FINANCIAL INCLUSION IN ZIMBABWE BANKING & MICROFINANCE SECTOR

Address

By

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On the Occasion of the Third Zimbabwe SME Banking & Microfinance Summit 2015, held at Meikles Hotel, Harare

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Salutations

- The Minister of Small and Medium Enterprises and Cooperative Development, Honourable S. Nyoni;
- President of Bankers Association of Zimbabwe , Mr. S. Malaba;
- The Managing Director of Deat Capital; Mr. N. Moyo;
- Representatives from the Banking, SMEs and Microfinance sectors;
- Distinguished Guests;
- Ladies and gentlemen.

Good morning.

1. It is a great pleasure to address you at this 3rd Summit on SME Banking & Microfinance. Let me start by thanking the organisers of the seminar, Deat Capital, for the noble initiative in organising this seminar and for inviting me to speak on such an important topic.
2. My topic is **"Financial Inclusion in Zimbabwe's Banking and Microfinance Sectors"**
3. As you would know, ladies and gentlemen, the microfinance sector and the SME Banking units of banking institutions play a critical role in the process of building inclusive financial systems which promote inclusive growth and development.
4. ***Financial inclusion is not a new dispensation***. However, allow me to start by outlining what it entails for us as regulators and supervisors of the banking sector and the microfinance sector.
5. Financial inclusion refers to the sustainable ***cost-effective*** provision of ***a wide range of financial services*** at affordable cost to the ***majority of the population,*** enables households and micro, small and medium enterprises to engage in income generating activities which ***improve their economic welfare.***

6. The IMF, in a number of empirical research papers, has noted that the merits of financial inclusion are strongly rooted in empowerment. **Access to credit is a key link between economic opportunity and economic outcome.** By empowering individuals and families to cultivate economic opportunities, **financial inclusion can be a powerful agent for strong and inclusive growth.**
7. Ladies and gentlemen, I would like to outline the major benefits of financial inclusion in a nutshell, in order to give context to the issues I wish to discuss later.

Importance of Financial Inclusion

8. Financial inclusion provides **a platform for widening access to a variety of financial products and services** by SMEs and low income households.
9. Financial inclusion promotes **efficient allocation of productive resources** which can potentially reduce the overall cost of capital. Further, it mitigates the exploitation of vulnerable segments by usurious lenders by facilitating easy access to formal credit.
10. Financial inclusion **ensures that a wide range of financial products and services are accessible**, appropriate and available to meet the unique needs of low income groups at affordable cost.
11. Experience worldwide has shown that bringing more people, and therefore more savings, into the financial system **can lead to increased economic growth and macroeconomic stability in a country**.

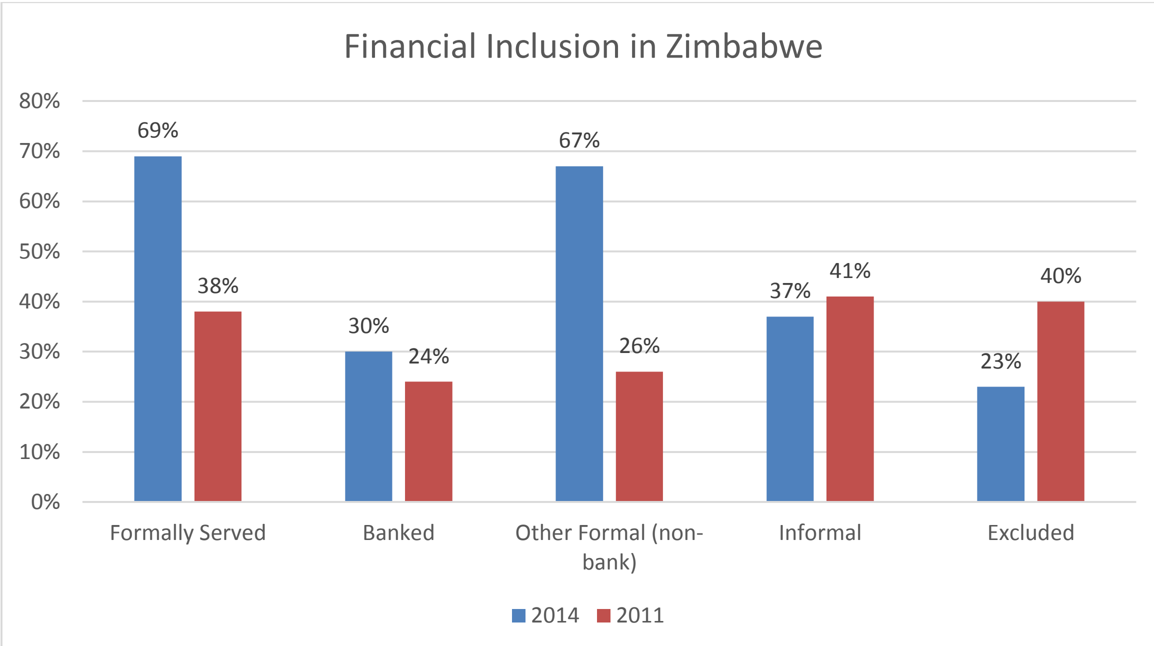
Status of Financial Inclusion in Banking & Microfinance Sectors in Zimbabwe

12. There are currently a total of 20 operating banking institutions, including the People's Own Savings Bank, with over 300 branches, in total.

13. In addition, as at 31 December 2014 there were 147 microfinance institutions with 473 branches serving 205 282 clients with 257 542 loan accounts throughout the country. This was an improvement from 334 branches that served 150 188 clients with 162 221 loan accounts in December 2013.

14. Despite the geographical and functional reach of the commercial banks and microfinance institutions in Zimbabwe, large numbers of people remain financially excluded.
15. Small farmers, small scale enterprises, women, the self-employed, unemployed, pensioners, etc. remain excluded from the opportunities and services provided by the formal financial sector.
16. Nevertheless, significant progress has been made over the last few years to promote financial inclusion in the country.
17. The FinScope Consumer Survey 2014 results revealed that Zimbabwe has achieved great strides in expanding financial inclusion since 2011. The 2014 results showed that:
    a) 23% of Zimbabweans are financially excluded, a reduction from 40% in 2011;
    b) 37% rely only on informal financial products or services also a reduction from 41% in 2011;
    c) 69% are formally served which is a great improvement from 38% formally served in 2011; and

d) Of the formally served in 2014, 30% have access to bank products and services while 67% have access to formal non-bank financial products and services.



18. The improvement in the level of financial inclusion between 2011 and 2014 is attributed to deliberate efforts by government, regulatory authorities and other stakeholders to improve financial inclusion levels in the country; and the ongoing adoption of technology based models of delivering financial services by banking and non-bank financial institutions including some microfinance institutions.

19. Leveraging on technology has enabled financial institutions to expand outreach at reasonable costs.

Initiatives to Promote Financial Inclusion in the Banking Sector & MFI Sector

20. Ladies and gentlemen, financial inclusion has become a priority area for the Government and the Reserve Bank, as part of a broader agenda for financial sector development.

21. The Reserve Bank has adopted a **bank-led model** to financial inclusion. On our part we have tried to create an enabling environment that facilitates competition and fosters financial innovation.

22. Given that **one of the barriers to financial inclusion is unavailability of comprehensive credit information** on credit worthiness of potential borrowers for both banks and MFIs, **the Reserve Bank is in the process of establishing a Credit Registry**.

23. The availability of credit information is expected to improve credit risk management processes of banks and MFIs and enable them to lower cost of credit for low risk clients as well as reduce incidences of over-indebtedness, thus promoting financial inclusion.

24. Further, the initiative by the Reserve Bank to create an asset management company (**ZAMCO) to resolve non-performing loans in the banking sector will improve capacity of banks to create credit in future.**

25. Following the gazetting of the Microfinance Act in 2013, there is **provision for registration of deposit-taking microfinance institutions (microfinance banks)**. In January 2015, the Reserve Bank issued the first deposit-taking microfinance licence. Microfinance institutions are expected to enhance provision of financial services to low income groups.

26. The Reserve Bank has also issued **simplified risk-based KYC requirements** to facilitate opening of bank accounts by low income groups.

27. In addition, the Reserve Bank continues to **encourage banks, through the Bankers Association of Zimbabwe, to provide low cost bank accounts to the banking public**.

28. A number of **banking institutions have set up SME divisions** to provide financial services and capacity building to SMEs and have increased outreach in previously unbanked areas in response to the financial inclusion call.

29. Banks are increasingly using alternate channels of delivery. Zimbabwe has experienced phenomenal growth in the usage of mobile phones to access financial services. Mobile banking has created opportunities for every cellphone owner to access financial services.

Mobile Tele-density Statistics

Indicator	2014	2013	2012	2011
Mobile phone penetration rate	**106%**	104%	87%	72%
Mobile phone subscriber base	13.5m	13.5 m	12.6 m	9.2 m
Number of mobile network operators	**4**	3	3	3

30. The **number of banking institutions offering mobile banking services increased** to 20 in 2014 from 15 in 2013. The volume and value of mobile transactions increased from 119.14 million and $2.1 billion in 2013 to 178.51 million and $3.6 billion in 2014, respectively.

31. The Reserve Bank encourages **interoperability of systems** in order to lower the cost of service provision to the consumers.

32. In addition, we have witnessed a **sustained growth in agent banking** in the sector mainly the use of **Point of Sale devices located at local retail shops and other merchants** as well as **automated teller machines (ATMs)** which give customers access to their bank accounts for transaction and payment services through the use of debit cards. The number of ATMs is even more than the number of branches.

33. Although the bulk of the POS devices and ATMs are concentrated in urban areas their density per 100 000 adults improved from 89 POS devices in 2013 to 165 in 2014 and from 6 ATMs in 2013 to 7 in 2014.

Access Points / 100,000 Adults

YEAR	ATM	POS	M- BANKING AGENTS
2010	5.39	27.67	0.27
2011	4.56	46.90	21.06
2012	4.87	55.25	41.82
2013	5.53	88.58	88.56
2014	7.05	165.27	335.71

34. **Banks and microfinance institutions are also appointing third-party outlets to act as their agents** and provide financial services to the customers of the principal banking and microfinance institutions.

35. Given this development, the Reserve Bank is working on **guidelines to guide the market on agent banking operations**.

36. We have noted that the low cost physical structures **of MFIs allow them to establish operations in remote areas of the country** and provide access to financial services to people who would not be able to access the services from banking institutions. To a great extend MFIs fill the gap left by banks.

37. The Reserve Bank observed an **improvement in the proportion of total loans extended by MFIs for developmental purposes from 29.11% of total loans in 2013 to 46.70% in 2014**.

Outstanding Issues to be Tackled Going Forward

38. Going forward the Reserve Bank hopes that banks and MFIs will introduce new products and services crafted to the needs and income streams of poor borrowers which will enable self-sustaining financial inclusion.

39. Banks and MFIs are urged to take **advantage of technological advancements which are facilitating wide outreach to remote areas** where business opportunities have been opened e.g. mobile cash agents and banking agents.

40. **Consumer protection** is a key pillar in the framework for promoting financial inclusion.

41. According to the preliminary results of a consumer protection and financial literacy review of the financial sector in Zimbabwe conducted by the World Bank in July 2014, there are **gaps in the overall consumer protection legal and regulatory framework**, and financial literacy and capability among consumers of financial products and services.

42. In this regard, the Reserve Bank is working on a **consumer protection guideline.**

43. **Building financial capability through financial literacy is a key component of financial inclusion.** It means providing financial education so that individuals can identify and use appropriate financial products and services in order to build and preserve their assets over time. It should make people better informed, better educated and more confident, able to take greater responsibility for their financial affairs and able to play a more active role in the market for financial services.

44. The Reserve Bank has engaged the Ministries of Primary & Secondary Education, and Higher & Tertiary Education; and tertiary institutions to explore scope for incorporating programs into their curricula earmarked at improving financial literacy levels in the country.

45. In addition, the banking sector should tackle the following **major barriers to financial inclusion** in Zimbabwe which include:

   a) high cost of financial services including high bank charges which erode and discourage savings;

   b) stringent account opening requirements;

   c) lack of information on financial products and services compounded by poor financial literacy.

46. In addition, it should be noted that the poor infrastructure in rural settings lead to financial institutions shunning these marginalized areas.

Conclusion

47. In conclusion, ladies and gentlemen, it is important to indicate that financial inclusion should be viewed as a business strategy for growth and banks and MFIs need to position themselves accordingly.

48. Promoting financial inclusion is a collective responsibility.

49. The private sector should embrace technological innovation is perhaps the most promising way to advance financial inclusion.

50. The Government role is to create an enabling environment for financial access.

51. The Reserve Bank will continue to collaborate with providers of financial services and other relevant stakeholders in creating a conducive environment for the expansion of financial inclusion in Zimbabwe.

52. As the central bank, we endeavour to remove any regulatory bottlenecks in achieving greater financial inclusion in the country.

Thank You