phase in financial sector development. There were significant changes to the financial sector, especially the banking sector, influenced mostly by tight liquidity conditions that prevailed on the market. The economy started to shrink due to the deteriorating economic conditions. This significantly affected the viability of banks. As the economic situation continued to deteriorate, some banking institutions, as indicated by the RBZ, shifted from their core business into speculative non-banking activities such as trading in shares on the stock exchange, commodity broking (RBZ, 2004). Amid fears of a deeper financial crisis to the whole banking industry through systemic risk, the Reserve Bank of Zimbabwe (RBZ) embarked on rigorous effort to instill discipline and bring sanity into the financial sector. New capital requirements and monitoring rules were put in place in 2003 and some banking institutions were found to be unsafe and unsound. Resultantly, between 2004 and 2005 a total of 12 financial institutions were placed under curatorship and some were amalgamated into one institution. Among the institutions affected are, Trust Bank, CFX Bank, Royal Bank and Time Bank[1]. The graph below shows the trend in the number of financial institutions in Zimbabwe for the past ten years.

Figure 1: Number of Financial Institutions in Zimbabwe 2000-2010



Source: RBZ Publications (various)

Current Status of Zimbabwe's Financial Sector

Zimbabwe currently has a total of 17 Commercial banks, 5 Merchant banks, 4 Building Societies, 1 Savings Bank, 16 Asset Management Companies, and 131 registered Micro Finance Institutions (RBZ, 2011). The gradual increase in the number of commercial banks from 2005 has been driven by conversion of lower level licences of merchant finance and discount houses into commercial banks as well as relicensing of previously bundled or closed banks. The number of the remaining financial institutions after the converted ones also showed a downward trend over the same period. This shows that there has not been an overall increase or growth of the financial sector over the past ten years.

Ever since 2005, there was low capacity utilisation in the financial sector, particularly the banking sector due to the harsh economic conditions, characterised by hyperinflation and currency instability. In 2009 the government introduced a multicurrency system where hard currencies were accepted as legal tender. The multicurrency system helped to stabilise the economy particularly the financial sector although at the backdrop of serious liquidity and viability challenges. Following the introduction of the multi-currency regime, most of financial institutions became under-capitalised and the Reserve Bank introduced a phased implementation plan for the enforcement of the prescribed minimum paid-up equity

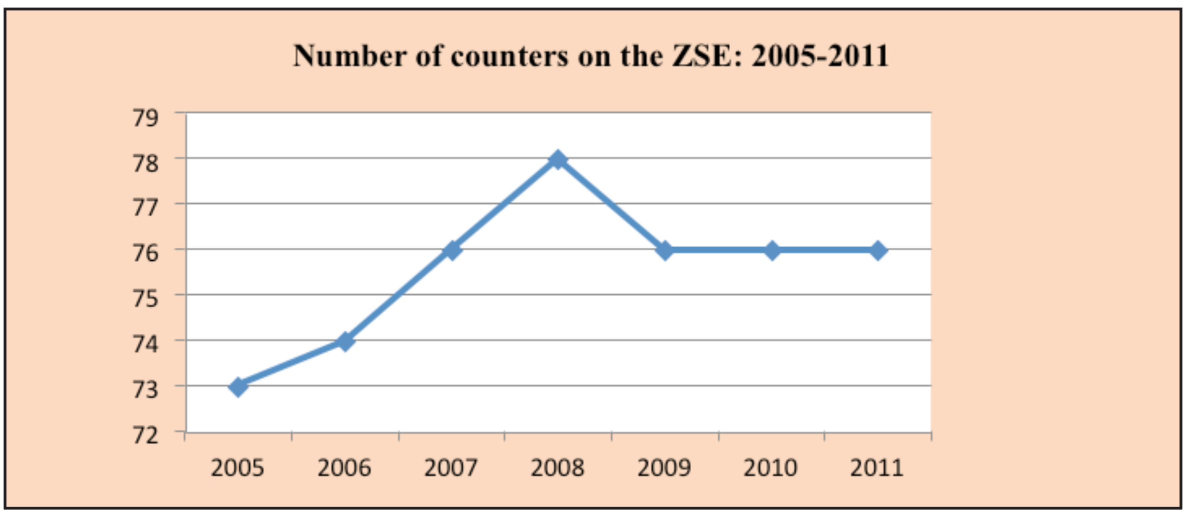
[1]Most of these banks were re-licensed in 2010.

capital requirements for banking institutions (RBZ, 2011). The multicurrency system helped in increasing activity in the general financial market particularly in terms of new products, savings mobilization and granting of loans.

Most of the products on offer are the general commercial and merchant banking services, while only building societies and POSB are the only non-bank institutions which are allowed to take deposits. Asset Management Companies are very active in the money and to some extend stock market although their activity is mainly for financially literate clients. Despite having 131 registered MFIs in the country, the level of financial exclusion is very high. Operation of MFIs is currently constrained by legislation in that they are not allowed to take deposits and their operating licences must be renewed every year.

The stock market managed to grow from a capitalisation of about $1.9 billion early 2009 to the current level of around $4 billion. The growth is however attributed to adjustment mechanism as the market responded to market dynamic after resumption of trading. During conversion to the multicurrency system, the Zimbabwe Stock simply converted the share prices of each counter on the last trading in November 2009 by the same factor hence the low capitalisation level. The number of listing on the bourse has not been increasing much over the past 5 years, averaging about 75 counters since 2005 as shown by the graph below.

Figure 2: Number of Counters Trading on the Zimbabwe Stock Exchange, 2005-2010



Source: Zimbabwe Stock Exchange

There are of 64 insurance companies which offer short-term car insurance, health insurance and life assurance products (Table 1). Most low income and poor people normally acquire life assurance services, with those with stable income accessing the service through formal companies. The poor and rural have their own group arrangements (burial societies) which replace established companies. The arrangement only caters for financial needs during the funeral and there are no benefits accruing to the surviving children and spouse.

Table 1: Insurance Companies in Zimbabwe

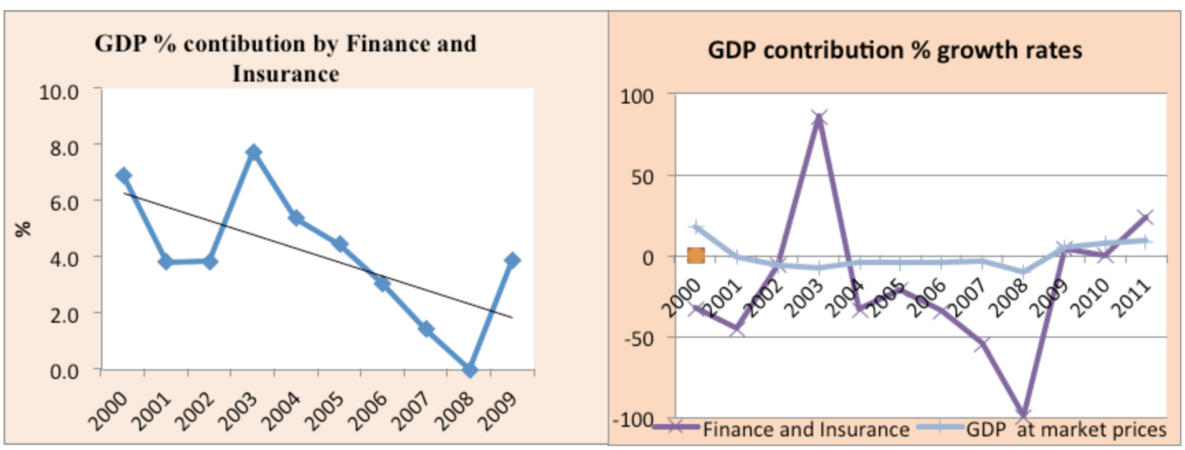
Type of Business	Number of Companies
Life Assurance companies	9
Life re-assurers	3
Short term insurance	31
Short term re-insurers	10
Funeral Assurers	14
TOTAL	**64**

Source: Mid-Year Budget Statement, 2010

2.2 Financial Sector Contribution to Economic Growth in Zimbabwe

The GDP contribution by the financial sector has been declining since 2003 from a high of 7.8% to as low as 0.35% in 2008. The growth rates in GDP contribution has been negative since the year 2000, except for 2003 contribution when it jumped to 86.5% from a negative 5.4% in 2002 before dropping to -33.% in 2004 (Figure 3). The worst growth was in 2008 when it dropped by 99% to contribute only US$ 1 million (only 0.3% of GDP) from about US$77 million in 2007.

Figure 3: GDP Contribution by the Financial Sector (a) and GDP Contribution % Growth Rates (b)



(a) (b)*2011 figures are estimates

Source: ZIMSTAT, MoF 2012 Budget.

According to the 2011 budget statement, the percentage contribution to GDP of the financial sector was at 3.9% in 2009 when the sector added about US$222 million to the total GDP. This is lower than the average contribution of the sector of 7.1% from 1980 to

1999. The sector's contribution to GDP has been ranked as the 8th highest contributor out of 14 sectors in 2009 a drop from 5th in 1999 and 4th in 1990 (ZIMSTAT, various years).

2.3 Level of Financial Inclusion in Zimbabwe

A survey conducted by the National Task Force on Microfinance between December 2005 and March 2006 showed that 70 percent of the economically active population in Zimbabwe are excluded from access to formal financial services. It was further observed that this 70 percent is often served by the informal financial sector through microfinance institutions, moneylenders, friends, relatives and credit unions (Makina 2009). In the Financial Inclusion Index[2] modelled by Sarma (2007), Zimbabwe is ranked number 38 out of 45 countries measured (Table 2). This ranking was done on three dimension namely financial depth, availability and usage. The low level of financial inclusion is indicative of the need for transformation of the financial sector to embrace the marginalised and unbanked sectors.

Table 2: Index Financial Inclusion- Using Three Dimensions

Country	D1 (Depth*)	D2(Availability**)	D3(Usage***)	IFI	IFI Rank
Switzerland	0.73	1	0.89	0.873	1
India	0.167	0.154	0.308	0.2096	21
Bangladesh	0.071	0.105	0.196	0.124	33
Zimbabwe	0.050	0.073	0.179	0.101	38
Uganda	0.002	0.000	0.078	0.027	45
	Key	0.6 < IFI < 1 – high financial inclusion			
		0.4 < IFI < 0.6 – medium financial inclusion			
		0 < IFI < 0.4 – low financial inclusion			

Source: Sarma M (2007), Index of Financial Inclusion (A concept note)

During its currency reform projects (sunrise projects) the RBZ reveals that there are high levels of financial inclusion as more of the currency that was swapped came from

[2] IFI = $\sum_{i=1}^{n} wDi \quad where\ Di = (\frac{Ai-mi}{Mi-mi})$

*Depth: An inclusive financial system should have as many users as possible – this gives an indication of how much the financial system has penetrated among its users. A proxy measure for this dimension is the number of bank accounts per 100 population.

**Availability: An inclusive financial system should be easily accessible to its users. This dimension is measured by proxies such as number of bank branches or number of ATMs per 1000 population. In our estimation, we have used number of bank branches per 1000population to measure this dimension.

***Usage: An inclusive financial system should be utilised as much as possible by its users. The size of the bank credit and bank deposits, relative to the GDP of a country is used as a measure for this aspect.

the informal sector and marginalised areas. The RBZ Rural Banking Financial Inclusion Framework, (Table 2) shows the skewness in the distribution of financial institution towards cities and urban settings. The Reserve bank has been urging financial institutions to devise innovative ways of ensuring availability of financial services to the unbanked and under banked communities. This is in line with growing international concerns regarding the problem of limited access to, and use of, financial services by large segments of the population in developing countries. The concerns have led to major international efforts to both understand the scope and nature of the problem as well as to advance solutions in order to help countries build inclusive financial sectors (Makina 2009).

Table 3: Branch network of banking institutions in Zimbabwe as at 30 June 2006

Province	Total Branch Network	% of Total Branches	Urban Pop	Urban Branches	Urban Pop per branch	Rural Pop	Rural Branch facilities	Rural Pop per branch
Harare Province	148	39%	1,896,134	148	12,812	-	0	-
Bulawayo Province	51	14%	676,650	51	13,268	-	0	-
Midlands Province	39	10%	349,595	28	12,486	1,914,398	11	101,309
Mashonaland East	15	4%	117,521	11	10,684	1,009,892	4	252,473
Mashonaland West	32	8%	344,806	28	12,315	79,864	4	219,966
Mashonaland Central	12	3%	102,873	6	17,146	892,554	6	148,759
Matebeleland North	13	3%	102,948	11	9,359	602,000	2	301,000
Matebeleland South	9	2%	68,457	5	13,691	584,597	4	146,149
Masvingo Province	22	6%	134,251	19	7,066	1,186,187	3	395,396
Manicaland	36	10%	259,495	26	9,981	1,309,435	10	130,944
Total	**377**	**100%**	**4,052,730**	**333**		**7,578,927**	**44**	

Source RBZ (2006)

Out of a total of 377 branches in the country in 2006, 333 were in urban areas while only 44 (representing about 12%) were in the rural areas. The population per branch for rural was at least ten (10) times that of the urban population. The low level of financial inclusion is indicative of the need for transformation of the financial sector to embrace the marginalised and unbanked sectors. Internationally, almost 70% of the adult population in developing countries, or 2.7 billion, people lack access to basic financial services, such as savings or checking accounts (based on the 2009 Financial Access report by the World Bank Group). Out of the total unbanked population, the regions with the largest share of unbanked population are Sub-Saharan Africa, with only 12% banked, and South Asia, with 24% banked (Stein, 2010).

3.0 INCLUSIVE FINANCIAL DEVELOPMENT: A CONCEPTUAL FRAMEWORK

3.1 Terminology and Paradigm Shift

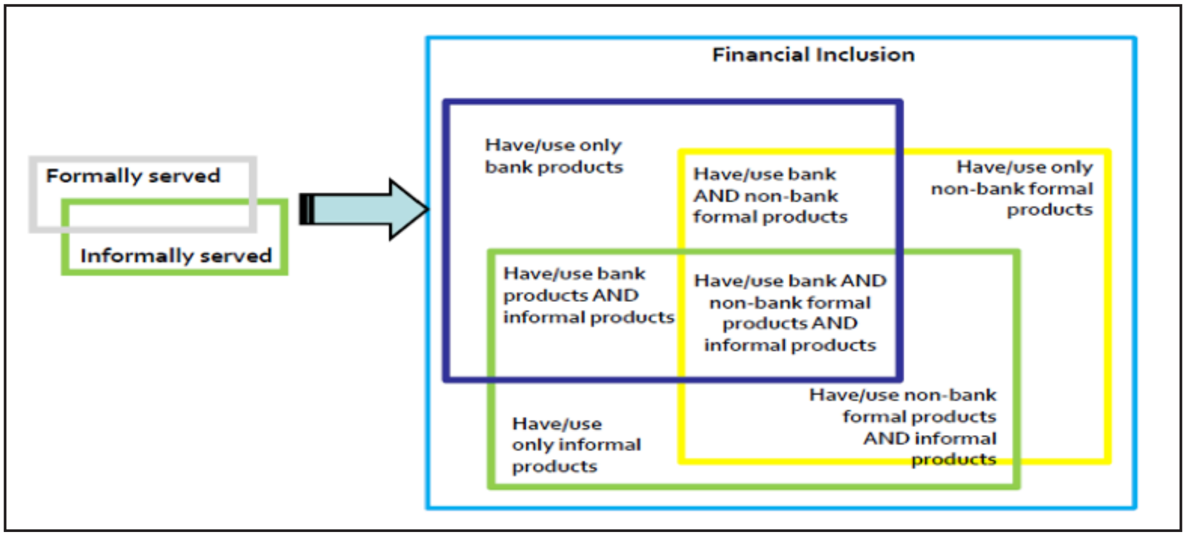
Financial Development: The 2009 Financial Development Report[3] defines financial development as factors, policies, and institutions that lead to effective financial intermediation and markets, as well as deep and broad access to capital and financial services. Huang (2005) added that a composite index of financial development enables analysis of different dimensions of financial development including overall financial development, financial intermediary development, stock market development, financial efficiency development, and financial size development (usually called "financial depth"). Sen (2010) added that higher levels of financial development are brought about by the increase in number of financial intermediaries along with an increase in the size of these intermediaries, depth of capital markets and an increase in the range of financial instruments available in these markets. Technically and more generally, financial development is measured by the share of domestic credit to the private sector as a ratio of GDP, and market capitalisation (stock market trading volume) of listed companies as a ratio of GDP. Financial development thus involves the establishment and expansion of institutions, instruments and markets that support this investment and growth process (FitzGerald, 2006)

Inclusive Financial Development (IFD). Sen (2010) defined inclusive financial development as the development of the financial system that is biased towards the poor. In other words, it is financial development that is actually driven by access by the poor to financial services and products. According to the United Nations, an inclusive financial sector is a financial sector that provides "access" to everyone in each of the main customer groups in an economy. It would provide access to credit for all "bankable" people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone (UN, 2006). Mavrotas (2009) also noted that financial development, broadly defined to include not just financial sector deepening but also improvements in the efficiency of the financial sector, is vital for pro-poor growth. Inclusive Financial Development should be a pattern of financial development that should simultaneously lead to higher economic growth and reductions in social exclusion and income inequality.

Financial Inclusion: Financial inclusion is as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy Sarma, (2007) (Figure 4).

[3]A report produced after every World Economic Forum

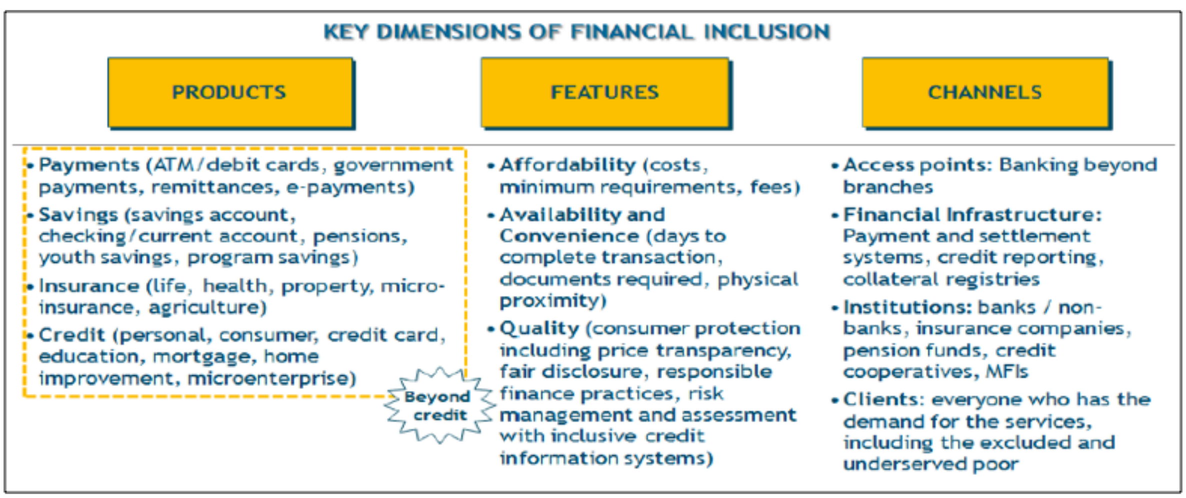
Figure 4: Definition of Financial Inclusion



Source FinMark Trust (2011)

Stein (2010) added that financial inclusion can be defined as a state in which all people of working ages have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial inclusion encompasses improving the range, quality and availability of financial services to the underserved and the financially excluded. Key dimensions that define financial inclusion focus on the range of products and delivery channels that go beyond the early micro-credit only approach (figure 4).

Figure 5: Key Dimensions of Financial Inclusion



Source: Stein (2010)

According to the World Bank key working pillars for reaching financial inclusion target focus on six themes namely policy environment, financial infrastructure, delivery mechanisms & products, and responsible finance / consumer focus.

The Terminology and Paradigm Shift

Before proceeding to explore deeper into these concepts it is critical that we differentiate between them and also with other related concepts and explore the paradigm shifts in them.

Financial Development and Inclusive Financial Development: There is a very thin line between the two concepts as they basically refer to the same issues except that inclusive financial development is financial development that embraces the poor and marginalised. According to Sen (2007) inclusive financial development should be a pattern of financial development that should simultaneously lead to higher economic growth, reductions in social exclusion and income inequality. In that regards and in this paper, these two terms would be used interchangeably. The term Financial Development should be taken in the context of Inclusive Financial Development.

Inclusive finance and financial inclusion: Sarma, (2007) noted the difference between the two in that while financial inclusion is as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy, an inclusive financial system facilitates efficient allocation of productive resources and reduces cost of capital. Sen (2010) also argues that financial inclusion simply captures the increasing access of poor households to financial services (for example, the possibility of depositing funds in a financial institution by a poor household in a remote rural village), regardless of its effect on the growth of the financial sector in the economy. The UN (2006) also noted that inclusive finance recognizes that a continuum of financial services providers work within their comparative advantages to serve poor and low-income people and micro and small enterprises and building inclusive financial sectors includes but is not limited to strengthening microfinance and MFIs.

This paper does not read much into the differentiation between the two terms. The centre of focus of the two phenomena is the same, which is, ensuring ease of access, availability and usage of the formal financial system by all members of an economy. More over inclusive financial development implies both financial inclusion and growth in the width and depth of the financial sector (Sen. 2010). In that regard financial inclusion forms an integral platform for achieving inclusive financial development.

3.2 Measuring Inclusive Financial Development

According to Sen (2010) standard measures of financial development are the share of domestic credit to the private sector as a ratio of GDP (credit based measure), and market capitalisation (stock market trading volume) of listed companies as a ratio of GDP (equity based measure) Other researchers use more elaborate technical components to measure financial development. Ayadi, Adegbite and Ayadi (2008) in their research on Structural Adjustment, Financial Sector Development and Economic Prosperity in Nigeria, measured financial development based on five aspects, shown in the table below.

Table 4: Components and Measures of Financial Development

Component of Financial Development	Standard Measures/Indicators
Size of financial intermediaries	Ratio of deposit money bank assets to central bank assets, ratio of liquid liabilities to GDP, the ratio of central bank assets to GDP, ratio of deposit money bank assets to GDP and ratio of bank deposits to GDP
Level of activity and efficiency of financial intermediaries	Ratio of private credit by deposit money banks to GDP, ratio of private credit by deposit money banks and other financial institutions to GDP
Size, activity and efficiency of the stock market	Ratio of stock market capitalization to GDP, ratio of stock market total value traded to GDP, ratio of stock market turnover to GDP
Time series which measures the rate of economic growth	Rate of growth in real per capita income,

Source: Ayadi etal, (2008).

Barth, Caprio and Levine (2000) regard bank credit to the private sector, stock market capitalisation, and lending to the private sector by non-bank financial institutions as indicative measures of financial development. They established a negative, statistically highly significant relationship between state ownership of bank assets and these measures of financial development.

Inclusive financial development: How do we measure it? In as much as inclusive financial development is literally not different from financial development (except in scope of focus) Sen (2010) came up with two set of technical measures of measuring inclusive financial development. The first is the share of firms to total firms in the country that have access to credit (Aligned with this is the share of firms in the country which are owned by females) which he called the Firm Based Measures of Inclusive Financial Development. The second set of measures is the proportion of the country's population who are depositors in microfinance institutions, along with the proportion of borrowers who are women, and the average loan balance and deposit balance per borrower/depositor[4] as a ratio of Gross National Income (GNI) per capita. This set of measures is called the Household Based Measures of Inclusive Financial Development (Sen 2010).

[4]Sen (2010) found out that most Asian countries have very high average loan balance per depositor as a ratio of Gross National Income per capita indicating significant depth in the microfinance sector

3.3 Key Drivers of Inclusive Financial Development

Financial inclusion cannot be addressed by a single product or technological innovation, and therefore policymakers are focusing on a set of solutions best fitting to their national contexts in pursuit of increased financial access for poorer populations. There is no single pre-determined recipe for improving financial inclusion. Developing country policymakers are in the best position to evaluate their unique institutional, socio-economic, financial and political circumstances and pursue the strategy that best fits (AFI, 2010). There are segments of the financial sector which are the cornerstone of an inclusive financial development strategy and these are discussed below.

Policy and Regulation

Regulators are important for policy formulation which affects IFD. According to the Alliance for Financial Inclusion (AFI) (2010), there has been growing leadership and ownership of financial inclusion by policymakers. For example,

- The Bank of Thailand emphasizes the importance of financial inclusion in its recent second Financial Sector Master Plan. The Bank is entering discussions with the commercial banks on business models that can help to reach the rural poor.
- At the heart of Kenya's strategy to grow into middle-income country within the next decade is the plan to bring millions of people into the formal financial system. This national objective stewarded by the Kenyan central bank helps to guide and prioritize a range of activities from public, private, and non-profit sector players.
- The Superintendence of Peru has adopted financial inclusion as a cross-cutting priority for the whole institution, creating specific working groups in each department to enhance their performance from the perspective of financial inclusion.
- Malaysia's Financial Sector Master Plan includes meeting socioeconomic objectives such as improving access to financing for priority sectors (such as SMEs and Agriculture), providing advisory services to small borrowers, and providing banking services to non-urban areas.

In addition, regulators are also seeing the importance of financial inclusion in distributing financial products. Some regulators are loosening licensing requirements for opening new bank branches as a step towards facilitating the outreach of banks to otherwise expensive to reach areas (AFI, 2010).

Commercial Banks

Commercial banks are usually the primary source of finance for investment. The presence of informal asymmetries and moral hazard in credit markets, led commercial banks to refrain from unsecured lending (Stiglitz and Weiss 1981). This implies that small and micro enterprises which may not possess such collateral are less likely to receive loans from commercial banks. Sen (2010), however, argue that increasing competition among banks may cause banks to venture into microfinance and specialised lending to targeted groups of poor households. Commercial banks may choose to lend to customers usually reached by MFIs with the objective of increasing their market share. The case of the ICICI Bank in India is an example of a large commercial bank that saw profit opportunities in the microfinance sector and expanded operations in this area. In India, Indonesia, and Egypt, banks are expected to be the backbone of a system that reaches the poorest. (AFI, 2010).

Development financial institutions

These are state-owned term-lending institutions which provide credit often at subsidized rates. For many developing countries, development finance institutions are a crucial part of an inclusive financial development strategy as they lend to start-up firms who may not able to borrow from the market and lend to pro-poor sectors such as agriculture and small industry. The Small Industries Bank of India (SIDBI) was set up as a wholly owned subsidiary of the Industrial Development Bank of India in 1989. Its main role is to promote small scale industries in India and to provide financial support to them. The National Bank for Agricultural and Rural Development (NABARD) was set up by the Reserve Bank of India in 1982 to provide refinancing and make loans and advances to the co-operative banks, regional rural banks and commercial banks for financing production, marketing and investment activities relating to agriculture and allied sectors. These two development banks have been crucial in India's pro-poor strategy and have been protected to a large degree by the Indian government from the financial liberalisation process initiated since 1991 (Sen, and Vaidya, 1997 cited in Sen 2010).

Microfinance

It is well recognised that microfinance is the best way that the financial sector can reach the poorest, which ordinarily would be outside the ambit of commercial banks (Prahalad 2005). The innovative approaches used by MFIs have made it commercially feasible to reach further down to the poor. For example, microfinance can be used to leverage the development potential of remittances to the poor, ensuring that households use remittance incomes productively in investment activities. Sustainability of microfinance institutions and the nature of regulation for the microfinance sector are two key issues in the development of a microfinance sector in low income countries (La Torre and Vento, 2006). As the microfinance sector grow and mature, it necessitates the development of policies to support financial intermediation, and cope with non-bank financial actors that have started to take deposits or otherwise intermediate funds. Some regulators are encouraging commercial banks to downscale their operations to participate in microfinance activities, either by establishing specialized departments, subsidiaries, or wholesale lending to MFIs (AFI, 2010).

Financial Innovation

The growing use of technology in financial activity is critical for financial development in most developing countries, especially if the technology is available to the poor. Technology enables financial institutions to introduce the concept of branchless banking via the use of the internet and mobile phones. For example, Safaricom, Kenya's largest mobile network operator offered M-PESA, the mobile payment service for the first time in March 2007 (Sen, 2007). Another example of branchless banking and inclusive financial development going hand in hand is the point-of-sale (POS) devices deployed at agents in Brazil. Following a ramp-up of agents by state and private banks, by 2005 every municipality in the country had a financial service point, changing the geography of financial inclusion (CGAP-DFID 2009).

3.4 Relationship between Financial Development and Economic Growth

It is well recognised that financial development is crucial for economic growth although the direction of causality between financial development and economic growth has been a centre of disagreement among economists. This has significantly different implications for development policy. Mohan (2006) argues that financial development spurs economic growth, in other words financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand-following (growth generates demand for financial products) channel. According to Apergis et al., (2007), there are four views on the finance-growth nexus: (i) the supply leading view, which support a positive impact of financial development on economic growth, that is, financial development causes economic growth by allocating resources to more productive sectors, (ii) the demand following view, which states that finance actually responds to changes in the real sector. Economic growth creates a demand for developed financial institutions and services. (iii) The third view supports the bi-directional relationship between financial development and economic growth (iv) the last view rejects the existence of a finance-growth relationship.

Yavuz, Kıran and Güris(2009) investigate the long term relationship between financial development and economic growth for ten countries by using panel unit root tests, panel co-integration and Fully Modified OLS (FMOLS) methods and the results support that financial development has a positive and statistically significant effect on economic growth[5].

One of the key features of financial deepening is that it accelerates economic growth through the expansion of access to those who do not have adequate finance themselves. Once access to financial institutions improves, inclusion affords several benefits to the consumer, regulator and the economy alike. Establishment of an account relationship can pave the way for the customer to avail the benefits of a variety of financial products,

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They used the following model specification $Y = \beta + \beta F + \beta X + u\ (1)$ where it Y is GDP per capita, it F is a measure for financial development, it u is the error term, and it X is a set of control variables that includes commonly used variables in the literature such as gross fixed capital (C), general government final consumption expenditure as share of GDP (G), and volume of trade as share of GDP (T). They use three different measures of financial development which are: (i) The liquid liabilities of the financial system (LL), defined as currency plus demand and interest bearing liabilities of bank and nonbank financial intermediaries divided by GDP (M3/GDP). (ii) Bank Credit (BC) is defined as credit by deposit money banks to the private sector divided by GDP. (iii) Private sector credit (PC) equals the value of credits by deposit money banks and other financial institutions to private sector divided by GDP (Kiran, Güris and Yavuz, 2009) which are not only standardised, but are also provided by institutions that are regulated and supervised by credible regulators, and are hence safer. The bank accounts can also be used for multiple purposes, such as, making small value remittances at low cost and making purchases on credit (Mohan, 2006).

3.5 Inclusive Financial Development and Economic Growth

Rousseau and Wachtel (2005) examine the sensitivity of financial depth- growth relationship to changes in time period and variation in the sample of countries by including a panel of 84 countries, including Zimbabwe. They find that the finance-growth relationship in not as strong with more recent data as it was in the original studies with data for the period from 1960 to 1989. They use a rolling regression technique to see which countries provide stronger support for the finance growth relationship and find out that among poorer counties, the relationship is positive but imprecisely measured and among very rich countries it is absent. However, there is clear indication that financial deepening increases growth among the countries with real GDP per capita of between $3,000 and $12,000.

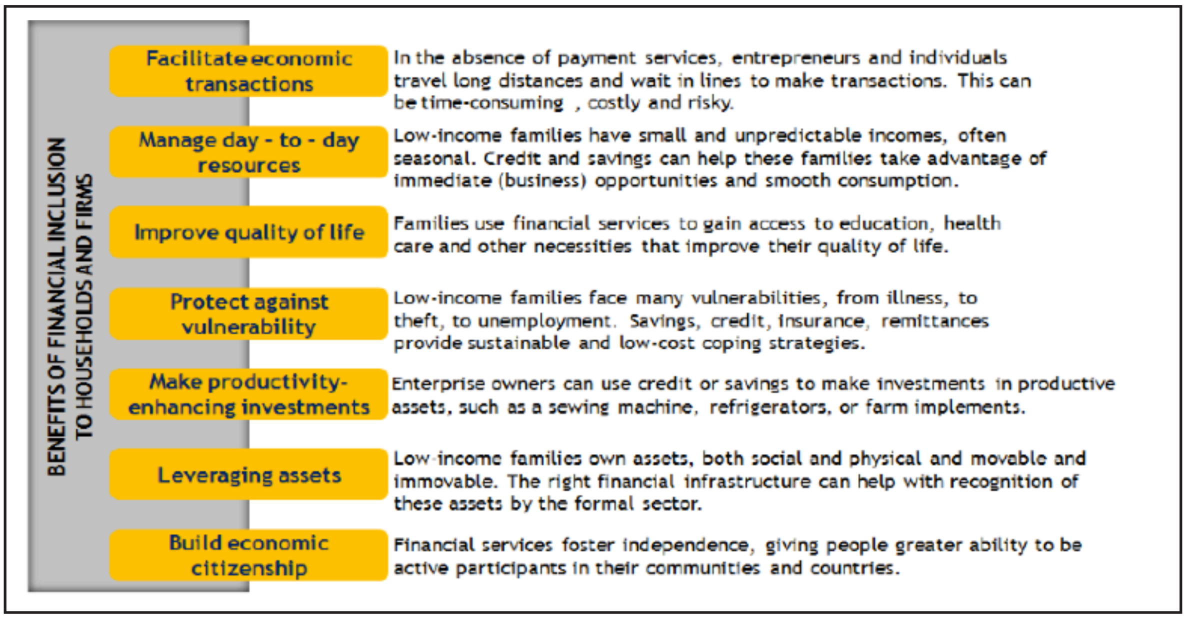
According to the Policy Research Report (PRR) (2006), old development theories emphasized the role of inequality and wealth concentration in the early stages of a country's economic development. This view, that inequality is growth-enhancing was, however, challenged by a number of cross-country regressions, which all find a negative correlation between the average rate of growth and inequality measures. New models had to be built to explain why inequality can be bad for growth. These models have credit market imperfections at their core. Given capital market imperfections, poor people, who have high marginal productivity of investment cannot invest in their education, or their occupational choices are limited, because their choices are determined by their initial endowments (Rajan and Zingales 2003). These models show that lack of access to finance can be the critical mechanism for generating persistent income inequality or poverty traps. The policy conclusion drawn from these new development theories was simple: given the existence of credit market imperfections, the models showed that wealth redistribution can foster growth. There is extensive empirical evidence which suggests a significant and robust relationship between financial depth and growth (see Levine and Loayza, 2000 and Levine, 2005 for a review)

Caporale etal (2008) examines the relationship between financial development and economic growth in ten new EU members by estimating a dynamic panel model over the period 1994-2007. The evidence suggests that the stock and credit markets are still underdeveloped in these economies, and that their contribution to economic growth is limited owing to a lack of financial depth. Financial depth is found to be lacking in all ten countries, and therefore the contribution of the relatively underdeveloped credit and stock markets to growth has been rather limited, with only a minor positive effect of some indicators of financial development. By contrast, a more efficient banking sector is found to have accelerated growth.

3.6 Benefits of Financial Inclusion

Empirical evidence suggests that improved access to finance is not only pro-growth but also pro-poor and it reduces income inequality and poverty. Cross-country regressions have shown that economies with better developed financial systems experience faster drops in income inequality and faster reductions in poverty levels. Financial depth can have direct and indirect effects on small firms and poor households. Greater depth is likely to be associated with greater access for both firms and households, which make them better able to take advantage of investment opportunities, smooth their consumption, and insure themselves. The numerous benefits of financial inclusion for low-income households and small and micro-enterprises are summarized in the diagram below (Stein, 2010)

Figure 6: Benefits of Financial Inclusion



Source: Stein (2010)-Adapted from ACCION International, Center for Financial Inclusion, "Mexico's Prospects for Full Financial Inclusion: A White Paper from the Financial Inclusion 2020 Project", September 2009

4.0 EFFORTS TOWARDS IFD IN ZIMBABWE

Efforts towards inclusive finance started after realisation that small firms, low-income groups and the poor had limited access to credit. During the first and second decade after independence in 1980, the government establish institutions which were meant to promote financial inclusion. Although the motive, then, was mainly to reduce poverty through provision of credit and training, the provision of credit was in itself a move towards inclusive finance. The government establish institution like AFC, Credit Guarantee Company (CGC , 1978), Venture Capital Company of Zimbabwe (1991), Agriculture Finance Corporation (AFC), Donors and NGOs Micro Enterprise Development Programme (MEDP)and SEDCO (1984) in order to facilitate development of projects which were run by the poor through provision of credit and training. Even then, the POSB (postal service) used its branch network to facilitate communication and provision of convenient alternative banking services in remote areas that had no banks. Services offered include cash transfer facility through money and postal orders, cash payment of government benefits, and savings and fixed deposit account facilities (Makina, 2009). Donors and Developmental Institutions established community based agencies (Micro Finance Institutions) through which they extent low cost credit in order to boost entrepreneurship and financial access by the poor and marginalised. Commercial banks, like CBZ and the then ZimBank, participated in the disbursement of donor funds to the poor in the late 80s.

In the formal financial system, the numbers of banking institutions in Zimbabwe increased to 45 in 2002, with particular growth in the commercial banking sector were the number of institutions increased from 5 in 1990 to 17 in 2002 and discount houses increased from 2 in 1990 to 8 in 2002. This was due to relatively low minimum capital requirements for a banking licenses by the central bank which ranged from Z$200 million for discount house to Z$500 million for a commercial bank. The licensing of new banks brought competition among players. As competition intensified from newly licensed banks, which sought to serve the niche markets that were poorly banked, the old institutions sought to defend their market stronghold. More branches and in-store banking facilities were opened by commercial banks and building societies. This resulted in an increase of the population with bank accounts to 49.5% by 2006. However, despite the growth in the banking sector and service to the poor, the economic challenges experienced in the country resulted in slowing down of financial service provision to the poor began to go down. The most important challenges which slowed down financial inclusion in Zimbabwe are the negative effects of the land reform program, the banking crisis and the hyperinflation. Most banks that had strategically established in the rural towns were affected by the land reform as the commercial farmers they targeted were displaced. Business operations dwindled rendering operations unviable. By the end of 2006 over ten branches belonging to commercial banks were closed in rural towns, and as a result the population with access to a bank account dropped to 18.3% by 2007 (Kanyenze, Kondo, Chitambara and Martens, 2011).

From 2005, the shortages of bank notes and the ever increasing inflation triggered parallel market activities where people sourced foreign currency to preserve value. The shortage of bank notes and stringent requirement for people to access their money drove most people out of the banking sector. There was, however, a period in 2008 when there was a boom in the number of banking accounts. As premiums offered on the foreign currency black market widened it became difficult for speculators to carry around large sums of money to effect transactions, hence the use of bank transfers known as 'burning' to settle these transactions was devised. This strategy forced many people to return to the banking system and open accounts to facilitate foreign currency transactions, resulting in an increase in the number of accounts. The central bank had to intervene when the national payment had choked by suspending internal transfers (Kanyenze etal, 2011).

4.1 Current Initiatives from Established Institutions

The Reserve Bank amended the Banking Act [Chapter 24:20] to allow for the registration and supervision of Microfinance Banks. The Bank has not yet issued any licence for Micro Banking activities although it acknowledges receipt of received six (6) applications for Microfinance Bank licences. In addition, the regulator, which is the central bank, together with commercial banks has been making efforts to promote inclusive financial development ever since the introduction of the multicurrency system in 2009. From the Reserve Bank, the licensing process for microfinance institutions has been revamped in order to reduce the turnaround time for licensing to a period less than one week. In addition, the Bank has been encouraging financial institutions to utilize technology to extend financial services to the marginalized. In this regard, banking institutions have partnered with mobile operators to provide mobile banking and other electronic based products to the previously unbanked and marginalised communities.

Banking institutions on the other have been introducing products which also capture the low income people in the country (products like the e-mali card and gold backed unit trust fund by Tetrad Investment Bank, The Women Investment Fund by CBZ targeting women and the Kingdom Card which predominantly target low income people, are clear examples) (table 7). According to the RBZ (2011 monetary policy statement) banking institutions such as Kingdom, FBC, NMB, TN Bank, CABS, Barclays Bank and Tetrad have entered into strategic alliances with mobile phone operators to develop new financial services delivery channels. Generally, there has been a keen interest for inclusive finance amongst banks as most banks establish microfinance/SME departments in their structures. There are banks which have been in offering pro-poor products for some time and these includes e.g. CBZ, Kingdom, Barclays, CABS and Standard Chartered. Currently, there are banks which are establishing microfinance in their structures including TN Bank, NMB, BancABC and FBC.

Table 5: Pro-poor Products currently offered by Commercial banks

Institutions	Inclusive Finance Products
CBZ Bank	Women Investment Fund, Microfinance products , SMS banking, Individual home loans through its building society
Tetrad Investment Bank	E-mali card, a mobile banking facility, a separate microfinance institution
Kingdom bank	Kingdom Cell Card, a separate microfinance institution
TN Bank	Acquired a stand-alone MFI during the bank's formation; TN Cash card, an on –and-offline cash card that eliminates inconveniences caused by power blackouts ,can be used in both rural and urban areas; Wedding investment account which helps clients to save and finance low cost weddings for a minimum of two years
Barclays, Standard Chartered	Have SME departments
FBC	Intends to set up a microfinance department , SMS banking
BancABC	Intends to set up a microfinance department , Micro lending individual salary based loans
ZB Bank	Has a building society , SMS banking
CABS	Cell phone banking; Easybank debit card based transaction account which allows account holders to make Point of Sale transactions; iCABS SMEs banking
Metropolitan bank	SME banking; Mobile /SMS banking; Met student a savings account for students in tertiary education
Royal Bank	SME banking , Microfinance services; Royal Student a savings account for students in tertiary education
POSB	SMS banking, Micro lending salary based loan to POSB account holders Cash card /debit card which can be used at its 140 point of sale locations
Trust bank	AgriTrade facility that offers three month tenure loans to agro trades
AgriBank	SME banking

Source: Bank Websites

The use of Mobile Money (MM) is one avenue through which inclusive financial development is being promoted in Zimbabwe. This is a fairly recent phenomenon which has a potential to increase financial inclusion. All the three mobile network operators in Zimbabwe have created platforms which enables carrying out of banking services without need for getting into the physical bank. For example, Netone, has "One Wallet", Telecel has "Skwama" and Econet has "EcoCash" and all these products have features similar to those offered through banks. The use of MM is one phenomenon which needs great support by policy makers, service providers and consumers given its potential in reducing financial exclusion.

4.2 Key players in IFD in Zimbabwe

Financial Inclusion in Zimbabwe has been promoted through both regulated and unregulated markets. In the regulated markets financial service for the poor is offered through banks, building societies and registered non-deposit taking MFIs. Under the regulated umbrella also falls Government owned development institutions like the POSB and SEDCO. Under the unregulated markets, financial service is offered through registered and unregistered money lenders, SACCOs, ROSCAs, Community based clubs and individuals (Table 6)[6].

Table 6: Key players in inclusive financial development

Market	Institutions Type	Number of Institutions
Regulated	Formal	
	Banks	17
	Building Societies	4
	POSB	1
	Registered Non Deposit Taking MFIs/Money Lenders	131
Unregulated	SEDCO	1
	Semi-formal	
	SACCOs*	208
	ROSCAs	No Record
	Informal	
	Unregistered Money Lenders	No Record
	Individuals	No Record
	Community Clubs	No Record

Source: Various sources
**2006 figures*

Banking Institutions

Commercial banks are the largest players in the banking system, in terms of total assets and the range of products on offer. Most banking institutions in Zimbabwe require high minimum balances and banking fees are also high when compared to other countries in Southern Africa (though Bankers Association of Zimbabwe argues otherwise). Several banks, however, have downscaled to serve lower-income market segments. Most Banks are increasingly entering into microfinance.

Non-Bank Financial Institutions

In Zimbabwe there are three categories of non-bank financial institutions: building societies, asset management companies and money-lending institutions. Money-lending institutions include money lenders that are primarily offering consumption lending services and Micro

[6]Extracted from Klinkhamer. M. (2009), Microfinance Sector Recovery Study, AYANI, SNV Zimbabwe

Finance Institutions (MFIs) that usually started as NGO agencies (NGO-MFIs) with enterprise lending products.

Building Societies: Building societies offer the largest product menu of the non-bank financial institutions, with a broad range of savings, loan, transactions and investment products. They have been capturing the largest share of deposits in Zimbabwe, exceeding both commercial banks and the POSB in 1998, 1999 and 2000. Traditionally, they lend for residential and commercial mortgages, purchase treasury bills, place funds in the money market and finance low-income housing projects. Of the four building societies that were operational at year-end 2007, CABS was the most active in downscaling to lower-income market segments. It has a number of products tailored to small and medium-sized businesses and the self-employed. Currently only 3 building societies are offering pro-poor products.

MFI/Moneylenders: At peak, MFIs reached 1660 in 2003. However the stringent registration requirements by the RBZ saw a drop of MFIs to about 300 in 2004. Towards the end 2008, the number of moneylenders that were operational was around 70. However, money lenders used to be the largest category of microfinance service providers in Zimbabwe. Most of them were established after 2000. Many of the moneylenders are family businesses employing less than 10 employees and serving a couple of hundred clients only, The service menu of moneylenders is rather narrow, focusing on the provision of consumer loans; however, as a result of the economic crisis, enterprise financing has been increasing since 2005. Often, the lending methodology employed is payroll-based lending. Currently MFIs are only regulated to offer credit only and cannot take deposits.

Credit Unions / Cooperatives

SACCOs draw their membership from the local community or from a similar employer. In 2006, of the SACCOs in Zimbabwe, 35% were employee-based, 23% enterprise-based, 19% agriculture-based and the remaining 23% were both enterprise- and agriculture-based. However, at year end 2008, the number of Savings and Credit Cooperative Societies (SACCOs) that were operational was close to zero.

Development Finance Institutions

The Government of Zimbabwe (GoZ) in 1980 set up various development finance institutions to service micro, small, and medium enterprises. The institutions include the Zimbabwe Development Bank (which is now IDBZ), the Small Enterprise Development Corporation (SEDCO), and the smallholder finance facility at the Agricultural Finance Corporation (now Agribank).

SEDCO: SEDCO is a state enterprise under the Ministry of Small and Medium Enterprises Development created through the Small Enterprises Development Act of 1984. SEDCO's mandate is to spearhead the development of viable small and medium enterprises (SMEs) through the provision of financial assistance, counselling and related support services, business management training and business infrastructure, with the objective of enabling SMEs to make a significant contribution to national economic growth.

Peoples' Own Savings Bank: Established in 1904, Zimbabwe's Post Office Savings Bank (POSB) is one of the oldest and largest of its kind in Africa, although it is not among the stronger banks in terms of governance. It operated through some 200 post offices around the country. Savings mobilized were invested in government securities and provided a steady supply of domestic funding for the public sector. Because of its wide rural network and low minimum savings balances, the POSB's clientele has always been broad ranging from formal to informal clients. In 2000, the POSB restructured into a savings bank known as the People's Own Savings Bank, and broadened its product menu offering an array of retail, loan and investment products. In 2009, it had 27 of its own banking halls dotted around the country's major town centres and, in addition, some limited services are provided through post offices. POSB also invested in five new mobile units in 2007.

Community-Based Initiatives

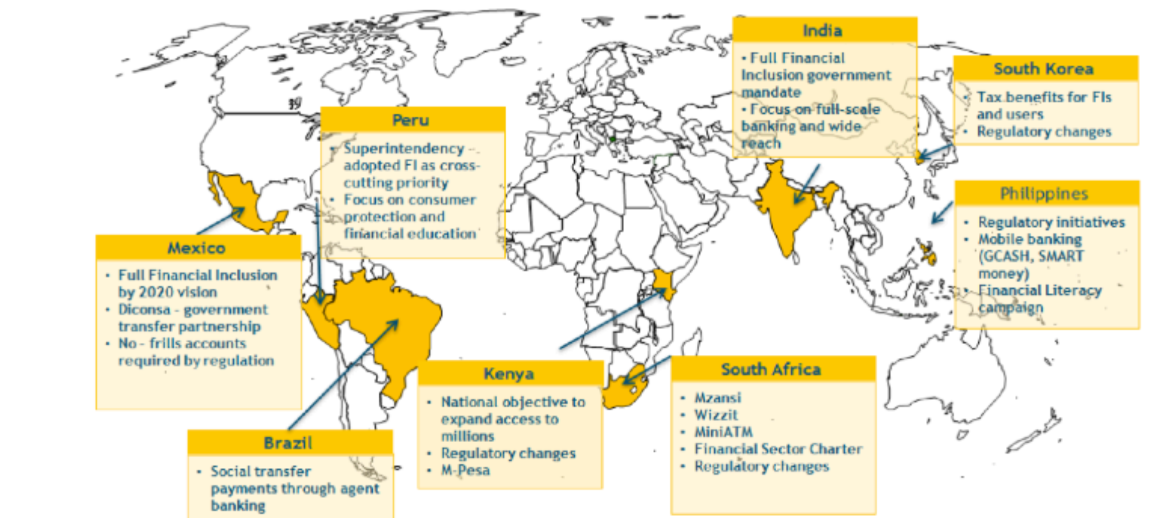
The model offers savings and loans services to self-selected groups based in a village. The VS&LGs could be important distribution channels for financial services such as loans, savings, money transfers and insurance. The community-based initiatives spearheaded by CARE International are among the few financial services to low-income markets that are still available. CARE has a large program in Zimbabwe supporting the creation of community savings and loan clubs, mostly in remote rural areas and the model is referred to as the Internal Savings and Lending model or as Village Savings and Loans Groups (VS&LGs). Some microfinance programs including Farm Community Trust of Zimbabwe are based on this methodology.

Mobile Network Operators

These are new players in the promotion of inclusive financial development. Their role has been acknowledged by policy makers. All the three mobile network operators in Zimbabwe have created platforms which enables carrying out of banking services without need for getting into the physical bank. For example, Netone, has "One Wallet", Telecel has "Skwama" and Econet has "EcoCash" and all these products have features similar to those offered through banks.

5.0 POLICY AND IFD: THE ROLE OF GOVERNMENT[7]

Figure 7 : Recent Examples of Countries Advancing Full Financial Inclusion



Source: World Bank Group Team Analysis and AFI; Map represents selected examples only, not an exhaustive or best practice list of countries with full / universal financial inclusion initiatives. Note that the South Korea example dates back to the credit card lending boom in 1999-2002.[16]

Source: Stein (2010)

CGAP (2006: 76) identifies three ways in which governments get involved in the financial system.

i. Governments deliver financial services directly and indirectly, usually by disbursing credit to preferred groups or channelling resources to financial institutions through wholesale arrangements. Usually, most of the funding is sourced from international donors. While governments are not good at offering credit to poor people, government-owned banks, especially postal banks, have had a good track record in savings mobilization or money transfer.

ii. Governments set policies that affect the financial system. Such policies include ensuring macroeconomic stability, liberalizing interest rates, and establishing banking regulation and supervision which make viable microfinance possible

iii. Governments can proactively promote inclusion by offering fiscal incentives or requiring financial institutions to serve poor or low-income people (Makina 2010).

Policy: The role of government in inclusive financial development includes an overall policy stance, a corresponding regulatory framework, and a set of legal structures that

[7]This section is adopted from the UN Blue Book on Inclusive finance. The section is edited to include issues which relates to Zimbabwe. UN Blue Book, however, includes the issues on interest rates, the role of incentives (subsidies and taxation) and policies to broaden and strengthen financial infrastructure in its section on "The policy framework and Public Sector role in inclusive finance"

encourage responsive financial services for poor and low-income households. According to Sen (2010), the key policy issue in inclusive financial development is the trade-off that policy-makers face in striking a balance between policy interventions that encourage the access of the poor to financial services (which can have a discernible positive impact on poverty reduction but may be deleterious for financial development) and the overwhelming policy priority to enhance financial development (such that investible resources are available for capital accumulation and economy-wide productivity growth). The more joined up policy interventions are in promoting both financial inclusion and financial development, the more likely it will be that financial development will be broad-based and inclusive. According to the PRR (2006) it is useful to distinguish between financial systems where the service providers are delivering as widely as is possible given existing infrastructures, and those where service providers are hampered by inappropriate regulatory or other policies or by coordination failures. This suggests that the scope for government action can be classified into measures designed to develop the market (by improving the contractual and information frameworks), and those designed to enable or facilitate market activity (by streamlining regulations, or jumpstarting key activities). Additionally, given the tendency of credit institutions to speculative excess, government policies can be directed to harnessing or restraining market participants. The final category of government policies are measures that substitute for market decisions by direct ownership or subsidy of financial intermediaries. Appendix 1 shows some of the IFD policies in various countries.

National Strategy: The role of Government in IFD also includes having a vision of the overall financial sector as regards financial deepening, stability and access that sets the stage for the specific strategies for inclusive financial sector development. Policy derives from the political process in the country, which should be based on open debates among the stakeholders. While an open debate may increase politicization of decision making in the financial sector, an informed one allows difference perspectives to be heard and countered with experience and expertise. The existence of a politically endorsed and nationally owned strategy for inclusive financial sector development increases the likelihood of follow-through on implementation. While good policy and a participatory political process is thus at the centre of pro-poor financial sector development, the improper politicization of financial sector development may result in poor result of inclusive finance. In it consultations, the UN Blue Book stated that, stakeholders referred to the persistent misuse of microfinance for narrow political gain, either through targeted credit to powerful interest groups or debt forgiveness to appeal to the general voting public. (UN, 2006)

Direct financial service: The UN further argues that the government has a role of directly providing financial service to the poor through state banks. State banks have always been justified by the failure of private banks to adequately serve the economic and development goals of a country. Arguments for state engagement in financial intermediation are based on the need to promote financial development and provide access to competitive banking services to unbanked and underserved areas and sectors.

State intervention is designed to provide access to clients in marginalised areas, based on the principles that: (1) granting access to banking services increases economic and financial development, with positive externalities for growth and poverty reduction; (2) access to financial services is a right, and the state should make an effort to see that they are universally provided; and (3) in some cases, public banks can foster competitive behaviour in an otherwise non-competitive banking sector by entering as market players (UN, 2006).

Economic Development: Financial development and economic development have a bi-directional causality effect. Economists argue that there is an ambiguous relationship between economic development and financial development. If we consider one of the relationships, where financial development follows economic development or economic development pushing for financial development, then one of the roles of government in IFD would be to promote economic development in the marginalized areas. Once there is activity in these areas, then demand for financial products increases. In other words as economic activity increases financial development will also increase.

6.0 THE ROLE OF MICROFINANCE IN IFD

Microfinance has been accepted as one vehicle to achieve financial inclusiveness, though not the only one. Literature relates microfinance with financial sector development through the effect of microfinance on economic growth. It is generally acknowledged that microfinance helps in poverty reduction, expansion of the micro-enterprises and the sectors relevant to these micro-entrepreneurs as well as increasing income levels of the poor and marginalised. Barr (2005) asserts that microfinance can directly promote financial development in four ways; through market deepening, enabling development of banks, bypassing barriers faced by other development strategies and promoting domestic financial reforms. Svensson (2007) adds that microfinance helps financial development through the reduction of market imperfections in the previously informal sector. The ADB (2000) adds that microfinance can contribute to the development of the overall financial system through integration of financial markets (that is the formal and informal markets). In addition, microfinance can be utilised to:

- Correct market failures by expanding access to credit for small firms unable to access bank credit because they are small, new, asset-poor, and opaque.
- Reduce prevailing high interest rates in the informal sector through bringing increased levels of competition and micro financial "regulation".
- Increase the income and asset base of the poor, so that they may increase demand for bank loans. They also help in developing financial techniques for reaching the poor at lower cost and lower risk. Mobilise savings that can then be intermediated by regulated financial institutions. Thus, over time, microfinance institutions can contribute to a more robust financial system (Barr, 2005).

6.1 Microfinance in Zimbabwe

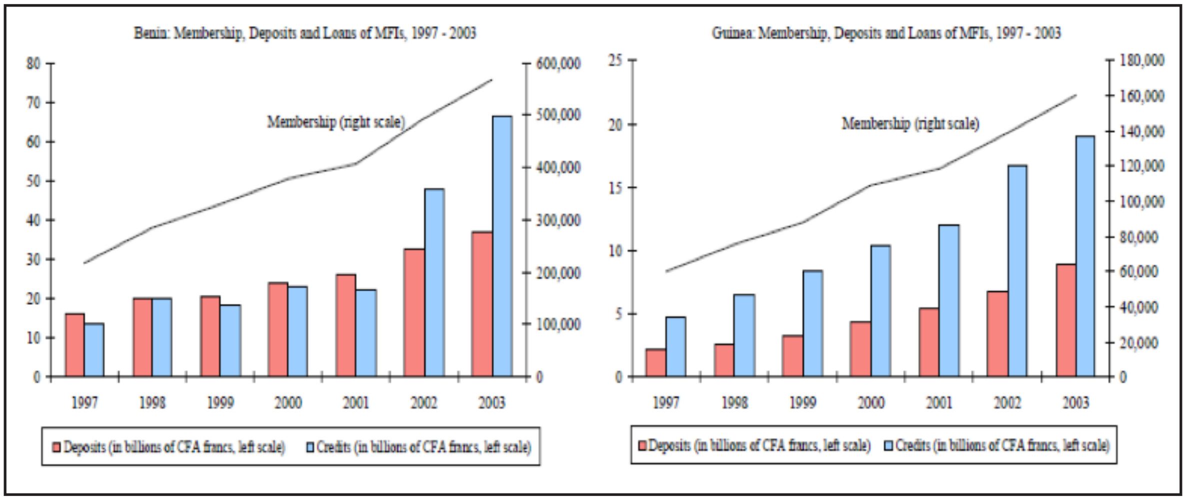
In Zimbabwe most MFIs emerged in the 1990s and experienced phenomenal growth such that by 2003 there were 1,700 players. To a large extent their growth was a reflection of the failure of the large-scale commercial banking sector to cater for the small-scale borrower. The RBZ (2000) reported that the microenterprise sector continued to assume increasing significance in terms of employment creation and contribution to national output in response to the changing macroeconomic environment. It was estimated, then, that there were about 3.8 million people employed in the informal sector, and that its contribution to GDP had reached about 15 percent by the end of the 1990s. Microfinance activity in Zimbabwe exists under both regulated and unregulated markets. In the regulated markets microfinance service is offered through banks, building societies and registered Non Deposit taking MFIs. Under the regulated umbrella falls government owned development institutions like the POSB and SEDCO. Under the unregulated markets, microfinance service is offered through unregistered money lenders, SACCOs, ROSCAs, Community based clubs and individuals. Other players who indirectly offer microfinance service in Zimbabwe include NGOs and Contract Farming arrangements. Microfinance has helped in reaching out to the poor and marginalised. Key players who have driven the microfinance sector in Zimbabwe in the past are shown in Appendix 2.

In 2008 the National Task Force on Microfinance published the National Microfinance Policy (RBZ, 2008) aimed at the establishing a vibrant microfinance sector that integrates into the mainstream financial system. Among a host of things, the Policy recognizes that providers of microfinance services have the potential to integrate the provision of credit with developmental activities such as community and leadership development, recreation, training in practical skills, entrepreneurship and financial management and delivering health education to their clients, especially with respect to HIV and AIDS awareness. While Government recognized the role of microfinance in development it had not put in place an appropriate regulatory environment. The sector is being regulated under Money lending and Rates of Interest Act, which is outdated and restrictive, as well as the Banking Act, which is inappropriate for the unique features of the sector. The number of MFIs dwindled from 1,700 in 2003 to a mere 75 by the beginning of 2009 due to stringent registration requirements. The 2006 survey by the National Task Force on Microfinance, carried out under the auspices of the RBZ, further identified the following weaknesses:

a) Weak institutional capacity: It was observed that the prolonged sub-optimal performance of many existing MFIs, Savings and Credit Cooperative Societies (SACCOS), and development finance institutions was largely attributed to incompetent management, weak internal controls, poor corporate governance, lack of deposit protection, and restrictive regulatory/supervisory requirements.
b) Weak capital base: It was observed that the existing microfinance institutions had weak capital bases which could not adequately provide a cushion for the risk of lending to micro-entrepreneurs without collateral (Makina, 2010).

The following country examples show how microfinance has managed to promote financial deepening through various products and services. Figure 2.5 shows the amount of savings mobilised by Micro Finance Institutions in Benin and Guinea during the period when the outreach of the banking sector remained limited.

Figure 8: Saving Mobilization by Microfinance Institutions in Benin and Guinea



Source: Basu. A, Blavy. R, and Yulek. M, (2004), 'Microfinance in Africa: Experience and Lessons from Selected African Countries', IMF Working Paper number WP/04/174.

The experiences of Benin and Guinea show that microfinance institutions have been successful in mobilising deposits. The graphs in figure 2.5 indicate that the rapid increase in microfinance membership and loan activities was followed by a continued increase in deposits (Basu etal, 2004).

Innovative microfinance initiatives in India, pioneered by non-governmental organizations, strive to create links between commercial banks, NGOs, and informal local groups to form the SHG Bank Linkage. The success of SHG Bank Linkage has been largely attributed to good policy and strong leadership, in conjunction with facilitating government policy and legal framework. India's approach to microfinance – making it profitable and so widely available – helped the country reduce the incidence of poverty from about 40 percent of the population in the mid-1970's to about 11 percent in 1996 (Guy, 2004). In the financial year 2007/08, microfinance in India served over 33 million Indians, up by 9 million over the previous financial year, of which 4 out of 5 microfinance clients in India are women (Sa-Dhan 2008). A practical example of microfinance linkage with banking institution occurred in India, 2003, when CASHPOR, an MFI working in the poorest region of India, and ICICI Bank, India's second largest bank, entered into a mutually beneficial strategic partnership agreement to provide microfinance services to the poor. CASHPOR, with its market knowledge of poor customers, originates and services loans, while ICICI, with its strong balance sheet and vast financial resources, provides capital, including working capital, for CASHPOR to carry out its work. The result was positive. In the first year CASHPOR recruited almost 6,000 new customers and disbursed approximately Rs. 3 crore (US$650,000) to them and portfolio-at-risk >30 days was 0.02%. The strategic partnership achieved market penetration and business volume performances not attained by other Grameen-type MFIs (Meehan, 2004).

In Uganda, the closure of banks and bank branches as well as the drive for prudent operations and efficiency of the banking industry in the early 1990s resulted in the cutting off of the fast growing micro and small enterprise sector. Low income population failed to access financial services. Micro Finance Institutions filled in the gap and expanded rapidly. From the mid-1990s onwards the microfinance sector was viewed as the most efficient vehicle for delivering financial services to the urban, peri-urban low-income earners and the rural population (Carlton, Manndorff, Obara, Reiter and Rhyne, 2001).

7.0 INCLUSIVE FINANCE: THE DEMAND SIDE

Efforts towards financial inclusion are mainly driven from the supply side. Inclusive finance models are primarily based on the ability of service providers to offer the service. There has been very minimal consideration of the demand side of inclusive finance. What has been clear on all work on inclusive finance is the acknowledgement of the need for financial services among the poor and marginalized. What has been lacking is an in-depth look into the needs of users of financial services (Table 7).

Table 7: IFD Supply and Demand Side Factors in Zimbabwe

Supply –side factors	Demand –side factors
Unavailability of appropriate infrastructure in terms of reliable electricity, telecommunications connectivity which facilitate the provision of information-technology-driven product and services	Banking facilities are between 50km and 100km away
Poor networks, which retard accessibility	Unreliable and unaffordable transport
High information, transaction and monitoring costs	Low income levels-low income people generally have the attitude that banks are only for the rich
Seasonality in deposits	High banks charges and low interest rates erode savings and discourage deposits
Lack of fiscal benefits	Lack of information on banking services available
	Stringent account opening requirements
	Inflexible products

Source: Kanyenze, Kondo, Chitambara and Martens, 2011

According to AFI (2010), traditionally the role of policymakers in the area of financial inclusion has been on the supply-side, through either public provision of financial services or enabling regulation. In modern researches, there is a distinct shift in this approach demonstrated by the attention given by financial sector policymakers to fair consumer protection and financial capability. The new policy emphasis is on empowering financial service consumers, who are vulnerable to abuse, so that they can make a better use of existing products. Financial education, consumer protection, and financial transparency are some of the issues receiving more attention from regulators. Below we explore some of the salient issues of inclusive finance from the demand side.

7.1 Demand for Financial Products.

Ascertaining demand for the various types of financial services low-income households need is one of the most important aspects of developing an inclusive financial development strategy. In recent years, significant advances have been made in developing proxy indicators for demand, through measuring effective access to and use of financial services, along with how people manage their money and what drives financial behavior. The information generated from such research enables providers of financial service to enter new markets and offer appropriate products.

In the paper on Microfinance Sector Recovery on Zimbabwe, Klinkhamer, (2009); noted the following about demand of financial products by the poor:

- The demand for financial services from low-income households in Zimbabwe is high. The most commonly known financial service for low-income households in Zimbabwe is microcredit. Previous estimates of the demand for microcredit in Zimbabwe amounted to close to US$100 million, and the market could exceed that amount. There is demand for loans for business, education, housing, and agricultural inputs, and in addition for leasing, micro-insurance, savings, transaction accounts, etc. Among the various types of credit, the percentage of clients that demand loans for trading has surged. Moreover, although the demand for consumer loans used to be high, it has declined dramatically as most clients currently need loans for businesses to generate income to make ends meet;
- The rapid growth in microfinance services in the form of moneylenders during the early 2000s evidences the interest in consumer finance in Zimbabwe;
- In terms of savings, though Zimbabwe has a strong savings culture many people have lost their savings or the value of their savings in banks, building societies, pension funds or SACCOs during the hyper-inflation era. As such, people are currently wary of savings within institutions. However, village-based savings and loans groups are already managing to mobilize funds again. Traditionally, micro-savings was offered by formal, regulated institutions, such as commercial banks, or by informal, member-owned and managed institutions, such as Rotating Savings and Credit Association (ROSCAs). In Zimbabwe, savings are done for a variety of reasons including life-cycle demands: births, children’s education, lobola (bride price), establishing a home,

consumption smoothing, emergencies, and to finance investment opportunities. The informal mechanisms that were identified during a 2001 Microsave study on savings behaviour, some of which are still available today, are: burial societies, savings clubs and ROSCAs/ Accumulating Savings and Credit Association ASCAs, savings at home and in-kind, reciprocal lending and saving with employers;

- The demand for local transfer and remittances services used to be and is still high for all income categories. It is believed the amount of remittances from the UK alone could be close to US$ 1 billion a year;
- There is insufficient information to quantify the demand for services such as low-income housing finance, transaction accounts, and micro-leasing;
- Unless financial institutions find ways to increase efficiencies and bring down the fees on savings and transaction accounts, membership and other financial services, it is likely that efforts to resuscitate the provision of financial services to lower-income markets will be hampered; and
- Financial literacy is an issue for individuals and micro-enterprises, particularly in the rural areas, though many entrepreneurs have learned a lot during the years of economic decline. As such, financial training would be a valuable intervention, in addition to providing financial services. (Klinkhamer, 2009).

7.2 Demand Side Salient Issues

Policy makers and financial service suppliers need to understand some salient issues which determine the demand and uptake of financial services by the poor. Researchers note that there is a wide difference between access and usage of financial service. It is important to distinguish between access – the possibility to use – and actual use of financial services. The difference might reflect voluntary lack of demand or the lack of need. Understanding usage requires information on both demand and supply factors, which are difficult to disentangle. Access, in turn has many dimensions: services need to be available when desired, and products need to be tailored to specific needs; the prices for these services need to be affordable, including all non-price transactions costs such as information processing costs or physical distance; and credit resources should not be limited to borrowers with connections, collateral or track record rather than projects with highest expected returns (PRR, 2006). Most financial inclusion policies are based on statistical and theoretical estimation of the potential demand of financial services in the marginalized section of the economy. There is need to consider the main issues which the poor raises regarding financial service, one of which is demand. The other important matters are discussed below.

i. Perception and Incentives

Following the economic crisis which prevailed in the country over the past years, and more specifically, the hyperinflation environment which occurred in the country, most people lost their savings in local currency, which was in banks. In addition, due to the banking crisis which happened from 2004, when some banks were closed, people lost their investments and deposits. Most people lost confidence with the banking sector. For instance, after ENG asset management failed to pay maturing deposits there was a drop in the proportion of deposits to GDP from 62.4% by end of 2003 to 25.8% in 2004 as clients withdrew their funds from the banking sector (Kanyenze, 2011). The situation was compounded in the multicurrency regime where banks are imposing high charges on bank transactions and maintenance of bank accounts while paying low interest on deposits. Poor people are now shunning the banking sector and they prefer cash based transactions. There is need for a strong campaign to change perception of the poor around the financial sector. One way would be to offer incentives on the financial products which target the poor. The weakness with the current initiatives, which are targeting the poor, is that the suppliers emphasis only on the advantages of using their products. Rather there are no incentives to lure the poor into demanding and using the products.

ii. Need for financial education

One fundamental issue that policy makers need to address is that of financial education among the poor. In the Indonesian Banking Architecture Framework, banks were required to craft annual business plans which include banking education activities that cover the benefits, risks, and fees of banking products as well as the rights and obligations of both the bank and customer. Financial education should also include dissemination of information regarding consumer protection and consumer rights in financial services consumption. Malaysia's central bank conducted outreach activities on rights and responsibilities of customers, targeting women, students, rural communities and pensioners who may be most vulnerable. In Zimbabwe, there is not much that is being done on consumer education on financial products. The major challenge is on the cost implications of such initiative. For individual institutions, there is reluctance to incur such costs since they regard it as the role of the regulator. Most poor people are not currently using financial products due to lack of information on availability and functionality of certain products. There are myths and misconceptions which poor people have about the financial institutions and there is need for extensive education in order to dispel such myths. Some of the myths on financial sector includes: banking is only for those who are employed; insurance is a business meant to steal money from the poor or it is difficult open a bank account in Zimbabwe.

iii. Cost of and access to financial service

One of the most important determinants for uptake of financial service is the cost of financial service. Most demanders of financial service are sensitive to cost of the service. Most people do not have bank accounts simply because they cannot afford the costs of maintaining those accounts and the cost of transacting using banking institutions. Banks have been accused of having very high charges on financial products like bank accounts where such charges such as monthly charges, withdrawal charges, and ledger charges are levied. In most cases, the charges overlap the interest income earned on deposit such that if one deposits some amount for a month, by the end of the month the amount of money one would be able to with draw will be less than the deposited amount. At some point in 2009, it was relatively cheaper for one to travel, as a way of transferring money from one point to the other (for example from Harare to Masvingo), than use the banking system to send the money. Most poor people require low cost accounts with minimal charges. In addition, access to the service also determine uptake of financial service. One challenge which financial service providers face is that of being able to set up branches in all areas. There are areas where it is not economically viable to set up branches and poor people shun such institutions as they would require more money to travel and get service at the nearest service point. Service providers need to come up with strategies of increasing their presence in such areas without necessarily setting up shop. Use of community bankers, agencies or collaboration with other financial institutions would be better options.

8.0 CHALLENGES IN IFD IN ZIMBABWE

Cost and Viability

Financial institutions are intermediaries between economic agents and they are in it as a business. The biggest challenge which financial institutions, especially banks, face in trying to reach out the poor is viability. There are areas where it is not viable even to set out community bankers or merchant as there is no sustainable business. It becomes difficult for banks to target the poor when it is not viable to do so. Even in situations where banks can extent microfinance service, viability is always key in determining the focus of institutions. Serving the poor is always associated with costs. Initially there are costs of establishing branch network in outlying area. While the advent of technology and community bankers and merchant may probably solve the problem, financial institutions still faces challenges of monitoring the poor. Urban clients are in areas of proximity to the institutions such that it is less costly to monitor them. The poor in marginalised and rural areas are far away, dispersed and it is costly for banks to make follow ups on loans given the distances. The dispersion of clients in rural areas also makes it difficult for institutions to identify central places for setting up community service centres. Information search cost also increases with distance of client from the service provider. It also becomes very challenging for banks to assess how certain shocks may spread and affect the rural and marginalized clients given the distances and spread.

Risk

Serving the poor is always regarded as a risky undertaking since most of the clients do not have security required for borrowing. Besides, where other services other than credit are being offered, the risk is on the sustainability of such service to the poor, especially in outlying areas. During information collection, we discovered that in Zimbabwe, banks are reluctant to loan out money to MFIs, as wholesale loans, for onward lending since they regard MFIs as competitors. However, the reality is that banks perceive MFIs as risky clients and they would rather lend to fellow banks which are well capitalized than risk by lending to MFIs. Risk of serving the poor also comes due to lack of symmetric information about the borrowers which may lead to moral hazard and adverse selection.

Regulation (secured lending), prudential supervision

Banks have to balance between lending to the poor who have no security and the legal requirement of secured lending. For banks, the regulator requires them to have minimum levels of secured lending, below which they are heavily penalised. Given that the poor, in some cases, do not have acceptable collateral security, or do not have it at all, it becomes challenging for institution to extend financial service, especially credit, to the poor. Most banks end up creating microfinance departments in their structures or establish stand-alone institutions which serve the poor as a way of dodging the regulatory constraints.

Lack of information about inclusive finance and the target market

One of the reasons why the poor and informal sector is left out in the financial sector is the lack of knowledge and understanding of the sector. Starting with the regulator itself, there is minimal understanding of financial models which suits the poor. This translates to low prioritisation of pro-poor policies. For example, it has been more than a year since the RBZ received first applications for Micro Finance Banks (MFB) and until now, it has not issued any licence. In addition, the RBZ erred when it took over regulation on non-deposit taking MFIs. The Central Banks seem not to understand the clear operating dynamics of microfinance. Lack of understanding is also evident within financial institutions like banks. Even in situation where the bank has a microfinance department or has pro-poor products, some senior management still lack appreciation of the role of such departments or products not only in promoting IFD but in the business of the company. It was highlighted during interviews with stakeholders that staff members who administer pro-poor products and their clients are looked down upon by fellow staff members in other departments. At one commercial bank, it was mentioned that some staff members in other departments perceive microfinance as a corporate social responsibility undertaking by the bank.

It is unfortunate to note the currently Zimbabwe has no a Microfinance Act, or an SME Act which are integral in promoting IFD. The riskiness of the poor clients will be partly addressed when outlying legislation which regulates institutions that lend to the poor exists. On the other hand, institutions are reluctant to lend to the informal sector due to lack of symmetric information about the operations of the sector. Asymmetric information creates the problem of adverse selection where banks may end up lending to risky/bad clients because they do not have enough information to make an assessment. As such banks would rather deal with more organised sectors than target the poor. This problem in not limited to banks alone, even insurance companies, for both property and health insurance, face challenges in accessing adequate information for making optimal decisions. In the end, they would leave out those clients whom they cannot monitor in order to minimise their exposure or charge high premiums to compensate for the risks involved.

Acceptance/ Market perception

This challenge is related to that of lack of understanding of IFD. Rather, once the market does not fully understand a particular concept, there is bound to be misconception about the whole idea and at the end perceptions can even sway policy. There is wrong perception in the market about some of the institutions which serve the poor. For example, MFIs are regarded as loan sharks, who are after making quick profits by charging very high interest rates. Even during the period of economic decline, especially when there was shortage of local notes and foreign currency, the RBZ had a perception that MFIs were the hub of all illegal foreign (and local) currency dealings. The Central Bank then pushed for the change in regulation to have MFIs licensed and regulated by the Bank and it subsequently introduced stringent registration requirements.

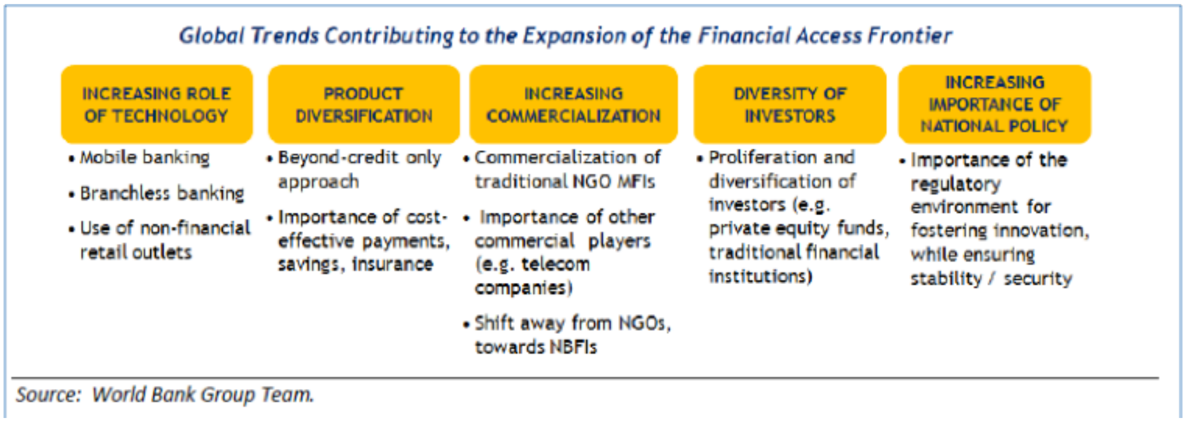
In the financial sector, the poor perceive insurance as a business to swindle people's incomes without fair compensation. Most people complain that health insurance companies do not treat them fairly when they are required to pay additional money (short falls) when seeking medical assistance. There is also wrong thinking that banks do not serve the interest of the poor and in most cases if a bank reaches out to the poor, it is normally treated with a lot of skepticism since traditionally banks are perceived to be there for non-poor people.

Lack of Confidence with the Financial Sector
Majority of the poor and marginalized people lost confidence with the financial sector, especially the banks, during and after the economic decline period. Most people lost their savings and are currently shunning banks when conducting financial transaction. The major reason is that the hyperinflation disproportionately affected the people in Zimbabwe and the worst affected were the rural poor and marginalised who could not invest in alternative assets or instruments which could preserve value. The economic decline also contracted per capita and disposables incomes of individuals. The immediate human reaction, especially in the multicurrency period, to the rapid contraction of the economy, was to avoid transacting using the formal channels due to high charges and the fear that their bank balances may just be converted into another currency before they can withdraw their money.

9.0 OPTION AND STRATEGIES

According to Makina (2010) an inclusive financial system is designed from recognition that the massive number of excluded people will gain access only if financial services for the poor are integrated into all three levels of the financial system: micro, meso, and macro levels (CGAP, 2006). There are three levels through which intervention for financial inclusion can be made. Micro level interventions involve defining marginalised clients and the service providers. For a financial system to be inclusive, it should meet the needs of everyone including the poor. Poor people need a variety of services that include insurance, remittances and transfer, pensions, loans for emergency needs, microenterprise loans and safe places to save. Meso level interventions are about building financial infrastructure and associated systems. Financial infrastructure refers to the payments and clearing systems that allow the transfer of money among participating financial institutions. Macro level interventions are to do with the role of government in building inclusive financial systems. Stein (2010) noted the increasing role of technology in the distribution of financial services, greater product diversification beyond the credit-only approach, increasing commercialization, widening range of players investing in financial inclusion and increasing importance of policy environments in improving financial inclusion (figure 9).

Figure 9: Global Trends shifting the Financial Inclusion Frontier Forward



Source: Stein 2010

9.1 Options

9.1.1 Community Anchored: Bottom-up approach

Under this option, inclusive finance would start from the community and be developed until it integrates with the formal financial system. There is need to get into communities, identify their financial needs and assess the possibility of satisfying the needs with local capacity. Currently in the rural areas, there are financial products which are being offered, albeit informally. For example, most people in these areas are members of burial societies. These societies raise money from members and provide funeral assistance when a member dies. Some association have grown to levels where they would sell or rent out some of their products to non-members and other associations. Products like coffins are normally sold while people can rent out equipment like digging tools, catering services or cooking utensils. There is a lot financial innovation in the rural areas especially after the introduction of the multicurrency system when people want to finance survival. In the rural areas, there are a lot of ROSCAs and Accumulating Savings and Credit Association (ASCA), among friends and relatives. All these are financial products which could be developed into commercial products or fine-tuned to remove some structural and operational rigidity which normally are associated with non-commercial service. The multicurrency system has pushed most rural and marginalised to demand economic value from any assets or any services rendered. What needs to be done is to gradually commercialise transactions in line with formal financial transacting practices. Once people have confidence in the system, then these financial products would be integrated with the formal financial system. Fundamentally, there is need for re- establishment of community savings clubs which used to exist in the late 80s.

Diaspora remittances, where families are receiving funds from their relatives in other countries, have also brought renewed economic and financial activity in rural areas. Given the multicurrency system, most receipts are in the source country currency and the families are forced to change their funds into the easily acceptable US dollars. The moving exchanges rates between different currencies provide exchange losses or gains and most people in the rural areas are now following market development in order to avoid losses or to benefit from possible arbitrage gains. There are now foreign exchange centres, mostly shops, supermarkets or schools and individuals who are into exchanging of currencies in the rural areas. Once proper research has been done to establish the extent and viability of such ventures, there could be possibilities of commercialising such transactions or services.

It is critical at this point to note that this option requires Government and Donors' assistance, especially at the development stage where a lot of education and free financial advice is needed. There is need for a lot of advocacy in the communities on the need to embrace proper financial transacting principles in their trading. Examples of the community based financial initiatives in other countries include:
Village Savings and Loan Association (VSLA): this is one model of Community-Based Financial Organizations (CBFOs), which basically, are user- owned and -operated groups that provide mainly saving and lending services but may also offer other financial services such as insurance. Started in Niger by CARE International in 1991, the VSLA adopted lessons from the efforts of poor local women to save in this large, poor, sparsely populated country. Since then, CARE and other nonprofit development agencies have spread the model to 39 countries, the vast majority in Africa. VSLA groups, consisting of between 10 and 30 members, have simple rules that govern their savings and lending activities. Each member saves on a regular basis, and this money is then lent out at an interest rate and on loan terms decided by the group. The model enables all members to receive a lump sum on the same date, often one that coincides with most members' need for funds, such as an annual festival, the start of the planting season, or the date that school fees must be paid (Ritchie, A, 2010).

Rural and Community Banks (i.e in Ghana): The first RCB was established in a farming community in the Central region of Ghana in 1976. Several others were established in rapid succession, and by 1984 the number of RCBs reached 106. The Government of Ghana, with the support of the World Bank and other donors, implemented a follow-up project—the Rural Financial Services Project—between 2001 and 2007 to help further strengthen the RCBs. This project provided extensive training to RCBs and supported the establishment and strengthening of the Association of Rural Banks (ARB) Apex Bank, as a bank to the RCBs (Nair. A and Azeb. F, 2010).

9.1.2 Microfinance Anchored IFD: Middle of the Road

This option involves anchoring IFD on microfinance. Microfinance is a wide financial service which can be provided by most financial institutions across the financial system. In Zimbabwe, microfinance service is provided through commercial banks, building societies, MFIs, MLIs, Government owned DFIs and NGOs. The most important thing to do is to first adopt the microfinance- driven IFD strategy and craft policies and legislation to support the strategy. There is need for laws and policies which support development of microfinance, which legislate provision of the service by different players, which structure the microfinance service providers through the tier system and also which harmonise the current legislation with the new legislation in order to enhance development of microfinance. As stated before, microfinance service has the advantages of being able to be offered by a wide range of financial institutions, to be customised to suit the targeted market and to reach out to a number of clients including those in marginalised areas.

9.1.3 Commercial Bank Driven: Top-to –Bottom Approach

IFD can be driven by the formal financial system players like commercial banks. This approach requires deliberate shift in the strategy for growing the financial system. Once banks are the anchor of IFD, there would be need, firstly for reviewing of legislation to incorporate the new role to be played by banks. For example, there will be need to review the Banking Act to incorporate microfinance products and other pro-poor services within the banking services products. This will be done in view of the current prudential lending requirements which banks must adhere to. Commercial banks have the capacity to expand operations to the outlying areas and have the funds to lend out. There, however, should be a balance between provision of financial service in remotest areas and viability of having new branches. According to Sen (2010), it is possible for policy-makers to require financial institutions by government regulation to open branches in remote regions of the country, so that the poor can access these branches. However, if such government intervention leads to the creation of unviable branch expansion that in itself impedes the development of the banking system in the country or the efficiency of financial intermediation, such an attempt to bring about financial inclusion may not necessarily lead to inclusive financial development. It may have negative effects on economic growth, and hence, on poverty reduction.

The option of using banks in promoting IFD is acknowledged the world over. In the South Pacific, the governors of five central banks in the region recently recognized that it is not possible for the handful of small, specialized, non-bank institutions operating there to serve three quarters of the population which is financially excluded, but that the whole financial system needs to better serve the needs of the poor, starting with the existing formal banking offerings. In India, Indonesia, and Egypt, banks are expected to be the backbone of a system that reaches the poorest. In India, banks were been advised by the regulator to self-set financial inclusion plans and seek approval for these plans at the board level. Regulators are seeing that financial inclusion is in part a distribution issue and often stipulate loosening licensing requirements for opening new bank branches as a step towards facilitating the outreach of banks to otherwise expensive to reach areas. In Pakistan the revision and liberalization of the branch licensing policy of the State Bank of Pakistan will facilitate outreach by allowing banks to make their branch housing decisions within broad policy parameters. Kenya, in addition to the successful regulatory openings for mobile payments, is also exploring the revision of branching requirements towards making use of banking agents. Banks are also extending their outreach through the use of technology such as mobile phones and correspondents (AFI, 2010).

9.2 Strategies

There are many strategies which could be pursed in order push the financial sector to pursue inclusive financial development. These are discussed below:

9.2.1 Use of Technology in Financial Service

One avenue through which banks and other financial institutions can penetrate into the rural and marginalised areas is through use of technology. Given the rate at which technology, especially mobile telephony, is penetrating into the poor and rural areas, it becomes a better platform through which inclusive financial development can be driven. Latest statistics indicate that 59 in every 100 people in Zimbabwe have a cell phone. Given the developments in the mobile network industry where the mobile network operators have developed financial products on their networks, it gives an urge in the drive towards IFD. What is required is total support from Government (through good polices and regulation), customers and the service providers themselves. Perhaps the most commonly cited case study of the ability of branchless banking to transform the financial realities of a population is the case of M-PESA, a mobile money service offered by Safaricom in Kenya. The service is very popular: as of April 2010, 9 million Kenyans (40% of the population) own an M-Pesa account. According to a 2009 CGAP brief, 77% of survey respondents believe that M-Pesa has raised their household income. Indeed, data shows that money is remitted significantly more frequently and at lower cost as compared to traditional options. Furthermore, since M-Pesa's launch, the number of Kenyans considered financially included has almost doubled.

In Zimbabwe, most banks are introducing technology backed products in order to reach out their clients. Other institutions are coming up with products which target the poor through the use of technology. For example, Kingdom Bank's Cell Card and Tetrad Bank's e-mali card products which are targeted for the low income people. Banks need to come up with more pro-poor products which could be offered through mobile phones. Generally, use of technology in financial service, particularly banking, has a lot of advantages. To financial service providers it brings opportunity to bank the unbanked, inexpensive infrastructure leading to easy rollout, provide geographic footprint of financial services, enables merging of mobile phone network and banking technology and integration of multiple systems into one and is scalable and fully fledged for high volume low value transactions. In addition, technology brings cost and allocative efficiency as well as increasing market penetration on part of financial service providers. To financial users, use to technology in banking brings low cost, affordable and convenient banking service.

9.2.2 Use of Community Financial Agencies and Merchants.

Technology is an enabler in the whole financial inclusion strategy, what is required is a clear strategy which ropes in the poor, riding on technology. One such strategy is the use of financial agencies. These are non-bank institutions which are used as channels for offering easy access to financial products. These could be in form of supermarkets, pharmacies, restaurants, lodges and even health centres. The idea is to target those institutions which are in the marginalised areas where it is not viable for banks to set up branches. This is one of the concepts used by most banks, though it is highly confined in urban areas, and is done for the convenience of their urban clients. The financial sector needs to learn or borrow from the health sector which has community health workers in the rural areas who specialise in provision of basic health information and distribution of health products. The same is with agriculture which also has rural agriculture extension officers who moves around advising farmers on best farming practice. The use of community banking agents is not new in banking services. Table 8 below shows some of the countries which already have community banking agents. The numbers of agents is a reflection of the depth and development of use of community bankers and movement towards inclusive finance in such countries.

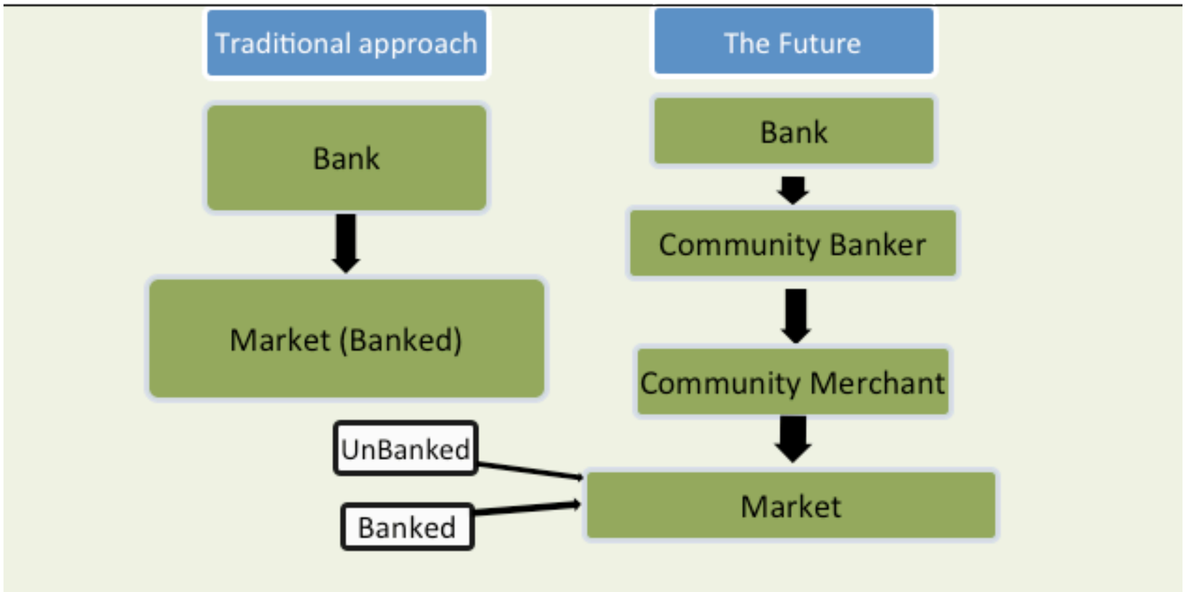
Table 8: Banking Agents in Different Countries

Country	Provider	Number of Agents
Brazil	Banco De Brasil	15,300
	Bradesco (Inclu Banc Postal)	24,200
	Caixa Economica	15,200
India	FINO	10,000
Kenya	MPESA	20,500
Pakistan	Easypaisa	10,500
Phillipines	GCash	18,000
Zimbabwe	CellCard (kingdom)	247

Source: Kingdom Bank

The rationale for using community agents is to disaggregate financial services. For example in banking, rather than establishing a branch, banks can simply deploy a cell phone, a community banker or a community merchant to distribute its products and reach out in marginalized areas. The key benefits of such an approach includes low cost, accessibility, no sophistication of financial service, and empowering local communities in both provision and availing of financial products. Below is a flow chart which compares the traditional banking approach and the banking approach which utilized community bankers and merchants.

Figure 10: The Future of Banking



Source: Kingdom Bank

9.2.3 Promoting Rural Agriculture Financing

Generally agriculture is the dominant economic activity in most marginalised and outlying areas. In Zimbabwe there are some dry marginalised areas like Gokwe and Chipinge which are known for producing cash crops like cotton. In some areas, irrigation development has transformed the areas into productive zones. Contract farming is one of the most successful agri- financing model in Zimbabwe. In cotton, it most target small scale and rural producers. Contract farming is now popular in tobacco, sorghum and maize seed farming to small holder farmers in resettlement and communal areas. Increasing funding to rural agriculture will increase economic activity in most outlying areas and this translates into increased incomes at household level. Once incomes are boosted, then demand for financial products increases. Besides, as companies contract farmers, they require services of financial institutions closer to the growing areas and in most cases, the big companies pull with them the financial institutions. The development of Gokwe or Mutoko came through agriculture and more importantly support of rural agriculture.

9.2.4 Supporting Policies and Regulation

The role of regulators and policy makers is very important in financial systems. They create policy frameworks and regulation which support financial inclusion. In Zimbabwe the current financial regulations and policies are not very flexible for financial institutions to be pro-poor. There is need for regulators to come up with supportive policies which promote the financial development which is pro-poor. Reserve Bank of Zimbabwe, in its financial inclusion framework, proposed the following policy changes that the regulator would implement in order to facilitate inclusive financial development:

a) Policies that facilitate expansion and outreach of established developmental financial institutions such as People's Own Savings Bank (POSB), ZIMPOST and Agribank,
b) Expanding the outreach of established commercial banks and building societies;
c) Enhancing provision of microfinance services through establishment of microfinance banks (MFI Banks) or Financial Inclusion Centres (FICs).
d) Provision of appropriate incentives to financial institutions engaged in rural banking; and
e) Engaging other stakeholders to facilitate the provision of other incentives.

A number of countries introduced financial reforms in a bid to force the financial sector to adopt financial inclusion strategies in their plan. Some of them include:

- The Bank of Thailand, which emphasizes the importance of financial inclusion in its second Financial Sector Master Plan. The Bank entered discussions with the commercial banks on business models that can help to reach the rural poor.
- At the heart of Kenya's strategy to grow into middle-income country within the next decade is the plan to bring millions of people into the formal financial system. This national objective, stewarded by the Kenyan central bank, helps to guide and prioritize a range of activities from public, private, and non-profit sector players.
- The Superintendence of Peru has adopted financial inclusion as a cross-cutting priority for the whole institution, creating specific working groups in each department to enhance their performance from the perspective of financial inclusion.
- Malaysia's Financial Sector Master Plan includes meeting socioeconomic objectives such as improving access to financing for priority sectors (such as SMEs and Agriculture), providing advisory services to small borrowers, and providing banking services to non-urban areas.
- The Reserve Bank of India undertook the following reforms in order to boost financial inclusion.

i. In November 2005, banks were advised to make available a basic banking 'no-frills' account with low or nil minimum stipulated balances as well as charges to expand the outreach of such accounts to vast sections of the population. Several banks have since introduced such 'no-frills' accounts with and without value-added features.
ii. In order to ensure that persons belonging to low income group, both in urban and rural areas do not encounter difficulties in opening bank accounts owing to procedural hassles, the know your customer (KYC) procedures for opening accounts were simplified.
iii. The Reserve Bank directed banks to make available all printed material used by retail customers in English, Hindi and concerned regional languages.
iv. In January 2006, banks were permitted to utilise the services of non-governmental organisations (NGOs/SHGs), micro-finance institutions and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models.

v. Credit card (GCC) schemes were simplified to enable customers' access credit on simplified terms and conditions, without insistence on security, purpose or end-use of credit.

vi. The Reserve Bank considers that IT-enabled services can meet the challenges which need to be addressed for increasing the scope and coverage of financial inclusion such as lack of adequate infrastructure, higher transaction costs and low volumes of transactions (Mohan, 2006)

9.2.5 Provide Information about Inclusive Finance.

As stated before, one of the reasons why the poor and informal sector is left out in the financial sector is the lack of knowledge and understanding of the sector. What is required is extensive education, starting at the regulator level down to the financial service users, to improve understanding and appreciation of inclusive finance. The RBZ sounds to be passionate about inclusive finance but the policies in place do not complement their pronouncements. On one hand, it encourages banks to reach out to marginalised areas and informal sector yet on the other hand, it is not promoting formation of institutions whose primary market is the poor and informal sector. There is need for a lot of lobbying and advocacy by MFI associations and other interest groups on the need for Government to prioritise formulation of regulation which promotes IFD. It is unfortunate to note that currently Zimbabwe has no Microfinance Act, or an SME Act which are integral in informing activity of inclusive finance. On the other hand, there is need to educate the informal sector or the poor on the importance of information in financial decisions. Banks shun the poor and the informal sector because of lack of information. Intensive lobbying and advocacy is required for the generality of people to understand the importance of keeping records and having adequate information when seeking financial assistance. Once informal traders have proper records, and can provide all the required information, banks can always lend to them under the avenue of microfinance or SME banking. One measure which can be taken to increase information availability to banks is creation of centralised credit bureaus. There is need even for MFIs and MFBs to have centralised credit bureaus like the one used by commercial banks in order to vet their clients. Currently ZAMFI is playing this role of a credit bureau on behalf of its members though it just keeps a database of blacklisted borrowers only. It indicated that plans are at advanced stages to set up MFI credit bureau. Creating credit registry where lenders share information about their clients' repayment records would be useful because past performance on obtained credit is important collateral in obtaining a loan. Reducing costs of registering and repossessing collateral is also crucial (PRR, 2006).

9.2.6 Savings as a Cornerstone

One undisputed fact is that in Zimbabwe, the generality of people want to save for their future. Until the economic collapse from 2006-2008, most people had investment in different financial products which were meant to finance future expenditures. Savings were in form of pensions, stocks, properties, unit trust and many more. Zimbabweans generally have a culture of saving but are currently being discouraged from saving by lack of incentives. For example, if one deposits money in a bank, the interest earned is always less than the bank charges and at the end one would withdraw less than the deposited amount. What is fundamental is the need to promote savings, more importantly among the poor. According to Basu Yulek and Blavy (2004), the poor value the availability of liquid and secure financial vehicles for savings for three main reasons. Firstly, such savings help the poor to smooth their consumption expenditures between lean and peak seasonal activities like farming, and provide a cushion against income fluctuations caused by exogenous shocks. Secondly, savings could be used to start of production processes, and self-finance future investments. Third, saving deposits also provide a convenient vehicle for setting aside money for such costly future social events as weddings, children's education, and funerals. It is widely recognized by developing country policymakers that helping the poor accumulate savings in a safe and accessible way can reduce vulnerability and open doors for future opportunities relating to business, social obligations, or education. Russia, for example, put a set target of engaging 50% of the population that is currently unbanked in savings activities at the core of its strategy for economic growth and development. For regulators, the significant concern remains the need to prudentially regulate any institutions that offer savings facilities and intermediate funds. There are several avenues through which policymakers are looking to encourage savings. One is to graduate microfinance institutions into deposit taking entities as described above. This has also happened in Cambodia, and in Tanzania under a reviewed microfinance regulations in 2005. Introduction of low cost bank accounts offered by commercial banks and targeted specifically at low-income clients is another channel identified towards increasing savings. Indonesia launched 'TabunganKu' (MySaving), a national, low admission-no fee saving scheme offered through 70 commercial banks and more than 700 rural banks to reach approximately 80 million un-banked adults. Accounts were opened with a low minimum balance and no maintenance/administrative fees on active accounts. When outlining their strategy for promoting savings in Russia, policymakers cited the need for complimentary activities relating to financial education to ensure its success (AFI, 2010). In Zimbabwe, savings in rural and marginalised areas can be encouraged through SACCOs. SACCOs have advantages of being member driven and it becomes easy for people to have confidence in it. The SACCOs would then be linked with the formal financial system.

9.2.7 Need for Government and Donor Funding

Reaching out to the poor and the informal sector in outlying areas requires strong Government and Donor funding. At times it is not sustainable to serve in the marginalised areas given the seasonality of incomes in such areas. It therefore requires institutions to get cheap or 'free' funds to pioneer such initiatives. Reaching out to the poor should be done the same way microfinance was introduced in most countries where there was high involvement of both government and donors. Government and Donors funds will be used for capacity building among the poor entrepreneurs, financial education and development of financial infrastructure. Currently, most donors reach the outlying areas with humanitarian assistance and equipment loans. One problem which direct donor assistance has created is donor dependence. Most people are no longer enterprising since they are assured of receiving handouts from donors, which in some cases cover beyond food aid. It would be prudent if sustainability of such assistance is build. Suggestions from stakeholders include that donors channel some of the money they use to offer assistance to the poor through banks. Banks would then be compelled to finance projects, build capacity, manage that business and guarantee continuity in the post donor era. That way, banks would not initially incur sunk and set up costs but would be building relationship with the beneficiaries and at the same time introducing financial service in such areas. At the end financial service would gradually penetrate into the marginalised areas.

9.2.8 Promoting Financial Innovation

Extending outreach of financial services to the un-banked and underserved areas in a cost effective manner is a major step towards poverty alleviation. Emerging progress in information and communication technology and its widespread usage offers a tremendous opportunity to achieve this goal by making available non-traditional ways of providing financial services. Given that people residing in rural areas generally find it difficult to visit bank branches due to the incurrence of high travel and transaction costs, appropriate mechanisms have to be devised for banks to reach out to a large cross-section of the un-banked population. This can be done through a variety of devices such as weekly banking, mobile branch banking, satellite offices, rural ATMs and post offices. As a regulator, the role of the Central Bank is to provide an enabling environment in which the risks associated with such products and service innovations can be appropriately balanced with the benefits of using these new channels, and where new technologies are put to use on the efficient frontiers of the risk-return trade-off. Innovation should be promoted in order to facilitate:

i. Provision of diversified products beyond micro-credit, such as remittances, micro-insurance, savings accounts and other financial instruments are needed to expand financial access.
ii. Simplify provision and access to financial service through development of mobile branch banking and branchless banking
iii. Establishment of credit information bureau and credit rating mechanism

In order to promote innovation, SMART Subsidies which include crowding-in investment through Credit Guarantee Scheme for SMEs and Start-up subsidies for innovation are required. The market requires testing of innovative products and technologies and delivery channels that are lower costs and more suited to clients' needs. However, due to information asymmetries, high risks and limited investment capital, financial institutions do not undertake high cost innovation. One way to address the challenge is to create a Financial Innovation Fund. The Financial Innovation Challenge Fund provides matching grants as well as staff trainings for introducing new innovations. The fund will be designed to stimulate innovation and information sharing about profitable business models for widening access to financial services. The fund will also encourage partnerships between MFBs, NGOs and other private sector actors to promote business development and non-financial services. Smart subsidies are justified since innovations take time to create economies of scale.

9.2.9 Promoting Economic Activity in Marginalised Areas

Given the bi-directional relationship between economic growth and financial development, Government either can adopt options which first drive economic growth (development) that will the foresters financial development or adopt options which enhances financial development that would spur economic growth. In as much as the study is focusing on pursuit of inclusive financial development for economic growth (the former options) it is critical to just highlight one very important strategy which is very critical for inclusive financial development. Financial service is an enabler in economic activity and its demand is driven by the level of economic transaction in a particular area. While the suggested strategies and options are silent on the level of economic transactions in marginalised areas, there is need to consider them. Mere implementation of the said policies may not bring sustainable provision of low cost financial service.

The distribution of economic activity in Zimbabwe has gradually shifted due to, and not entirely, the land reform program, discovery natural resources, climatic changes and to some extent economic developments. There are some areas in the country which used to be hubs of agriculture activity which are no longer into agriculture. On the contrary, there are some areas which used to be dormant in agriculture, which are now very active in agriculture activity. For example, there is a significant growth in the number of indigenous farmers who are now into cash crop farming like tobacco, and soya beans. This increase also reflects increase in demand for financial services and other economic transactions. In such areas, it is now more viable for financial institutions to move in since there is marked increase in the demand of their products. On the contrary there are some areas which have witness low economic activity like drought prone areas like Masvingo and Matabeleland regions. What is needed is to have deliberate policies which promote economic activity in those areas. The activities must be in line with the comparative and competitive advantages of these areas. Once economic activity peaks, demand for financial service will follow. This is in line with the policy of decentralisation of development which the Government adopted when it promoted establishment and development of Growth Points. Currently, a number of such Growth Points are now served by established commercial banks owning to increasing economic activity. The Government need to identify more rural service centres, and transform them into Growth Points and existing big Growth points are may need to be transformed into small towns.

After a decade of economic decline, the government must work on strategies of transforming the economy out of the current trap. Since 2009, the economy managed to register positive growth; however, this growth may not be sustainable in future unless there is massive infrastructure rebuilding. The current growth is perhaps an indication self-correction of the economy to reach levels which can be supported by the current infrastructure. The deterioration and obsoleteness of existing infrastructure and the high cost of maintaining it has posed threats to the current economic growth. As such strategies of how to come out of the current situation would facilitate inclusive financial development since economic growth brings with it financial development.

9.2.10 Other Strategies

This research would not be complete without mentioning some of the more generic strategies which are used in some countries and are commonly cited in most research work. Table below gives a run-down of these and other strategies as suggested by various researchers.

Table 9: Strategies for Financial Sector Recovery and Inclusive Growth

Author	Strategy
Kanyenze, etal (2011)	Maintenance of political and macroeconomic stability; Infrastructure rehabilitation and development; Development of legal and information –sharing frameworks; Encourage expansion of branch networks; Promote affordable bank accounts; Promotion of access to credit; Promotion of alternative delivery channels and Consumer protection
The UN Blue Book (2006)	The *Blue Book* recommends that a strategy for financial inclusion should be an integral component of a country's financial sector development plan in order to contribute towards achieving the Millennium Development Goals (MDGs). Key stakeholders within each country should build a common vision of inclusive finance and address three specific areas of concern, namely, how to integrate microfinance into the broader financial sector; how to cater for the distinctive characteristics of microfinance; and how to focus on properly meeting the needs of poor and low income customers. Furthermore, the *Blue Book* recommends that policy-makers should complement efforts towards financial inclusion by doing the following: • Giving priority to those elements of the financial infrastructure that are essential in managing risk and reducing transaction costs, e.g., credit bureaux and information technology; • Supporting the establishment of guarantee funds for correcting market failure, especially with respect to microfinance; and • Providing avenues for MFIs to link into the infrastructure serving the major financial institutions.
Makina (2009)	Macroeconomic environment; Fixing the legal and regulatory environment; Recapitalizing banks, consolidation and restoring confidence; Promoting innovative agricultural financing models; Restructuring the POSB; Improving credit information infrastructure and Capital market reforms
Sen (2010)	Policy-makers need to encourage microfinance institutions which are particularly able to reach out to the poorest of households and smallest of enterprises. • There needs to a balance between onerous regulations and strict accountancy standards that microfinance institutions may find difficult to meet and the absence of regulations and an enabling environment for such institutions which may not allow such institutions to develop financial practices up to professional standards and minimum lending criteria. • The use of public networks such as postal services should be encouraged for the delivery of social transfers and social protection schemes to provide poor rural households experience in handling financial transactions through these networks and gradually bring them into the formal financial sector. • Credit infrastructure should be improved so that banks and other financial intermediaries have access to information on past borrowing of poor households and a credit history can be built up for these households. • Legal institutions should be reformed and property rights in land and property be well-defined so that households with some land or property are able to access credit using these assets as collateral. • Finally, policy-makers should encourage financial innovation that favours the poor.

10.0 CONCLUSION

This research establishes the option and strategies of pursing inclusive financial development which promote economic growth. The Zimbabwe economy is highly informalised and is reeling with liquidity challenges amid indications that there is about USD$3 billion in the informal sector. The majority of Zimbabweans are not included in the formal financial sector. The following are some of the potions which the government can adopt in order to incorporate the financially excluded: Community anchored IFD: bottom-up approach, Microfinance anchored IFD: Middle of the road and Commercial bank driven IFD: top-to –bottom approach. In terms of strategy the government can pursue the following : use of technology in financial service; use of community financial agencies and merchants; promoting rural agriculture financing; supporting policies and regulation;, provide information about inclusive finance, promote savings among the poor, need for Government and donor funding, promoting financial innovation and promoting economic activity in marginalised areas. Deepening and widening the financial sector such that it both increases in size and scope and providing increasing access to poor households and small and micro-enterprises must be a key priority for the Government and the RBZ. For this to happen, policy-makers must encourage both the development of the financial system and its inclusivity. Policies that bring about synergies between the two objectives should be emphasised over and above policies that may contribute to the attainment of one objective at the cost of another. Both financial development and its inclusivity are essential for achievement of the MDGs in developing countries (Sen (2010).

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APPENDICES

Appendix 1: Inclusive Financial Sector Development Polices in Selected Countries

Country	Government Action
Zambia	Financial Sector Development Plan for Zambia (2004) The Financial Sector Development Plan (FSDP) (2004-2009), approved by the Zambian cabinet in June 2004, is aimed at achieving a financial system that is sound, stable, and market-based, supporting efficient resource mobilization necessary for economic diversification, sustainable growth and poverty reduction. The Financial Sector Development Plan aims to address the following issues: (1) low financial intermediation; (2) poor credit culture in the market; (3) the multiple and potentially conflicting roles of the government in the financial sector; (4) the weak regulatory framework for non-bank financial institutions, insurance and pension funds; (5) the undeveloped capital market; (6) the lack of long-term development and housing finance; and (7) the limited number of monetary policy instruments. Following the collapse of most of the subsidized and publicly funded rural finance institutions in the mid-1990s, there has been a gap in the provision of financial services to low-income households in the rural and peri-urban areas. To address this gap, the Bank of Zambia is working on the development of a regulatory framework for MFIs which would follow the finalization of the FSDP. The FSDP provides recommendations for increasing the provision of financial services to the rural and peri-urban areas. The development of a microfinance policy is seen as a critical tool to set guiding principles. It would also allow the government to attain overall financial system stability and smooth integration of microfinance into the mainstream financial system over time. *Source: Bank of Zambia at www.boz.zm.*
Bolivia	New Economic Policy (1985) The Bolivian government did not establish an explicit microfinance policy, but created the necessary conditions in 1985 with its New Economic Policy, which liberalized the financial sector, unified the exchange rate, and imposed strict monetary and fiscal policies. The reforms included measures that allowed the successful launch of microfinance operations in Bolivia: liberalizing interest rates, eliminating directed credits, closing state banks and weak private sector banks, and strengthening the Superintendence of Banks. *Sources: Gomez et al., 2002; Rhyne, 2001.*

Cambodia	Financial Sector Blueprint In July 2001, the Cambodian government announced its Financial Sector Blueprint for 2001–2010. In this Blueprint, the government addressed the need to exert coherent and systematic efforts to develop a sound, market-based financial system to support increased investment and high and sustainable economic growth rates. Under the guidance of a long-term development strategy, the Blueprint detailed a sector development strategy and policy reform agenda for the banking sector, the insurance sector, the pension system, non-bank financial institutions, inter-bank/money markets, capital markets, and the financial market infrastructure. It explicitly notes the legal and public administration reforms targeted within the Governance Action Plan and poverty reduction, the primary development goal of the Socioeconomic Development Plan (2001–2005). The sector development plan considers the interrelationship of (i) human and institutional capacity building, (ii) developments in related financial infrastructure, (iii) the establishment of a legal and regulatory framework, (iv) the emergence of relevant financial markets, and (v) the availability of technology. The Financial Sector Blueprint views microfinance and rural finance as a fundamental part of the vision for the development of the banking sector. Within the banking sector, the Blueprint explicitly envisions (i) a competitive, integrated, and efficient banking system that is properly regulated and supervised and effectively mobilizes savings to provide financing to support the growth of the private sector, a reliable payment system and banking safety nets; and (ii) a viable, pro-poor and effective rural finance system for providing affordable financial services to enable the poor to enhance rural income and reduce poverty (Financial Sector Blueprint, 2001, p. iii). *Source: Financial Sector Blueprint, Kingdom of Cambodia, 2001*.
South Africa's	Financial Sector Charter In, South Africa, 15 .8 million people aged over 16 were unbanked in 2006. Of these, about 88 per cent are black, 93 per cent ear n less than R. 1,000 a month, 46 per cent are unemployed and 42 per cent live in rural areas (FinScope, 2004). There was an urgent need to draw them into the financial system to help improve their economic prospects and social stability in the country and to enhance growth in the economy as a whole. In August 2002, many participants in the financial sector and civil society of South Africa agreed at the Financial Sector Summit organized by the National Economic Development and Labour Council (a government forum for dialogue with business, labour and community groups) on the need to extend banking and other financial services to the unbanked. Representatives of the financial sector and the Association for Black Securities and Investment Professionals started negotiating a Black Economic Empowerment (BEE) transformation charter for the financial sector. The result was the Financial Sector Charter (FSC), which established targets in a range of areas. It was signed in October 2003 by 10 financial industry associations and came into effect on January 2004. The charter addresses broad BEE issues of ownership, management and procurement, as well as the vital issue of access to a range of appropriate financial services and products. It established targets that participating financial institutions agreed to reach and a point scheme to measure progress toward the targets. Access,

	which counts for 18 of the 100 points institutions must earn to meet their targets, includes first order transaction accounts; savings products and services; credit for low -income housing, financing agricultural development or establishing or expanding black small, medium and micro-enterprises; and insurance products and services to mitigate risk . The response from various stakeholders was largely positive. In terms of access, the major banks started to implement their FSC commitments by offering a low cost basic bank account, Mzansi, in October 2004. The response from customers was overwhelmingly positive. By May 2004, the banks had opened one million Mzansi accounts (although some of these reflect funds shifted from other accounts rather than new customers). The date by which FSC targets must be met is 31 December 2014. There will be a review in 2008. For banking, the target for the 2008 review is that 80 per cent of the target population must have "effective access." The sector is also required to donate 0.2 per cent of its post-tax operating profits for consumer education. For additional information about progress in implementing the FSC see www .banking .or g .za/documents/2004/MARCH/Progress Fin Charter .asp . *Source: prepared by Fin Mark Trust*

Source UN (2006) The Blue Book

Appendix 2: Key Institutions Driving Microfinance in Zimbabwe

Institution	Comment
CBZ,	CBZ is a commercial bank with significant state-ownership, launched its 'Credit for the Informal Sector Project' (CRISP) in conjunction with CARE International in 1995. The objective of the project was to increase incomes and create jobs through improving access to credit for informal micro- business located in the urban areas. By 2000, CBZ's microfinance loan portfolio totalled US$32 million with over 3,000 active clients, and it expected to have served 7,500 clients and to disbursed 20,000 loans by the end of 2005.
Pundutso	Pundutso Microfinance Company is one of the leading microfinance service providers in Zimbabwe and developed out of a World Vision project. It was established in 1998 and, by 2002, it had reached 91% operational self-sufficiency; but at that point things started to decline. By year-end 2008, it served some 7,138 clients. It has been seeking to keep itself going despite the harsh macro-economic environment by venturing into new initiatives. For instance, in 2003, it launched a pilot initiative based on the ASCA methodology seeking to reach a poorer market segment than its other microfinance clients. The pilot covered the informal settlements of Hatcliff Extension (outside Borrowdale), Porta Farm and Casa Banana (on the Harare – Norton road). In 2005, Pundutso took over the running of the Habitat for Humanity Zimbabwe program that built 901 houses in 7 provinces.

Zambuko	Zambuko Trust was started in the early 1990s by a group of Zimbabwean business, community, and church leaders as a dedicated MFI, whose services included individual, group and trust-fund loans to micro entrepreneurs. Zambuko seeks to transform the lives of the underprivileged in Zimbabwe through microfinance products and services. By August 1995, the Trust had a client base of 2,197 and had disbursed 2,786 loans totalling US$0.5 million At its peak in 2003, Zambuko reached 16,668 clients with an outstanding portfolio of US$1.9 million while employing 122 people. In 2005, it identified its main challenges as funding, MIS, product development, HIV/AIDS and rural lending. Initially supported by Opportunity International, Zambuko also attracted a range of other donors. A high portfolio-at-risk and staff turnover were some of the problems that led to a rapid downfall of clients to only 4, 462 in 2005.
NISSI	Nissi was established in August 1996 as a private limited company. Later, in June 1999, it was converted at the request of funders to a public limited company incorporated under the Companies Act of the Laws of Zimbabwe. It received funding from HIVOS, MicroStart and the Social Dimension Micro Enterprise Development Program that was provided through the Zimbabwean Ministry of Labor, Public Works and Social Welfare. HIVOS continued funding NISSI until 2002, but other social investors stopped funding micro finance activities in Zimbabwe in 2000, due to the political and economic situation. Nissi senior management together with a determined board of directors led the startup and expansion to 23 branches nationwide, serving over 11,000 clients. However, due to the adverse political and economic situation that has characterized Zimbabwe for the past nine years or so, Nissi decided to expand its operations to South Africa, where it registered Nissi Global Financial Services under the Laws of South Africa. Nissi Global South Africa provides entrepreneurship services ranging from micro financing, entrepreneurship training and business mentoring. Nissi had to reduce its operations in Zimbabwe; by 2006 they had only six branches left, they were down to four in 2007, two in 2008 and just one in 2009.
MicroKing Savings and Credit Company (Pvt.) Ltd:	Microking is a wholly-owned subsidiary of Kingdom Financial Holdings Limited in Zimbabwe which began lending in October 2001. At its peak in 2003, MicroKing had 10,000 clients. MicroKing Savings and Credit Company managed to successfully implement an individual lending methodology in the Zimbabwean market when most other institutions were doing group lending. It now also does group lending and order finance and some special initiatives. In 2003, it successfully launched the rural microfinance program. This started as a partnership with CARE International whereby Microking was financing the agro dealers who supply agricultural inputs. Up to December 2008, there were 441 groups that MicroKing was working with. It also has a so-called subsistence loan product for the poorest of the poor. The subsistence loan product is an interesting home-grown idea seeking to move people from unbankable to bankable clients after training them first. Once the training is completed, clients can apply for a loan and have to following normal loan appraisal procedures.

SHD Savings and Credit Company and SHDF	The Self-Help Development Savings and Credit Company (Pvt. Ltd) is a wholly-owned subsidiary of Self-Help Development Foundation Trust, which was launched in 1999. The company provides loans to the savings clubs formed by the non-profit arm of SHDF. As mentioned, the savings clubs have been highly successful in Zimbabwe and in the past were estimated to reach between 200,000 and 300,000 members. It finances the trade and service sectors and is also active in agriculture, for instance with a product for agro-dealers (carrots, beans, etc.). It finances the trade and service sectors and is also active in agriculture, for instance with a product for agro-dealers (carrots, beans, etc.). By year-end 2008, it was not lending anymore and has since closed due to liquidity challenges after the introduction of the multicurrency system
POSB	The POSB is widely known and visible both in the urban and rural areas. It has a large customer base, estimated at over 2 million customers. It has simple convenient products that are easily understood by all groups in society. There is security of deposits through government guarantee, thus appealing to more risk-averse rural people. The interest paid to depositors is exempt from tax. Furthermore, the POSB has the potential to engage in secured lending for micro and small enterprises (MSEs) and smallholder farmers and becoming a fully-fledged commercial bank with countrywide network, capable of carrying out remittance and fund management services for the poor. In 2009, it had 27 of its own banking halls dotted around the country's major town centres and, in addition, some limited services are provided through post offices. POSB also invested in five new mobile units in 2007.
SEDCO*	SEDCO is a state enterprise under the Ministry of Small and Medium Enterprises Development created through the Small Enterprises Development Act of 1984. SEDCO's mandate is to spearhead the development of viable small and medium enterprises (SMEs) through the provision of financial assistance, counselling and related support services, business management training and business infrastructure, with the objective of enabling SMEs to make a significant contribution to national economic growth.
*Makina (2010) indicated that the worst performing MFIs were those operated by government – Small Enterprise Development Corporation (SEDCO) and the Social Development Fund (SDF). SEDCO (just like the Social Development Fund), which started a microenterprise lending scheme in 1994, had to suspend new lending by mid-1996 due to non-payment of loans. Thereafter its activities focused on debt collection rather than the provision of microfinance.	

Source: Klinkhamer, (2009); Makina (2010),

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ISBN: 978-0-7974-4926-8

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