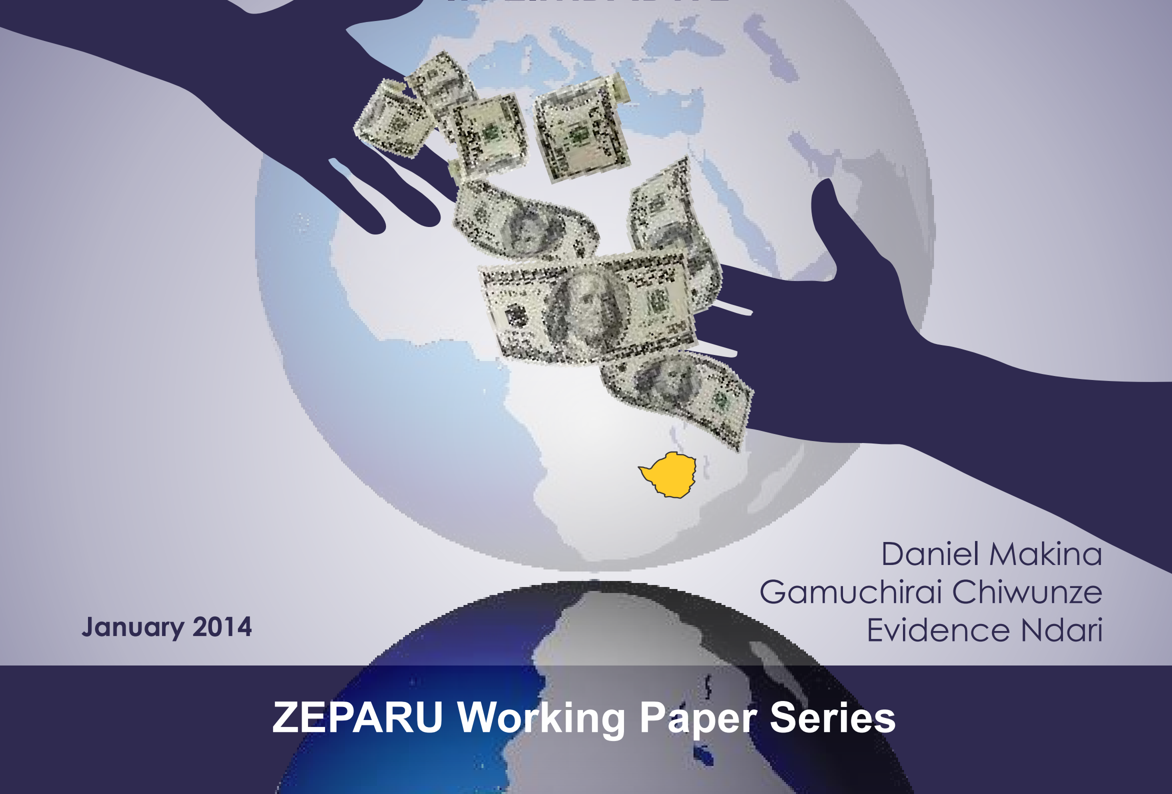
ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

FINANCIAL INCLUSION STRATEGIES FOR MAKING FINANCIAL MARKETS WORK FOR THE POOR IN ZIMBABWE



Daniel Makina
Gamuchirai Chiwunze
Evidence Ndari

January 2014

ZEPARU Working Paper Series

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EXECUTIVE SUMMARY

Empirical evidence indicates that well-functioning, healthy and competitive financial systems are an effective tool in spreading opportunity and fighting poverty through offering people a wide range of needs such as savings, credit, payment, and risk management services. Given the importance of financial inclusion, the objective of this study is to examine strategies that should be implemented to foster financial inclusion in Zimbabwe.

Exploring international experience on financial inclusion and the state of financial inclusion in Africa, the study reviews Zimbabwe`s current financial inclusion policies/strategies and their effectiveness and identifying barriers to financial inclusion such as lack of enough money to justify having a formal account, administration charges of maintaining an account and distance from banks. The paper develops a comprehensive analysis on designing an appropriate financial inclusion framework which can benefit the poor and also suggests strategies essential for fostering financial inclusion in Zimbabwe.

The strategies suggested as essential for fostering financial inclusion in Zimbabwe include, among others:

- Developing a national financial inclusion strategy with set objectives and targets;
- Transforming the People's Own Savings Bank (POSB);
- Promoting the Setting up of Microfinance Banks;
- Promoting Technological Innovation;
- Promoting Infrastructure Development;
- Reviewing banking laws and regulations;
- Promoting expansion of product portfolio; and
- Promoting increased cooperation among banks

Finally, the paper suggests the need to address various barriers to financial inclusion which include high cost of financial services, lack of financial knowledge, contractual and informational infrastructure as necessary for financial inclusion.

ACRONYMS

ATM	Automated Teller Machine
CGAP	Consultative Group to Assist the Poor
FIEG	Financial Inclusion Experts Group
GDP	Gross Domestic Product
IMF	International Monetary Fund
KYC	Know Your Customer
MFI	Microfinance Institution
MNOs	Mobile Network Operator
MSMEs	Micro, Small and Medium Enterprises
NSSA	National Social Security Authority
POS	Point of Sale
POSB	Peoples Own Savings Bank
POTRAZ	Postal and telecommunication Regulatory Authority of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
SACCOs	Savings and Credit Cooperatives
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
UNCDF	United Nations Capital Development Fund
UNDESA	United Nations Department for Economic and Social Affairs
ZAMFI	Zimbabwe Association of Microfinance Institutions

1 INTRODUCTION

Well-functioning, healthy and competitive financial systems are an effective tool in spreading opportunity and fighting poverty through offering people a wide range of needs such as savings, credit, payment, and risk management services. An overwhelming body of empirical evidence shows that financial development stimulates economic growth by providing resources required for investment. The causal relationship between financial development and economic growth is seen to operate through three linkages: (1) financial deepening promotes economic growth; (2) economic growth stimulates financial development; and (3) financial development and economic growth influence each other (World Bank 2007).

However, for there to be inclusive development in an economy, there should be inclusive financial systems that ensure accessibility, availability and usage of formal financial services to the entire population. In other words, an economy should strive to achieve financial inclusion as one of its strategy of spreading opportunity and fighting poverty. In a discussion paper, Ramji (2009) simply defined financial inclusion as the timely delivery of financial services to disadvantaged sections of society. According to UNDESA and UNCDF (2006) the definition encompasses the concept's two primary dimensions, viz. (1) that financial inclusion refers to a customer having access to a range of formal financial services, from simple credit and savings services to the more complex such as insurance and pensions; and (2) that financial inclusion implies that customers have access to more than one financial services provider, which ensures a variety of competitive options. A corollary of this definition is that financial exclusion means the inability of the disadvantaged to access financial services. In the literature a range of barriers (price or nonprice barriers) that could lead to financial exclusion include "geography (limiting physical access), regulations (lack of formal identification proof or of appropriate products for poor households), psychology (fear of financial institution's staff, structures, complicated financial products, etc.), information (lack of knowledge regarding products and procedures), and low financial acumen (low income and poor financial discipline), among others" (Ramji, 2009: 6).

Dermiguc-Kunt et.al. (2012) reported that without inclusive financial systems, poor people have to rely on their own limited savings to invest in their education or become entrepreneurs—and small enterprises must rely on their limited earnings to pursue promising growth opportunities. As also reported in King and Levine (1993); Beck, Demirguc-Kunt, and Levine (2007); Beck, Levine, and Loayza (2000); Demirguc-Kunt and Levine (2009); Klapper, Laeven, and Rajan (2006); and World Bank (2008), it has been observed that the absence of inclusive financial systems contributes to persistent income inequality and slower economic growth. Kempson (2006) has observed levels of income inequality, as measured by Gini coefficients, to be negatively correlated with levels of financial inclusion. For instance, Scandinavian countries such as Denmark and Sweden which have low levels of inequality have very high levels of financial inclusion while mid-level Gini coefficient countries such as the UK and the USA show moderately high financial inclusion levels. In the contrary, developing countries such as those in Africa that have high levels of income inequality have high levels of financial exclusion.

Cognisant of the importance of inclusive finance, the G20 world leaders committed to improve access to financial services for the poor at the Pittsburgh Summit in 2009. They created a Financial Inclusion Experts Group (FIEG) whose mandate was to facilitate strategies to expand access to finance to households, micro, small- and medium-sized enterprises. The FIEG developed nine Principles for Innovative Financial Inclusion, viz. leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality and framework, which principles reflected the experiences and lessons learned from policymakers worldwide. During their Toronto Summit in June 2010, the G20 endorsed the nine principles and required them to form the basis of the Financial Inclusion Action Plan that was in turn endorsed by their subsequent summit in Korea in November 2010. The G20 Korean Summit actually created the Global Partnership for Financial Inclusion as an instrument to execute its commitment.

It is in this spirit that the objectives of this paper are three-fold, viz.:

- To examine policies and/or strategies that foster financial inclusion in Zimbabwe;
- To evaluate whether the existing financial inclusion initiatives/ strategies are achieving the intended goals and identifying existing policy gaps; and
- To provide policy recommendations that enhances inclusive financial sectors in the country.

Essentially, financial inclusion, which is critical in the achievement of an inclusive growth, is explored as a vehicle for reducing poverty and spreading opportunity. Indeed, without access to financial services, financial requirements by the poor become insecure and expensive and thus the poor or marginalised people cannot fully participate in economic activities as either consumers or entrepreneurs. Hence, one of the tools in assisting the country to achieve its Millennium Development Goals is the implementation of policies/strategies that make financial markets work for the poor.

The paper utilizes desk research methodology whereby available secondary data is analyzed. Broadly, the analysis proceeds along the following steps:

(i) Brief discussion various efforts taken at the international level regarding financial inclusion;

(ii) Discussion of the state of financial inclusion in Africa;

(iii) Examination of financial inclusion initiative or strategies being adopted in Zimbabwe; and

(iv) Provision of recommendations to policy makers.

2.1 Measuring financial inclusion

The Global Financial Inclusion (Global Findex) database developed by the World Bank in 2011 presents a new set of indicators that measure how adults (15 years old and above) in 148 economies save, borrow, make payments, and manage risk (Dermiguc-Kunt and Klapper, 2012a).

The Global Findex indicators measure the use of financial services among different groups, including poor people, youth, and women, taking into account both the demand and supply of these services. Four sets of indicators are considered, viz.:

- Those that focus on the use of formal accounts at a formal financial institution such as a bank, credit union, cooperative, post office, or microfinance institution, including alternatives to formal accounts (mobile money);
- Those that focus on savings behaviour;
- Those that focus on sources of borrowing (formal and informal) and purposes of borrowing; and
- Those that focus on the use of insurance products for health care and agriculture.

Dermiguc-Kunt and Klapper (2012a) consider the Global Findex country-level estimates of account penetration to be generally higher than those of the FinScope surveys because they cover a wider population of 15 years old and above while FinScope[1] covers 18 years old and above population and the definition of an account in the Global Findex is wider.

The survey methodology is viewed to provide more insight than data collected from the regulated financial service providers for several reasons. First, data collected from regulated financial institutions does not make it possible to identify segments of the population excluded from the formal financial sector and thus excludes the data that can help policy makers prioritize reforms accordingly. Second, those data sources do not allow disaggregation of financial service users by income or other characteristics such as the poor, women, or youth who may have the lowest use of financial services.

2.2 Findings from the Global Findex Survey

The World Bank paper by Dermiguc-Kunt and Klapper (2012a: pp. 11-21) uncovered some salient findings with regard to the status of global financial inclusion herewith discussed below.

[1]FinScope, a FinMark Trust initiative in South Africa, is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments (http://www.finscope.co.za)

Having an account serves as an entry point into the formal financial sector as such account makes it easier to save, have access to credit and to transfer wages, remittances, and government payments. Notwithstanding, half the world is unbanked, as only 50 percent of adults reported having an account at a formal financial institution—a bank, credit union, cooperative, post office, or microfinance institution. However, formal account use differs sharply between high-income and developing economies. In high-income economies 89 percent of adults reported having an account at a formal financial institution while it was only 41 percent in developing economies.

While GDP per capita explains much of the variation in having a formal account around the world, research shows it only explains 22 percent of the variation among economies. There are other factors that explain variation in account penetration. Individual characteristics such as gender, education level, age, and rural or urban residence also explain variations in financial inclusion. For instance, disparities according to gender show 46 percent of men reporting having a formal account while only 37 percent of women do in developing economies.

The use of formal accounts is found to be imperfectly correlated with a common measure of financial depth, viz. domestic credit to the private sector as a percentage of GDP. The Global Findex gives the example of Vietnam which reported only 21 percent of adults having a formal account but with domestic credit to the private sector of 125 percent of GDP, which can be sharply contrasted with the Czech Republic which reported 81 percent of adult having an account but has a relatively modest financial at 56 percent of GDP.

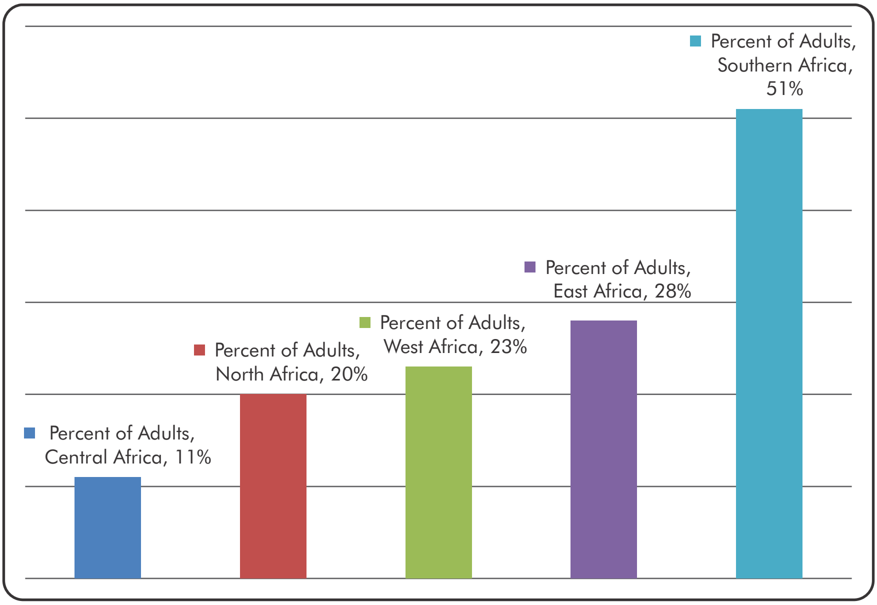
On being asked why one do not have a formal account, the most frequently cited reason globally is lack of enough money to use one, being the response given by 65 percent of adults without a formal account. Given that multiple responses were permitted, 30 percent of the adults without a formal account cited lack of enough money as the only reason. For the next commonly cited reasons, a quarter of adults without a formal account cited the expense of holding an account and another quarter reported that another family member had one they jointly use. In the order of importance, the other reasons reported were distance from banks, lack of the right documentation, lack of trust in banks, and religious reasons.

It is noteworthy that barriers to financial inclusion such as cost, distance and documentation requirements tend to decline as per capita GDP rises. Furthermore, the World Bank (2008) has been observed that barriers are lower in economies with competitive, well regulated financial systems with more developed contractual and informational infrastructures, e.g. credit registers/bureau.

Financial depth as measured by the ratio of private credit to GDP is low in Africa in comparison with other developing economies. In 2010 the ratio was 24 percent of GDP in Sub-Saharan Africa and 39 percent in North Africa, compared with 77 percent for all other developing economies and 172 percent for high-income economies (Demirguc-Kunt and Klapper, 2012b: p. 3). The ratio of market capitalization to GDP excluding South Africa is 38 percent on average as compared to 44 percent in all other developing economies and 62 percent including high-income economies (World Bank, 2012).

The 2012 Global Findex database shows that 23 percent of adults in Africa have a formal account with variation within the continent that indicates 24 percent of adults in Sub-Saharan Africa (ranging from 51 percent of adults in Southern Africa to 11 percent in Central Africa. Figure 1 below illustrates the variation across African regions. There are also large variations among counties. For instance, in the Democratic Republic of Congo and the Central African Republic less than 5 percent of adults have a formal account whereas in North Africa which on average has 20 percent of adults having a formal account, the range is 39 percent in Morocco and 10 percent in Egypt. There is also a gender dimension to account ownership with men in SSA with a formal account reported at 27 percent and women at 22 percent. The gender bias is even marked in the Middle East and North Africa where women with a formal account are reported at 13 percent compared 23 percent of adult men.

Figure 1: Account Penetration (% of adults with formal account) in Africa



According to the Global Findex database the most frequently cited reason for not having a formal account in Sub-Saharan Africa (SSA) is lack of money to use one. This reason was cited by more than 80% of adults without a formal account. Cost (e.g. high minimum deposit and high administrative burdens and fees), distance and documentation were also cited by more than 30% of non-account holders in SSA. Younger adults cited insufficient documentation while distance from a bank is an important barrier for adults living in the rural areas. In Eastern and Southern Africa fixed fees and high costs of opening and maintaining accounts were cited as important barriers. For instance, commercial banks in Lesotho close client accounts when they are inactive for a period of three months. It is also reported that maintaining a checking account in Uganda can cost the equivalent of 25 percent of GDP per capita annually and 54 percent of adult non-account holders cited this cost as a reason for not having a formal account.

According to CGAP (2009) geographical expansion of bank branches into rural areas is restricted by poor infrastructure and telecommunications. It is also observed that financial inclusion is positively and significantly correlated with access points measured as commercial branches per 100,000 people.

There are several opportunities from the World Bank research for addressing lack of financial access. First, it is gratifying that at least 35 percent of respondents reported barriers to account use - high cost, physical distance, and lack of proper documentation- which can be addressed by public policy. Second, the use of accounts to receive remittances from family members living elsewhere was reported by 38 percent of account holders in SSA higher than the world average of 14 percent of account holders. This indicates a possible positive relationship between use of bank account and use of it for receiving remittances if favourable conditions are created.

At a glance financial inclusion indicators for selected African countries are quite telling as Table 1 below illustrates.

Table 1: Financial Inclusion Indicators for selected African Countries

	GLOBAL FINDEX		**ENTERPRISE SURVEYS**		**IMF FINANCIAL ACCESS**	
	Formally Banked Adults	Adults with Credit by Regulated Institutions	Banked Enterprises	Enterprises with Loan or Line of Credit	Points of Service	
Country	% of Adults with an Account at a Formal Financial Institution	% of Adults with at least one Loan Outstanding from Regulated Financial Institution	% of SMEs with an Account at a Formal Financial Institution	% of SMEs with an Outstanding Loan or Line of Credit	Number of Commercial Bank Branches per 100,000 Adults	Number of ATMs per 100,000 Adults
Angola	39%	8%	86%	9%	1.29	12.66
Botswana	30%	6%	99%	48%	9.15	30.06
Ghana	29%	6%	82%	18%	4.99	.....
Kenya	42%	10%	88%	21%	4.41	7.27
Lesotho	18%	3%	89%	33%	3.48	7.28
Malawi	17%	9%	96%	39%	.....	.....
Mauritius	80%	14%	97%	45%	590.21	1009.32
Mozambique	40%	6%	75%	10%	3.37	5.7
Nigeria	30%	2%		4%	.....	.....
Senegal	6%	4%	83%	13%	.....	.....
South Africa	54%	9%	98%	29%	10.1	59.58
Swaziland	29%	12%	98%	21%	5.7	21.43
Tanzania	17%	7%	85%	12%	1.81	3.3
Uganda	20%	9%	85%	15%	2.49	3.58
Zambia	21%	6%	94%	13%	.....	.....
Zimbabwe	40%	5%	.....	.....	4.63	.....

Source: Global Findex indicators are obtained from Dermirguc-Kunt and Klapper, 2012a; Enterprise Survey data is available at www.enterprisesurveys.org; IMF Financial Access data is available at www.fas.imf.org

Zimbabwe stands out starkly both for its low indicators and lack of data on other indicators. Despite having 40 percent of the adult population having a formal account, only 5 percent of adults reported having credit from regulated financial institutions. In Africa only Mauritius has financial inclusion indicators that are closer to those in advanced economies.

The Global Findex database shows that indicators of financial use have a positive but imperfect correlation with indicators of financial depth, i.e., credit to the private sector to GDP. South Africa demonstrates this imperfection in a way. While the country has a ratio of private credit to GDP of over 142 percent, only 54 percent of adults have a formal account; only 9 percent of adults have credit from regulated financial institutions; and points of access such as number of bank branches per 100 000 adults are low at just 10.1. Nevertheless, the World Bank (2008) suggests that the imperfect correlations might give room for policy reforms that increase the levels of financial inclusion for a country.

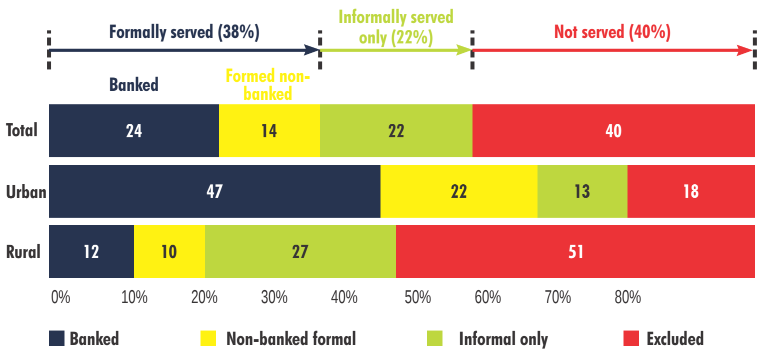
The rapid growth of mobile phones has given rise to the growing use of new alternatives to traditional banking such as mobile money. Mobile money has enabled millions of financially excluded people to perform financial transactions relatively cheaply, securely and reliably. In SSA 16 percent of adults reported using the mobile phone to perform financial transactions (pay bill or receive money). Kenya reported 68 percent of adults using mobile money, courtesy to the commercial launch of M-PESA service in 2007, and 43 percent who reported using it do not have a formal account.

4.1 Access and use of financial services by the adult population

The FinScope survey on financial inclusion in Zimbabwe conducted in 2011 found that 65 percent of the country's population live in rural areas while 35 percent live in urban areas, and that on average 80 percent of the adult population earn less than US$200 a month, while about 17 percent do not have an income. The gender distribution of the population was found to be 60 percent female and 40 percent male. Considering that 60 percent of the sampled population were women, poverty levels and financial exclusion should be greatest among women.

The survey established the level of financial inclusion as indicated in Figure 1 below. Noteworthy is that only 24 percent of the total population is banked and of this only 12 percent of the rural population is banked. There is a large population not having access to financial services at all either through the formal or informal system, 40 percent in the case of the whole population and 51 percent in the case of the rural population.

Figure 2: Level of Financial Inclusion in Zimbabwe



Source: FinScope Consumer Survey Zimbabwe 2011

It is noteworthy that the FinScope survey puts the figure of formally served adult population at 38 percent while the Global Findex database puts it at 40 percent. The difference arises from differences in the definition of the adult population eligible for access to financial services. The Global Findex database uses adults of 15 years and older while the FinScope survey uses adults of 18 years and older. Notwithstanding that difference, the FinScope survey is more detailed as it is customised to the country concerned.

The FinScope Consumer Survey for Zimbabwe shows a strong rural/urban divide with regard to financial inclusion, which is more apparent in the usage of bank products whereby 47 percent of adults are banked in the urban areas as compared with only 12 percent banked in the rural areas. The rural population is mainly served by the informal sector. The urban/rural divide is put in the spotlight if financial access is analysed by province as in Table 2 below. Harare and Bulawayo, the main urban centres show the highest levels of financial inclusion. Provinces such as Matabeleland South, Matabeleland North, Mashonaland Central and Mashonaland East have acute levels of financial exclusion whereby no less than 50 percent of the adult population are financial excluded from either formal financial services or informal financial services.

Table 2: Financial Access Strands by province

Province	% Have/use bank products/services	% Have/use non-bank formal products/services	% Use only informal mechanisms	% Financially excluded
Harare	49	24	10	17
Bulawayo	46	16	18	20
Midlands	24	13	26	37
Mash West	21	20	17	42
Mat South	16	6	28	50
Manicaland	16	9	29	46
Mash East	15	12	20	53
Mat North	15	12	13	60
Masvingo	14	12	35	39
Mash Central	10	8	24	58

Source: FinScope Consumer Survey Zimbabwe 2011

Financial exclusion in Zimbabwe tends to be correlated with poverty levels. For instance, Matabeleland North province with the highest level of the financially excluded adult population is one of the poorest provinces in the country. The design of financial inclusion strategies should necessarily take into account poverty levels and the usage of informal financial services. Thus government intervention should be targeted and should explore the formalisation of informal services where they are used widely, e.g. in Masvingo.

The use of different categories of financial products shown in Table 3 below shows the dominance of savings products and little use of formal credit products. The higher use of credit products (formal and informal) by the rural population is related to its low use of savings products as compared to the urban population. Otherwise usage of financial services is driven by the demand for savings products –both formal and informal and more so urban centres than in rural areas.

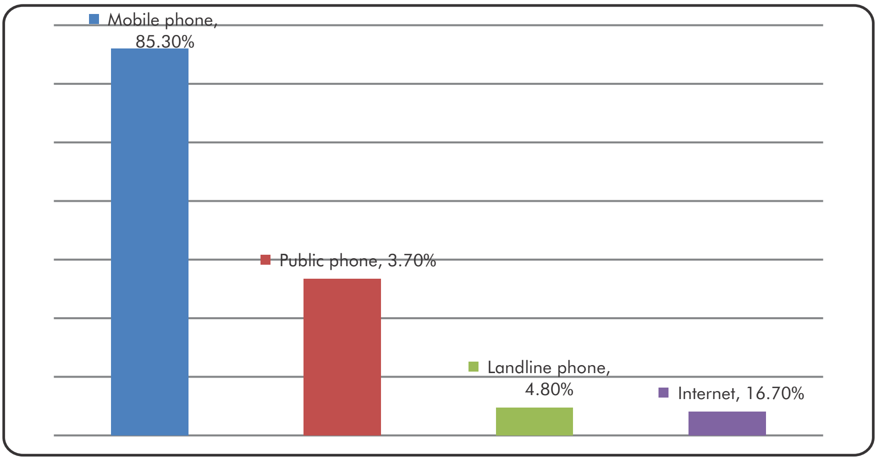
Table 3: Financial Landscape of Access

Product/service	Total % of adult usage of both formal and informal services	% of adult use of formal service	Urban % of adult usage of both formal and informal services	Rural % of adult usage of both formal and informal services
Transactional products/services	28	22	49	16
Savings products/services	37	22	60	24
Credit products/services	20	5	19	20
Insurance products/services	31	19	45	23
Remittance products/services	18	12	32	11

Source: FinScope Consumer Survey Zimbabwe 2011

The use of mobile money and the internet banking should be viewed from the context of access to ICT. Figure 2 shows that while internet penetration is still low, the usage of mobile phones is very high and hence there are opportunities of leveraging mobile banking for savings, payments and remittance transfers. The next section that examines efforts being made in building financial inclusion expands on the success of mobile money in the country.

Figure 3: Connectivity of adult Zimbabweans



Source: FinScope Consumer Survey Zimbabwe 2011

The barriers to banking uncovered by the FinScope survey are similar to those also uncovered by the Global Findex survey for Africa. Lack of enough money to justify having a formal account ranks high, followed by administration charges of maintaining an account and distance from banks. For instance, the FinScope survey reports that while 49 percent of Zimbabweans in urban centres have a bank within 30 minutes of reach, only 5 percent of those living in the rural areas have access to a bank within 30 minutes of reach. Table 4 below shows the skewed nature bank branch network in the country.

Table 4: Bank Branch Distribution by Province in 2013

Bank	Harare	Bulawayo	Manicaland	Mashonaland East	Mashonaland Central	Mashonaland West	Midlands	Matebeleland North	Matebeleland South	Masvingo
AGRIBANK	5	3	8	5	5	6	5	3	4	5
ALLIED BANK	4	3	4	1	0	3	3	2	2	0
BANCABC	6	1	4	0	0	0	3	2	1	1
BARCLAYS	10	3	2	1	1	1	4	1	1	2
CBZ	20	6	8	3	2	6	5	1	3	3
ECOBANK	5	2	0	0	0	0	0	0	0	1
FBC	6	1	1	0	0	1	3	1	0	1
KINGDOM	9	2	2	0	0	0	1	1	0	0
MBCA	3	3	1	0	0	0	1	0	0	0
METBANK	9	1	3	2	0	0	2	0	2	1
NMB	8	1	1	0	0	0	1	0	0	0
STANBIC	10	2	1	0	0	2	2	1	0	0
STANCHART	9	2	3	3	2	2	2	2	1	1
STEWARD	6	1	2	0	1	2	5	0	2	2
TRUST	4	2	1	0	0	1	2	0	0	0
ZB BANK	15	4	4	2	2	5	7	3	3	5
CAPITAL	1	1	0	0	0	0	0	0	0	0
TETRAD	4	1	0	0	0	0	1	0	0	0
CABS	24	5	7	3	3	10	7	3	2	4
FBC BS	2	1	1	0	0	0	1	0	0	1
POSB	11	5	2	1	1	3	4	1	1	2
TOTAL	**179**	**49**	**55**	**21**	**17**	**42**	**58**	**21**	**22**	**29**

Source: Banks websites

4.2 Access and use of financial services by the small business sector

The Global Findex database shows that for Africa as a whole, the proportion of enterprises (across all firm sizes) with a bank account is comparable to the proportion in all other developing economies. However, with regard to access to credit, only 22 percent of enterprises have a loan or a line of credit as compared with 43 percent in all other developing countries. As many as 45 percent of African firms cite access to finance as a major growth constraint and the percentage of small firms that reports so is higher relative to that of medium and larger firms. With respect to high-growth SMEs, 84 percent of investments of African SMEs are financed through internal funds as compared with 70 percent for all other developing countries and the share of bank financing for African SMEs is 8 percent as compared to 11 percent for other developing economies. The share of equity financing of African SMEs is very low being less than 2 percent as compared to 8 percent in other developing economies.

In Zimbabwe, the financial inclusion situation of micro, small and medium enterprises (MSMEs) is documented by the FinScope MSME Survey Zimbabwe 2012[2]. The survey established that there are 5.7 million people in the MSME sector comprising 2.8 million MSME owners and 2.9 million employees. The employees are mainly male but the unpaid workers are mainly female. However, the MSME owners are mainly female.

The FinScope MSME Survey Zimbabwe (2012; p.10) summarises the state of MSME financial inclusion as follows:

- 43 percent of MSME owners are financial excluded from either formal or informal financial services;
- Only 14 percent utilise products/services from commercial banks and mainly cash related transactions;
- Up to 50 percent utilises the informal financial sector;
- Financial inclusion is detected to be higher among SMEs, women, registered/licensed businesses and in urban areas and main urban centres (Bulawayo and Harare); and
- Savings are mainly kept at home and borrowing is predominantly from family/friends.
- Barriers to financial inclusion cited included:
- Lack of enough money as income from MSMEs is too low and irregular while bank charges are too high and insurance expensive;
- Many MSMEs lack required formality and documentation such as address and financial records; and
- Distance from banks.

[2]FinScope MSME is a nationally representative study focusing on individual entrepreneurs, and owners of micro-, small- and medium enterprises (MSMEs) and their financial services needs. It assists in establishing credible benchmarks and indicators of financial inclusion.

It is noteworthy the cited barriers are similar to those cited by the Global Findex survey. An analysis of the main borrowing mechanisms of MSMEs shows the dominance of family/friends (51%), followed by commercial banks (15%), MFIs (11%) and lastly informal money lenders (6%). While Table 5 below indicates a trend of increasing MFIs in Zimbabwe, the number of loans they are disbursing is on decrease. For instance, from June 2012 to June 2013 the number of loans disbursed dropped from 258,094 to 130,747, a decrease of 49 percent in one year when the number of MFIs increased from 150 to 173 over the same period.

Table 5: MFIs Loan distribution and client base

	30 June 2012	31 December 2012	31 March 2013	30 June 2013
Number of registered MFIs	150	157	165	173
Number of MFIs that submitted returns for the period	82	95	88	88
Number of Loans	258,094	245,847	101,108	130,747
Total Value of Loans	$87.24 million	$93.88 million	$93.02 million	$97.01 million
Average Loan Size	$338.02	$381.87	$920.01	$741.98
Number of Clients	62,949	96,749	91,748	118,515
Of which: Female clients	.....	15,344	15,266	21,605
% female clients	.....	15.86%	16.64%	18.23%

Source: Reserve Bank of Zimbabwe

Considering that MFIs are servicing about 120,000 clients in a market of 2.8 MSME business owners, which is only 4 percent of the market, the MFI sector is not fulfilling its role, namely providing finance to the small business sector. Thus with the number of loans declining, at the same time the total value of loans has increased from US$87.2 million in June 2012 to US$97.01 million in June 2013. This shows evidence of mission drift by MFIs as they tend to disburse high value loans that are not characteristic of the marginalised and poor who usually access low value loans. This is also supported by a study by Bara (2012) which also found evidence of mission drift by MFIs in Zimbabwe in the dollarized period.

Also despite the majority of MSME business owners being women, their proportion serviced by MFIs is less than one fifth of total clients. Anecdotal evidence suggests that the MFI sector is concentrating in servicing salaried employees rather than the MSME sector. There could be some truth in the suggestion if we consider that nearly all MFIs are located in urban areas and more than half in Harare alone as Table 6 below illustrates. On the other hand, the FinScope MSME survey shows a distribution of business owner's population to be 66 percent rural and 34 percent urban. It is thus clear that there is a disjuncture between MFIs and the MSME sector they are supposed to serve.

Table 6: Distribution of MFIs

Region	**No. of MFIs**
Harare	122
Bulawayo	23
Masvingo	8
Mutare	4
Gweru	2
Chitungwiza	2
Kadoma	3
Chegutu	2
Other towns(Kariba, Kwekwe, Chinhoyi, Rusape, Beitbridge, Matobo and Gokwe)	7
Total	**173**

Source: Reserve Bank of Zimbabwe

5.1 Overview of Framework

The UNDESA and UNCDF (2006) recommend 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. The standard diagnostic and planning process would involve:

- Taking stock of the state of financial sector development and access;
- Analysis of constraints;
- Collaboration with external partners, especially with the Financial Sector Assessment Programmes of the IMF and the World Bank; and
- Mobilizing technical and financial support from developing partners.

Furthermore, the UNDESA and UNCDF (2006) recommend 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.

Under the Maya Declaration[3], financial regulators made financial inclusion commitments to achieve the following:

(a) An enabling environment that increases access and lowers costs of financial services, including through new technology;
(b) To implement a proportionate regulatory framework that balances financial inclusion, integrity, and stability;
(c) To integrate consumer protection and empowerment as a pillar of financial inclusion; and
(d) To use data to inform policies and track results.

Pursuant to the declaration, the World Bank (2012) published the Financial Inclusion Strategies Reference Framework[4] whose components which could overlap and not necessarily sequential, viz.:

[3]See www.afi-global.org/gpf/maya-declaration

[4]Recommendations set out in the Reference Framework are not prescriptive and should be selectively in the context of a specific country.

I. Stock-taking: data and diagnostics;
II. Targets and objectives;
III. Strategy-building or revision;
IV. Public sector actions: policies, regulation, and financial infrastructure;
V. Private sector actions; and
VI. Progress-monitoring.

It is emphasized that financial inclusion strategies should also focus priority areas of a country such as SME finance, women's access to finance, rural finance and financial education.

The Reserve Bank of Zimbabwe has long recognized the imperative of financial inclusion and monetary policy statements have been accompanied by the statement: "The Reserve bank continues to call upon all financial institutions to devise innovative ways of ensuring availability of financial services to the unbanked and underbanked communities." This approach is consistent with international efforts being pursued to address the problem of limited access to, and use of, financial services by large segments of the population in developing countries. As the UNDESA and UNCDF (2006, p.1) aptly observe: "This reflects what must be – and increasingly is – a concern of development and poverty eradication policy at national and local levels: the recognition of the important contribution a broad-based financial sector makes to economic development and poverty alleviation".

Microfinance is accepted as one vehicle, among others, to achieve financial inclusion. According to CGAP (2006), 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 herewith discussed below.

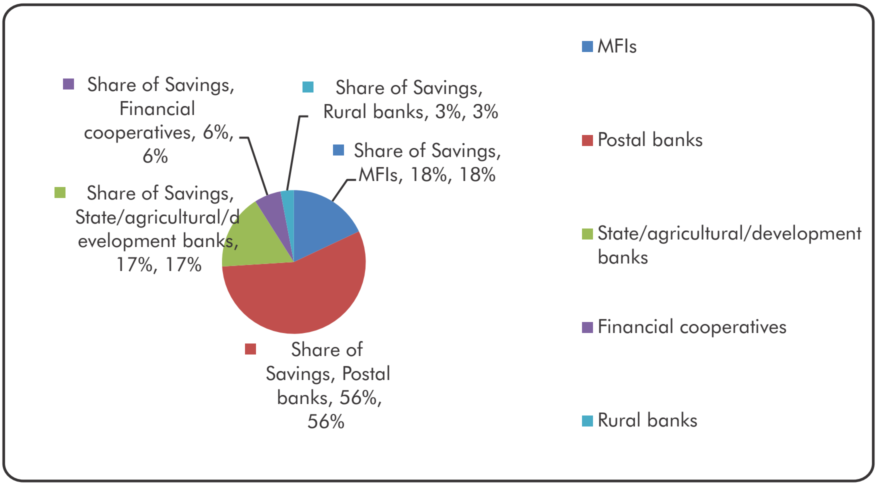
Micro level interventions involve defining microfinance clients and the service providers. For a financial system to be inclusive, it should meet the needs of everyone including the poor. Poor people need a variety of services that include insurance, remittances and transfer, pensions, loans for emergency needs, microenterprise loans and safe places to save. Microfinance clients are often self-employed and typically home-based entrepreneurs; in rural areas they are small farmers and others engaged in small income-generating activities; and in urban areas the clients are more diverse and include street vendors, shopkeepers, service providers, artisans, etc.

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. Usually, financial institutions like MFIs that serve the poor lack direct access to the payments system and hence the need to forge alliances with commercial banks. Transparency and information infrastructure are other critical elements in building inclusive financial systems. Accurate, standardized, and comparable information on financial performance is fundamental in integrating microfinance into the financial system. Credit bureaux are critical building blocks of transparency.

Macro level interventions have to do with the role of government in building inclusive financial systems. CGAP (2006: 76) identifies three ways in which the government can get involved in the financial system:

First, the government could 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 have been observed not to be good at offering credit to poor people, government-owned postal banks have had a good track record in savings mobilization or money transfer. Globally, Government-owned postal banks have been observed to do a very good job in savings mobilization and reaching out to remote areas. A survey by CGAP of financial service providers to the poor worldwide indicates that postal banks account for the largest share of savings, see Figure 4 below. They are followed by MFIs and then state-agricultural and development banks.

Figure 4: Savings Accounts by Institutional Type



Source: CGAP (2006)

Basically, the POSB complements the payments processing infrastructure via its branch network. It facilitates communication and provides convenient alternative banking services in remote areas that lack the presence of other types of banks. Services offered include cash transfer facility through money and postal orders, cash payment of government benefits, and savings and fixed deposit account facilities.

Second, the government sets 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.

Third, the government can proactively promote financial inclusion by offering fiscal incentives or requiring financial institutions to serve poor or low-income people.

Microfinance institutions (MFIs) alone cannot meet the huge demand for loans by small and informal sector businesses. Hence it is essential that commercial banks that dominate the financial markets should also be involved if microfinance is to have an impact. Bell et al. (2002) have observed that the commercialisation of microfinance has resulted in MFIs becoming commercial banks – such as K-REP (Kenya) and BancoSol (Bolivia), or the setting up of commercial banks doing only microfinance, such as Centenary Rural Development Bank in Uganda. Commercial banks that have moved into microfinance largely comprise state banks – for example Bank Rakyat Indonesia (BRI), National Microfinance Bank (Tanzania), and Banco Nacional de Costa Rica. Several reasons have been cited to explain why commercial banks do not want to venture into microfinance (Baydas, Graham & Valenzuela, 1997) which includes, among others, the following:

- Commercial banks are answerable to their shareholders who are more concerned with the bottom line and maximum returns which most do not think could be obtained from microfinance activities.
- Commercial banks have standards and regulatory requirements that they have to comply with, e.g. Basel Accords and standards regarding unsecured lending and interest rates that are not appropriate for microfinance.
- The organization structures, procedures, products and delivery methodologies of commercial banks are generally not appropriate for microfinance.
- There are cultural barriers that inhibit change as often staff and managers usually perceive the poor as unbankable.

Notwithstanding these concerns, there are examples of private commercial banks that have been successful in downscaling to microfinance, and who have shown that with a high level of commitment, the right advice, and appropriate policies, it can be done. In Africa there are two private commercial banks, the Commercial Bank of Zimbabwe (CBZ) and the Co-operative Bank of Kenya (CBK) that started microfinance operations during the 1990s with support from the British Department for International Development (DFID). So far their experiences have been positive. In addition, the Economist (2007) reported that Pichincha, Ecuador's largest bank established a microfinance subsidiary, which was contributing 12 percent of total profits, with arrears of less than 2 percent, while providing loans to the poor at competitive rates.

5.2 Financial inclusion and regulatory practices

One of the debates on financial inclusion via microfinance provision has been how best to deal with microfinance regulation and supervision. It is generally accepted that as microfinance matures it is likely to migrate towards institutions that are licensed and supervised by the central bank. Generally, the more burdensome prudential regulation should only apply when the financial system and depositors' money are potentially at risk and non-prudential regulations should be applied to specialized microcredit institutions[5]. CGAP (2006) suggests adjustments to standard banking regulations to accommodate the specificities of microfinance. Table 7 below summarises such possible adjustments.

Table 7: Possible Adjustments to Prudential Regulations for Microfinance

Standard Banking Regulations	**When Applied to Microfinance**
Minimum capital requirements	Need to balance promotion of microfinance with the capacity to supervise
Capital-adequacy ratios	Many need more equity because of repayment volatility
Limits on unsecured lending	Impractical for character-based lending i.e. lending on the basis of social characteristics of client rather than collateral
Registration of collateral	Too expensive for tiny loans
Requirements for branches: security standards, working hours, daily clearing of accounts, limitations on location	May interfere with innovations that reduce costs and bring more convenient services to clients
Standard loan documentation requirements	May be too expensive and time-consuming for tiny loans

Source: CGAP (2006)

[5]Prudential regulations include capital adequacy norms to ensure that a financial institution has enough equity in case of a crisis, and reserve and liquidity requirements to ensure there is enough cash to pay off depositors in the event of a run.
In contrast, non-prudential regulations include measures such as registration with some authority for transparency purposes, keeping adequate accounts, prevention of fraud and financial crimes, and various types of consumer protection measures.

CGAP gives the example of Uganda that regulates microfinance through a specific law and its approach is illustrated in Box 1 below.

Box1: Approach to specialized microfinance regulation and supervision

Uganda is one of those countries that have introduced specialized microfinance regulation and supervision. Ugandan law adopts a tiered approach, defining four categories of financial institutions that can offer microfinance services:

Tier 1: Commercial banks

Tier 2: Credit (-only) institutions

Tier 3: Microfinance-deposit-taking institutions (MDIs) allowed to take deposits from the public and supervised by the Bank of Uganda 3

Tier 4: Non-deposit-taking institutions and small member-based institutions, mobilizing funds only from members, which would not be regulated or supervised by the banking authorities.

The microfinance-deposit-taking institution (MDI) law that was passed in November 2002 covers Tier 3 institutions. It allows MDIs to accept deposits from the public and then on-lend those deposits to credit clients. MDIs can offer certain types of services, such as foreign exchange transactions or current accounts, only with the approval of the central bank. The most interesting aspect of the MDI law is the participatory process of consultation that produced it. Concerns were voiced on such issues as whether the minimum capital requirements (equal to US$300 000 in late 2004) would exclude small institutions, and what to do about high microcredit interest rates.

Similarly, Zimbabwe's National Microfinance Policy published in 2008 adopted the tiered approach to regulation but what is currently lacking the passing of the Microfinance Bill into law. Table 8 below illustrates the tiered approach.

Table 8: The Reserve Bank of Zimbabwe follows a Tiered approach to the regulation and supervision of MFIs

Tier	Institutions	Supervision category	Supervising Agency	Statutes
Tier 1	Banks and building societies	Prudential Supervision	RBZ	Banking Act [Chapter 24:20] Building Societies Act [Chapter 24:02]
Tier 2	Microfinance banks / deposit taking MFIs	Prudential Supervision	RBZ	Microfinance Act [Chapter 24:29]
Tier 3	SACCOs	Prudential Supervision discretional	Ministry of SME and Cooperatives development	Cooperatives Act [Chapter 24:05]
Tier 4	Credit only Microfinance Institutions	Non Prudential Supervision	RBZ	Microfinance Act [Chapter 24:29] Moneylending and rates of interest Act[Chapter 14:14]

Source: Reserve Bank of Zimbabwe

Essentially, the approach is that the licensing and regulating of Tier 1, 2 and 4 would be done by the RBZ, while SACCOS would be licensed and supervised by the Ministry responsible for co-operatives. As with commercial banks and building societies, microfinance banks would be subjected to prudential regulation and supervision, while non-deposit taking MFIs would be subjected to non-prudential regulation.

6.1 Public Initiatives

6.1.1 National Policy

The National Microfinance Policy published by the RBZ in 2008 follows best international practice to a large degree. Developed through collaborative work by the National Taskforce on Microfinance whose membership comprised Government Ministries, apex organizations of microfinance and moneylenders, MFIs, development partners and the central bank, the Policy sets out five specific objectives, viz.:

- To promote the development of a robust inclusive financial sector;
- To promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- To enhance service delivery by MFIs to the economically active poor and SMEs;
- To contribute to rural transformation; and
- To promote linkage programmes between commercial banks, building societies, development banks, specialized institutions and microfinance banks and other microfinance stakeholders.

It goes on to outline strategies that include, among others, the development of an appropriate regulatory and supervisory framework for the microfinance sector, encouragement of commercial banks and building societies to go downstream into microfinance either wholesaling funds to MFIs or retailing to consumers of MFIs, and establishing a credit reference bureau to enhance credit risk management practices.

While the Policy goes a long way in terms of reflecting international best practice, it still falls short in terms of its stated intent to regulate interest rates as a means of protecting the poor. Both international experience and Zimbabwe's own track record with its Interest Rates Moneylending Act have shown that regulating interest rates of MFIs is counter-productive.

6.1.2 The POSB

The government-owned POSB is considered as one of the vehicles for financial inclusion. Currently, it has 33 branches in all major cities and towns and to enhance its reach to the low income groups in rural areas it has an agency relationship with ZimPost whereby their customers can access banking services such as deposits; withdrawals and money transfer redemptions in about 200 ZimPost Offices countrywide. In return ZimPost gets commission based on the value of business generated through its branch network. The POSB client base grew by 122.5% from 185,899 accounts in December 2009 to 413,648 as at August 2013. This client base is still far lower than the 2 million customers the POSB had before the hyperinflationary era of 2005-2008.

As depicted in Table 9 below, most of POSB branches are mainly concentrated in urban/ towns. In order to service rural areas, the POSB relies on its agent relationship with ZimPost.

Table 9: The Distribution of the POSB Branch Network

Province	Number of branches
Harare	11
Bulawayo	5
Mashonaland West	2
Masvingo	2
Midlands	6
Matebeleland South	1
Mashonaland Central	1
Mashonaland East	2
Manicaland	2
Matebeleland North	1

Source: POSB

The POSB has introduced a number of financial services in order to reach out to the low income groups. Recently, the financial institution launched a Pensioners' Guarantor Plan to cushion pensioners both in urban and in rural areas. The Guarantor Plan has a funeral cover and loan component, thus pensioners can access loans of up to US$3,000 payable over 18 months whilst having the opportunity to acquire a funeral assurance cover through payment of monthly subscriptions from as low as $0.80 and this facility is underwritten by an insurance company. Thus in the event of death, the underwriter will pay-up the loan and any balance from the cover will be paid to the beneficiaries to meet funeral expenses. In the event that at the time of death the pensioner would have fully paid-up, then his/her the beneficiaries would receive the full funeral cover benefit.

The POSB in conjunction with TNLT Livestock Bank (a subsidiary of Steward bank formerly TN) launched an Agri-loan product that allows farmers to use their cattle as collateral in order to access loans from POSB. Interested farmers will deposit their cattle at TNLT cattle banks countrywide and receive a certificate of cattle deposits (the certificate indicates the value of cattle). The farmer can access credit facilities at POSB using the certificate of deposit as collateral. In the event of default, Steward bank (TN bank) has the right to forfeit or dispose of the cattle and pay up the outstanding loan to POSB.

Going forward, the POSB has started embracing technology as a means of improving financial inclusion to bring more convenience to the banking public. In this regard, it is investing more in technology, especially Point of Sale (POS) machines, and is collaborating with merchants and retail outlets like OK, TM, Spars, and rural corner stores so that their customers can make deposits, withdrawals as well as redeeming money transfers at POS machines.

In its endeavor to expand branchless banking, the POSB has introduced cellphone banking whereby their client's access banking services such as account transfers, balance enquiry, bill payments, mini-statements and money transfers from the comfort of their homes without visiting the Bank. However, with Telecel and Net One subscribers currently accessing this facility their biggest challenge has been with Econet which is preventing its Econet subscribers from accessing the POSB cellphone banking platform.

6.2 Private Initiatives

6.2.1 Banks' own voluntary strategies for financial inclusion.

(a) Agency banking

The Zimbabwe Postal Service (ZimPost) has been contracted by a number of financial institutions as their Banking agents. The postal service has an estimated 250 post office outlets countrywide and is present in every administrative district in the country. Notable of the agency banking relationship in Zimbabwe is between ZimPost and the People Own Savings Bank (POSB) which dates back to the days they were both bundled under the Postal and Telecommunication Corporation (PTC).Through this relationship POSB have managed to serve the marginalised rural communities and pensioners for over 30 years. Thus with the decline in postal service business in Zimbabwe, ZimPost has resorted to providing agency banking to clients of the following institution POSB, Kingdom Bank, EcoCash, Tetrad and Western Union making use of its vast network of post office outlets. Econet through its EcoCash product is also offering agency banking facility to a number of banks integrated to its EcoCash platform by allowing its clients to access their bank accounts through the vast network of EcoCash agents around the country. The banks currently integrated on the platform are AgriBank, Steward Bank (TN Bank), ZB Bank and CBZ.

Although most these agents are conveniently located especially in the marginalised areas within reach of the marginalised communities they have their own setbacks in terms of service provision hence limit the extend of financial services that can be extended to the communities. Transactions that are handled by agencies are mainly limited to withdrawals, deposit taking and bill payments, thus they cannot handle applications loans/credit or funds transfer due to the principal agent agreement agreed upon by the bank and the agent. Most agents are located in premises that are not properly se4cured hence they do not usually hold on to large sums of cash for security reasons thus tend to face liquidity challenges such as running out of cash on certain days such as pensioners pay days. Thus in response to the emergence of Agent banking as a form of financial service delivery channel, the central bank is working on Agency banking guidelines to be finalized by 31 December 2013.

(**b) Shared Infrastructure network**

Players in the financial sector established a non – profit organisation ZimSwitch that provides a switching platform which allows banks to share their financial services infrastructure such as ATMs, POS. Bank customers are able to transact anywhere

where there is a ZimSwitch enabled device (ATM or POS).Thus ZimSwitch acts as a clearing house through which participant financial institutions settle their net exposure resulting from card based and Electronic Fund Transfer (EFT) on a daily basis. The establishment of ZimSwitch have allowed financial institutions to reduce capital costs for financial institutions on acquiring their own POS machines and ATM's. Currently 19 banks are connected to ZimSwitch for POS and ATM interbank transactions. Despite its huge advantages it offers its clients in terms of transacting at any financial services provider infrastructure other than their bank. However, most banks have been reluctant to locate their infrastructure in remote areas due to a number of reasons; hence they have resorted to locate their infrastructure in areas in which other financial services providers are already located depriving the industry efficacy in advancing financial inclusion through the shared infrastructure facility. Also on the other hand some banks are reluctant to avail financial service infrastructure hoping their clients to free ride on the existing infrastructure putting the burden of maintenance on the host institution.

Because of the competitive nature of the financial sector most banks are reluctant to make aware to their clients the about the presence of shared infrastructure in their vicinity hence bank clients will tend to disregard the shared infrastructure and travel long distances to transact at their home financial institutions infrastructure.

(c) Low Cost savings accounts

The current Know-Your-Customer (KYC) and minimum balance requirements have been identified as being restrictive in the uptake of financial services by the marginalised. Hence some financial Institutions are now providing low cost account with less stringent requirements model along the same lines as the Mzansi accounts. Institutions like Steward bank (TN Bank) have come up with the TN Cash card whilst Afrasia Kingdom has the Kingdom Cell card. However these accounts have a limited product range as they cannot allow users to enjoy other financial services as they are only transactional accounts in which clients can withdraw , deposit and transfer funds, thus cannot access credit facilities.

(d) Insurance services provision

Product diversification has become another financial access strategy to increase risk cover to the marginalised, most banks are now offering insurance and life assurance. BancAssurance as it is known is a relationship in which a bank and an insurance company agree to provide insurance services by making use of bank's as sales channel to sell insurance products. The insurance company underwrites the transactions, meaning that it assumes the underlying risk. Insurance products that have been offered by banks are ZB Banksure, Kingsure (Afrasia Kingdom), NMBsure, MBCAInsure and Agri-insure (AgriBank) among others. Because customers frequent their banks most of the time, they are able to buy a range of financial services products from one point. However the main disadvantage is that only those that are able to open bank accounts are able to enjoy this facility. Hence the marginalised who are not financial served cannot access these services as they are delivered at financial outlets lastly the pricing of these financial products is beyond the financial capabilities of the marginalised mainly tailored for the high end.

6.2.2 Financial Inclusion via Mobile Money: The EcoCash Platform

The country has a number of mobile banking and money transfer platforms namely Texta Cash (CABS), ZB E-Wallet, Kingdom Bank Cell Card, EcoCash and One Wallet mobile money transfer platforms. Of the above EcoCash mobile money transfer platform is the most popular and most widely used money transfer service used in Zimbabwe.

In Zimbabwe, there are more people with cellphones than with bank accounts so that mobile phones provide a good avenue to push for financial inclusiveness in the country. With 97 percent mobile cell phone penetration (POTRAZ; 2012) , it implies that most of the population have access to mobile phones, hence players in the financial sector and telecommunication industry are embracing technology as an avenue for financial service delivery through mobile banking and mobile money. Mobile telecommunication operator Econet came up with a mobile money product EcoCash in 2011.By December 2012 approximately 1.8 million subscribers were registered to the platform (Econet, 2012) which has over a thousand agents countrywide with 250–600 active subscribers per agent (GSMA; 2013). Registration to be an EcoCash subscriber can be easily done through the EcoCash agent and subscribers need not to wait longer before they can transact through the platform.

The Eco Cash is a platform were registered agents which are essentially small businesses utilizes to provide mobile money services. The more clients transact on the platform the more revenue they receive from Econet in terms of commision.Services offered by the agents are "Cash in" in which customers load money in their virtual wallets and "Cash out" in which customers redeem their electronic cash balances into hard cash.

Thus for registered Eco Cash users to transact on the platform they first need to load money onto their virtual wallet (Cash in) at a registered agent. With "e-money" loaded in their virtual wallet users can request the following services, send money {Point to point (P2P)}, buy airtime, pay bills and merchants using a USSD functionality provided for by the service provider. To receive money, a user will "Cash out" on his phone using the USSD prompt menu and enter the Agent Code to transfer the virtual funds to the agent's virtual wallet thereby redeeming his money.

Thus EcoCash is contributing to financial inclusion by:

i) Bringing payment services to the informal economy

Zimbabwe's economy is rebounding and the informal economy is thriving, but cash is still king. Most of Zimbabwe's employed work in the informal sector and do not have access to payment services. With an estimated agent network of more than a 1000 Eco Cash agents distributed around the country compared with banking outlets and ATMs, this allows one to have access to their money whenever they need it. More precisely this will help workers who are based in rural and remote areas such as teachers, nurses, doctors and policemen to easily access their salaries without having to go to a bank for those banks that have their bank system integrated on the Eco Cash platform, but accessing it at the nearest Eco Cash agent which may be local grocery store.

ii) Replacing cash in the retail environment and bridging the formal and informal economies

EcoCash is not only a product for the unbanked – cashless transactions also appeal to wealthier, banked customers and provide a practical way for money to be transferred between people in both the formal and informal sectors. Thus Eco Cash has also gone a step further to increase access to financial products by integrating bank systems with its mobile money transfer platform. Thus what this entails is that bank clients who have Eco Cash accounts can move their funds between the banks systems and the Eco Cash platform, enabling one to access his / her funds at the nearest EcoCash agent or Point of Sale machine without having to travel long distances to withdraw their salaries at the nearest bank outlet.

iii) Saving through Eco Cash Save

The EcoCash Save product is an extension of the Eco Cash service available to subscribers already on the Eco Cash platform .The facility allows subscribers to move their electronic money in their virtual wallet to an interest bearing account on the Eco Cash platform (EcoCash Save account).EcoCash Save is contributing to financial inclusion in that it is offering a hassle free investment avenue which can be accessed anytime and anywhere when there is need to transact unlike the traditional savings products offered by banks which are not flexible to small investors needs who may require their funds at short notice. Thus subscribers receive an interest of 4% p.a. on any balance of more than $1 kept in the EcoCash Save account for one calendar month.

The Central Bank's primary focus on regulating mobile money facilities is on

- The risk of the financial product:
  MNOs by the very nature of the scope of their core business do not meet the requirements to offer financial products. As such, all MNOs are required by the RBZ to partner with banking institutions in order to offer the mobile money product. The RBZ ensures that Mobile Money products do not create 'credit', and that MNOs do not offer other products outside the regulated ones. Since the RBZ doesn't have a direct relationship with the Mobile Network providers it has a direct relationship with banks, and the banks are partnering the network providers. Thus RBZ has an indirect relationship with the network providers. In this regard the central bank requires that the network providers to maintain a trustee account with a registered financial institution with real money deposits which backs balances in the e-money virtual account (EcoCash).The central bank maintains a limit on the balance of the trustee account which must not be exceeded. In the event of exceeding the limit, MNOs need to open another trust account with a different bank to avoid concentration of risk in one bank.

- Compliance of the underlying bank to financial regulations which include satisfying the minimum KYC requirements:

The RBZ expects MNOs to comply with the Know Your Customer (KYC) requirements which are part of the Anti-Money Laundering laws. However, the central bank has relaxed some of the KYC requirements for Mobile Money in order to allow the marginalized people to participate in these products. On the other hand, the MNOs are required to maintain registration details of mobile phone users as per POTRAZ requirements that all mobile lines be registered, a platform which the RBZ rides on. In addition, the RBZ works together with POTRAZ and the Registrar General's Office to ensure that no lines are registered under dead people's names. MNOs are primarily regulated under the telecommunications sector, by the Post and Telecommunication Regulatory Authority of Zimbabwe (POTRAZ), which falls under the Ministry of Transport, Communication and Infrastructure Development. Under the current communication regulation, POTRAZ allows MNOs to offer additional services (Value Added Services (VAS)) and EcoCash is one such service. POTRAZ is thus concerned about regulating the technical aspect related to the provision of Mobile Money services since it is a Value Added Service by MNOs, and as such, the technical regulation lies with line ministry.

7 CONSTRAINTS TO FINANCIAL INCLUSION GLEANED FROM FIELDWORK

In a bid to advance financial inclusion in Zimbabwe, there are limiting factors being faced both on the supply side, by the financial institutions and on the demand side. On the demand side, the Consumer Council of Zimbabwe indicated that one of the major factors inhibiting the access to financial services by the poor are the high charges being charged by financial service institutions. They highlighted that these high cost deter the unbanked to access financial services resulting in their lack of participation in the mainstream economy. There is lack of confidence in the financial sector, and the financial services and products offered. This lack of confidence is as a result of chronic bank failures that the country has been experiencing since 2003.

The Ministry of Small and Medium Enterprises indicated that close to 2 million people in the country are members of cooperatives with more women being members of SACCOs. They highlighted that the major challenges facing SACCOs have been their inability to raise savings as households are faced with liquidity shortages. They also indicated that it is difficult for SACCOs to open and maintain bank accounts for savings purposes due to the stringent KYC requirements and high transaction cost.
Players in the banking sector cited that in their quest to provide financial services to the unbanked the stringent KYC requirements by the RBZ affect their ability to serve the poor. The banking institutions indicated that most of the marginalised and poor communities do not have adequate documentation in terms of proof of resident and payslips and this limits their ability to access financial services. Given that the majority of the country`s population is informally employed this leaves a greater part of population unbanked.

The banking stakeholders indicated that the financial sector is suffering as a result of the legacy issue emanating from the crisis period hence customers no longer trust and have confidence in the banking sector. There is limited acceptance of bank products being offered by bank such as resistance from the retailers to adopt POS as a means of payment by consumers, instead they insist on preferring cash hence reluctance to promote POS as methods of payment.

The banking institutions cited that they face huge capital challenges to implement a technologically driven strategy to reach out to the marginalised and unbanked society. The introduction of new innovations that embrace technology is being hindered by cost in acquiring and installing bank platforms despite having lower cost and more benefits to banks than the brick and mortar model of banking. The adoption of ICT as a strategy to reach out to the poor is capital intensive against a low return on investment in the rural areas due to high information and monitoring costs. Rural areas are characterised by dispersed and intermittent demand for financial services, seasonality of deposits, lack of collateral and poor infrastructure.

The microfinance institutions body, ZAMFI which represents microfinance institutions highlighted that the operation challenges faced by its members in a bid to serve poor households and marginalized areas include high financial illiteracy which makes it difficult to enforce contract and the high cash in transit (CIT) cost involved in moving cash to remote areas. Microfinance institutions lack capital to acquire requisite equipment in order to expand their services and to improve their operations.

NSSA highlighted that in their endeavour to include the informal sector in their social protection scheme it is costly to pursue employees in the informal sector and those that are marginalised. These can be better served to access property, life assurance and health insurance if they are organised and belong to a representative board like the Cross Border Traders Association.

The starting point is for Zimbabwe to develop a stakeholder-driven national financial inclusion strategy. Such strategy should be underpinned by the following key components:

- Data;
- Targets;
- Agreement on financial inclusion goals;
- Policy and regulatory reforms;
- Financial sector response; and
- Monitoring progress.

The sources of data on financial inclusion are FinScope Household Surveys and Zimstat household surveys. These surveys assist in identifying gaps in financial inclusion and hence the formulation of a national strategy.

Once stakeholders under the leadership of the RBZ have agreement on financial inclusion goals, targets should be formulated. Such targets should be measurable (e.g. Based on FinScope Household Surveys, 80% of the adult population should have access to banking services by the year 2020). They would constitute financial inclusion indicators to be used for assessing progress.

Policy and regulatory reforms should ensure removal regulatory barriers. These would include electronic money regulation and facilitating the expansion of micro insurance. The goal is to induce financial sector response whereby new financial services and delivery mechanisms are introduced.

Finally, there should be a public mechanism to monitor progress on goals. Ideally a Financial Inclusion Taskforce under the leadership of the RBZ could be set up to monitor progress using financial inclusion indicators.

Specific actions that have the effect of fostering financial inclusion in the country are described in subsequent sub-sections.

8.1 Transform the People's Own Savings Bank (POSB)

A survey by CGAP reported in 2006 observed that government-owned postal banks account for the largest share of savings among institutions that provide financial services to the poor such as financial co-operatives, rural banks, MFIs and state/agricultural/development banks. The Zimbabwe POSB has a countrywide network in both urban and rural areas and is not associated with bank failures and hence is trusted as the safest place for savings by the common person.

The Government can adopt a strategy whereby it transforms the POSB into a fully-fledged commercial microfinance bank offering diverse services including credit to small-scale businesses and small landholders. The POSB's current business model whereby it only provides working capital finance to elites is not developmental and is at variance with the objective of financial inclusiveness. More so its current core capital base of $11.5 million is clearly inadequate for it to leverage its countrywide network. The government should therefore consider recapitalizing the POSB through public-private partnerships as outline above.

8.2 Promote the Setting up of Microfinance Banks

The National Microfinance Policy outlines strategies for financial inclusion that include, among others, the development of an appropriate regulatory and supervisory framework for the microfinance sector, encouragement of commercial banks and building societies to go downstream into microfinance either wholesaling funds to MFIs or retailing to consumers of MFIs, and establishing a credit reference bureau to enhance credit risk management practices. These strategies should be pursued with vigour and the Microfinance Bill should provide the enabling legislation.
While the Policy goes a long way in terms of reflecting international best practice, it still falls short in terms of its stated intent to regulate interest rates as a means of protecting the poor. As already discussed above, both international experience and Zimbabwe's own track record in its efforts to enforce the Interest Rates Moneylending Act have shown that regulating interest rates of MFIs is counterproductive. While a fully deregulated microfinance sector could be dangerous, one solution is to enact consumer protection laws that enforce transparency in disclosure of interest rates charged and penalise predatory practices. Cognisant that there are nearly 200 MFIs operating in the country, full and public disclosure of services and interest rates they offer would create competition among them resulting in lower interest rates charged to clients.

Furthermore, it is necessary to remove specific barriers preventing small banks to downscale to microfinance banks by:

- Deregulating deposit and lending rates;
- Permitting foreign currency transactions, especially remittance transfer services; and
- Permitting the cheque system.

By removing these barriers, small banks that are struggling to raise capital could be persuaded to transform into microfinance banks and still be able engage in the same business operations. Existing MFIs will also find it attractive to upscale to microfinance banks.

Promotion of financial inclusion is critical for developing countries like Zimbabwe as a means to fight poverty and marginalisation. Financial inclusion is a key catalyst to the development of the rural economy and the informal sector in Zimbabwe and hence the need for all stakeholders in the country to actively work on reducing and eliminating financial exclusion. The key strategies that both the private sector and government can adopt to enhance financial inclusion in the country include the following:

8.3 Promote Technological Innovation

Technological innovation plays a very transformative role in reaching out to the unbanked market. There is need for banks to move away from the traditional brick and mortar model of banking especially when targeting the rural communities and informal sector and leverage on technology to provide "branchless" banking. The introduction of new products like Eco Cash for example has gone a long way in improving financial inclusion in the country as a number of people in remote areas can now easily access and send cash. Innovative technology like e-banking and cell phone banking amongst others lowers the cost of providing financial services, and enhances the efficiency of financial services providers. The cumulative effect is that, the improvement in efficiencies will lower costs and this will result in relatively low banking charges/fees.

The government should complement the innovative drive of the private sector through proactively reviewing the legal framework and guidelines. Government should ensure that the legal framework and guidelines are not lagging and do not frustrate new initiatives in the financial sector. A supportive legal framework is crucial for banks to offer new products and services that are targeted at the unbanked. Government should also work closely with the private sector especially retailers to promote the use of new products like POS.

8.4 Restore confidence in the banking sector

A number of economic agents in the country do not have confidence in the banking sector due to chronic banking crisis. Resultantly, the majority of the population who were increasingly using the financial sector are now unbanked. According to the FinScope Zimbabwe 2012 Small and Medium Enterprises survey, the informal sector contributes about US$7.4 billion to the economy. The bulk of this amount is however not banked and is circulating outside the banking sector due to low confidence in the banking sector. Thus restoring confidence in the banking sector is a good starting point in promoting financial inclusion in the country. The central bank should remain proactive and ensure that the banking sector is safe and sound. This will go a long way in rebuilding confidence in the sector.

Addressing the issue of high bank charges and returns on savings is also important in promoting financial inclusion. A number of people are not using the banking facilities due to exorbitant bank charges and low returns on savings.

8.5 Promote Infrastructure Development

Infrastructure development in the rural areas and previously marginalised communities is fundamental in providing a platform to promote financial inclusion. The Government can play a leading role in championing infrastructure development e.g. roads, and electricity to improve accessibility and connectivity. However given the fiscal space challenges that government is currently facing, there is need for government to provide incentives to private sector players to encourage investment in information communication technology infrastructure across the nation. This will help to reduce accessibility barriers/ obstacles currently bedevilling players in the financial sector.

8.6 Review banking Laws

In order to expand financial services mainly credit to the poor, banking laws in Zimbabwe needs to be readjusted to accommodate the poor or rural community. The current banking supervision guidelines subjects bank clients to the same rigorous credit rating exercise hence there is need to have a separate supervision based on clientele. Further, the stringent KYC requirements by the RBZ, makes it difficult for the poor and SMEs to open accounts since they do not have adequate documentation in terms of proof of residence and employment in the form of utility bills and pay slip. Thus reviewing the laws and conditions especially in the rural areas, and SMEs markets will allow more people to open bank accounts. Regulatory reforms should also promote innovation by financial institutions to serve lower income clients.

8.7 Promote expansion of product portfolio

There is need for banks to expand their product portfolio and offer products tailor made for the poor. Banks can come up with savings products that promote banking habits among the poor e.g. no charges account. In order to fully deliver financial inclusion to the poor there is also need for banks to expand their product portfolio from credit and savings provision to include micro insurance services. Micro insurance services would enable microenterprises to buy insurance to cover potential losses that could hinder business growth.

The regulatory authorities should also allow and promote the registration of savings and Credit Cooperative in rural communities for members to access funds for developmental projects. Community based schemes are more accessible to the local communities and they can have far reaching impact on poverty alleviation in the rural economies as they can be tailor made to fund community based development projects.

8.8 Promote Increased Cooperation among Banks

Given the huge capital outlay which is required to fund the acquisition of new technology which is required to enhance financial inclusion e.g. POS, ATMs, Mobile banking platform etc., infrastructure sharing among banks that is inter-operability could help to enhance financial inclusion as it gives more room to spread financial services and product. Banks could also consider establishing an entity for the common pulling of resources (ATMs, and POS) through a Special Purpose Vehicle (SPV) owned and operated by banks themselves. This will help to spread the cost of using technology to offer banking services and products.

There is need for players in the banking sector to increase awareness and education on the existence of share infrastructure and how bank clients can utilise them for example, ZimSwitch and the PostNet service offered by the ZimPost through their post office network. These services, allows customers to access bank services at post offices or member banks to ZimSwitch, but because of the lack of awareness there is low utilisation of the facility. Increased awareness and utilisation will go a long way in serving the unbanked in the country given that ZimPost has over 180 outlets whilst ZimSwitch has 19 Banks with a number of branches dotted across the country.

8.9 Address Barriers to Financial Inclusion

The matrix in Table 10 below summarises policy solutions required.

Table 10: Matrix of Policy Solutions to address barriers to Financial Inclusion

Barriers to Financial Inclusion	Policy Solutions to be included in Strategy
Micro level Interventions	
1. Low income (low per capita GDP)	• Reduce personal taxes to increase disposable income hence savings
2. Lack of financial knowledge	• Financial literacy • Awareness campaigns
3. Documentation requirements	• Streamlining the Know Your Customer Requirements
Meso level Interventions	
4. Cumbersome requirements	• Streamlining banking laws and financial regulation requirements
5. Long distances	• Retail agent banking • Use of POS devices • Use of ATMs • Mobile banking/payments • Increased number of bank branches
6. Informational infrastructure	• Establish a Credit Bureau to share information on credit defaulters
7. Contractual infrastructure	• Establish special purpose vehicles to allow for common ownership of shared infrastructure.
Macro level Interventions	
8. Lack of trust	• Improve corporate governance in the financial sector. • Capitalise the Deposit Protection Corporation to play a more active role in insuring deposits.
9. Lack of competition	• Removing barriers to entry to encourage more players in the industry
10. High cost of financial services	• Offer incentives such as tax rebates on certain consumables used in the financial sector • Put in place appropriate infrastructure that makes it conducive for financial institutions to operate at low costs.

9 KEY MESSAGES AND CONCLUSION

The study noted that Financial inclusion in Zimbabwe is being restricted by the stringent and cumbersome requirements embedded in the country's banking laws, an uncompetitive operating environment which has been characterized by low personal incomes and high operating costs for financial institutions. Therefore the use of technological innovations such as EcoCash and mobile banking has been noted as being at the forefront of advancing financial inclusion and changing the financial service delivery landscape, due to a high mobile penetration rate. Thus in conclusion there is need to streamline the Know Your Customer requirements to cater for the marginalized poor, move towards branchless banking through embracing the use of technology as a service delivery channel, invest in infrastructure development in marginalized communities as this will help to reduce obstacles faced in promoting financial inclusion. Finally there is need to increase competition in the financial sector to foster innovation in financial service delivery hence promoting financial inclusion.

Going forward, Zimbabwe should develop a stakeholder-driven national financial inclusion strategy use the World Bank's (2012) Reference Framework whose main components include:

- Stock-taking: data and diagnostics;
- Targets and objectives;
- Strategy-building or revision;
- Public sector actions: policies, regulation, and financial infrastructure;
- Private sector actions; and
- Progress monitoring.

Specific policy recommendations have proffered in the discussion paper.

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55 Mull Road, Belvedere
Harare, Zimbabwe
Tel: +263 4 778 423
Fax: +263 4 778 415
Email: administration@zeparu.co.zw
Web: www.zeparu.co.zw

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