CAUSES & EFFECTS OF FINANCIAL EXCLUSION IN THE BANKING SECTOR: THE CASE OF ZIMBABWE

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Abstract

The study sought to establish causes and effects of financial exclusion in Zimbabwe from 2009 to 2011 . The study adopted both descriptive and exploratory research designs owing to the qualitative and insightful nature of the study . A diverse sample of 200 comprising bank managers , the unbanked population , bank clients and officials from the Central Bank was used and the sample was drawn from the three delimited towns. Structured and semi- structured questionnaires, in-depth interviews and observation were used to gather data from the chosen sample . The study came out with fundamental findings inter –alia ; the majority of the unbanked population were in the informal sector , the rural and the low income population, the crisis of 2003 -2008 eroded people's confidence in banks resulting in self exclusion, financial exclusion impacted negatively on the economy as a result of liquidity crunch and an estimated US $ 2.5 billion is circulating outside the formal banking system thereby reducing the country to a "cash economy," and the majority of the unbanked are the general population and the small to medium enterprises who cannot meet the stringent bank loans requirements. Major recommendations

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are ; the need for banks to increase frequency of their mobile banking units to the marginalized unbanked in rural areas , banks to revise their bank charges so as to attract and retain depositors, banks to practice sound corporate governance and business ethics to regain depositors confidence .

Keywords: Financial exclusion, financial inclusion, unbanked , liquidity crunch , banking sector .

1. Introduction

The period between 2000 and 2008 still linger in people's minds as the Zimbabwean economy was characterized by hyperinflation which hit the highest monthly inflation rate 89 sextillion percent (79 600 000 000%) in November 2009, (Professor Steve Hanke, 2009). Massive power cuts , shortage of basic commodities ,infrastructure decay , lack of basic services in health and education sectors also haunted the economy. The situation for banks and depositors was worsened by morale decadence as many bank officials engaged in all sorts of unethical and unsound corporate governance practices such as insider trading and selling and buying of foreign currency on the black market dubbed as 'BURNING.' All banks, especially the indigenous owned resorted to non –core and unrelated dealings such as commodity broking and all kinds of speculations in order to survive.

The banking sector was one of the sectors which was the most hard hit by these economic woes as there was a chromic shortage of cash despite massive printing of bank notes by the Central Bank of Zimbabwe. Both companies and individuals would have trillions and quintillions of Zimbabwean dollars in their bank accounts but the mystery was that depositors could not access these funds since demand far exceeded supply. In February 2009 , the government of Zimbabwe saw it prudent to replace the Zimbabwean dollar with more stable currencies hence the birth of a multi-currency regime dominated by the United States Dollar (USD) which brought in some measurable degree of sanity and stability in the economy.

However , despite the stability associated with the introduction of the multi-currency regime , corporate and individuals seem to be taking too long to heal from their nasty experiences of the 2000 to January 2009 as they still doubt the capability of banks as safe and secure custodians of their funds .

As observed by the Governor of the Reserve Bank of Zimbabwe , the financial sector plays a pivotal role in economic development by passing critical capital resources from surplus units of the economy to deficiency units that seek to undertake economically justifiable activities. Financial institutions (banks) also facilitate settlement of financial transactions that are undertaken in the real economy , thus lubricating the economic engine , (The Daily News on Sunday , 12 March 2012).

According to the Bankers Association of Zimbabwean (BAZ) the estimated US$2.5 billion still circulating outside the formal banking system against the US$ 3.3 billion circulating in the formal banking system , is still a big figure worth paying attention to as one can safely assert that the degree of financial exclusion stands at 43% .The fact that US$2,5 billion is circulating outside the formal system means that a majority of the people and /or companies are being financially excluded from accessing funds to transact and Sinclair
(2004) defines financial exclusion as inability to access necessary financial services in an appropriate form.

According to the Reserve Bank of Zimbabwe, failure by banks to mobilize deposits can be a recipe for acute problems in the financial sector as it is not conventionally possible for a bank to operate without pooling sufficient deposits and funds in order to stay afloat . The view is that a strong and reliable banking system is the engine of economic growth.

It must be noted that financial exclusion is not a feature confined to Zimbabwe .Globally , it is also a problem which had to be addressed in a number of countries , especially developing countries .According to the Consultative Group to the Assist Poor (AGAP) (2010) , the number of un-banked adults amounts to 2.7 billion , which is 72% of adults in developing countries and 160 million (9 %) of adults in the developed countries .SQW Consulting (2010) also points out the disadvantages of having certain group of people excluded from financial services . “Access to safe and affordable credit and other financial services by the poor and disadvantaged areas and lagging sectors is recognized as a pre-condition for accelerating growth and reduce income disparities and poverty ,” (SQW Consulting , 2010).

The United Nations (2006) also asserts that despite broad international consensus regarding the importance of access of finance as crucial poverty alleviation tool , it is estimated that globally , over 40% of the people are currently excluded from access to financial services .

A survey conducted by the National Task Force on microfinance in 2006 revealed that the formal financial system provides services to only about 30% which is less than regional average of 40% of the economically active population .Thus financial sector development strategies have focused on strengthening overall financial stability and increasing the availability of services to major economic actors that is, large firms , government and wealthy households – thereby marginalizing the small-scale sector that constitute the majority of economic actors in developing countries.

The Reserve Bank of Zimbabwe Monetary Policy (July 2009) alluded to the prevalence of financial exclusion in Zimbabwe as it asserted that during the currency reform exercise , christened Sunrise Project 1 , conducted in Zimbabwe , it was evident that the majority of Zimbabweans , particularly in the rural areas have no access to financial services. The Reserve Bank also noted that financial exclusion was not only rampant in the rural areas , but also in the high density townships . The foregoing discussion clearly provides empirical evidence of the existence of financial exclusion in Zimbabwe and this should be a cause for concern to the government , the banking sector and all other relevant stakeholders.

2. Literature Review

Generally, there seem to be no contrasting views regarding the meaning of financial exclusion by various authors. Sinclair as quoted by Asian Research Consortium (2011), defines financial exclusion as "the liability to access necessary financial services in an appropriate form .Exclusion can come about as a result of problems with access conditions , prices , marketing or self-exclusions in response to negative experience or perceptions." Chant Link and Association Australia (2004) seem to echo the same sentiments with Sinclair when they define financial exclusion as " lack of access by certain consumers to appropriate low cost , fair financial products and services from mainstream providers." The financial exclusion is of concern when it applies to low income consumers and for those in financial difficulties . The Scottish Government (2005) also adds a fundamental dimension to the definition of financial exclusion as "lacking the capacity , skills , knowledge and understanding to make the best use of those products and services ."

Leyshon and Thrift (2001) define financial exclusion as those processes that serve to prevent to certain social groups and individuals from gaining access to the formal financial system . Conroy (2005) seems to be agreeing with Leyshon's view but the former is more specific when he asserts that financial exclusion is a process that prevents the poor and disadvantaged e.g. social groups from gaining access to formal financial systems of their country. Mohan (2006), also adds that financial exclusion signifies the lack of access by certain segments of the society to appropriate, low cost , fair and safe financial product and services from mainstream providers.

From the various definitions of financial exclusion by different scholars , the researchers drew the following distinctive features ;

(i) it may refer to the inability of the financial sector to offer appropriate financial products to various segments of the population .

ii. The financially excluded may not be aware and or knowledgeable about the existence of financial services hence inability to access them and

iii. the excluded may be aware of the available financial products and services but still fail to access them due to prohibitive costs , terms and conditions attached to such financial services, Handbook on Indian Economy (2010 -2011) .

Many scholars have come up with seemingly similar views on who are finically excluded. The United Nations (2006) highlights that despite the broad international consensus regarding the importance of access to finance as a crucial poverty alleviation tool , it is estimated that globally over 3 billion people are excluded from access to financial services .The same report adds that , in most developing countries , a large segment of society , particularly low income group has very little access to financial services , both formal and informal. On the other hand, the Asian Journal Research in 2011 adds that , in an industrialized and high income country having a well developed banking system , the exclusion from the financial systems occurs to persons who belong to ethnic minorities, immigrants and the aged .There is also a geographical influence as people living in the rural areas and in locations remote from urban financial centers which are believed to be excluded from financial system .The Society of St Vincent De Paul (2005) adds an interesting dimension to classes of the financially excluded .It postulates that people who have never had an account are a desperate group and the reasons for them being outside the banking system vary greatly as St Vincent de Paul (2005) further observe that the financially excluded comprise those who have never needed an account , the younger people who have yet to open an account , women who have always relied on their husbands' accounts , women who became single mothers at a very young age and households who prefer to use a cash budget. The Report on Promoting Financial Inclusion in Rural Areas (2007) concurs with other observers and sums up by pointing out that the financially excluded are marginal farmers , landless laborers , self –employed and informal sector enterprises , urban slum dwellers , migrants , ethnic minorities , social citizens and women .

Various authors have written on factors that contribute to financial exclusion .Bihari (2011) postulates that although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population, immobility of the population and insurgency in a location also affect access to financial services .In its report on Promoting Financial Inclusion in Rural Areas , SQW Constructing (2007) seems to concur with Bihari (2011) as the former postulates that , the place of living particularly rural areas affect the access of people to financial services . Bihari (2011) concludes that most people will be at a financial disadvantage because most people live in rural areas and in locations that are remote from urban centers where there are conducive infrastructure for financial institutions .

Limited literacy is also said to be another source of financial exclusion as noted by the Asian Development Bank (2007) .Lack of financial literacy , that is , basic mathematics , business finance skills , as well as lack of understanding often impedes demand for financial services. Serma and Pais (2008) seem to support the same view when they observe that adult illiteracy is positive and significant associated with financial exclusion and the higher the adult literacy, the higher will be financial inclusion and the reverse is true .Bihari (2011) also notes that most of the financially excluded consumers are not even aware of the facilities they are missing .Thus all the three authors subscribe to the view that literacy and illiteracy have a bearing on both financial inclusion and exclusion respectively.

SQ Consulting (2007) identifies bank charges as one of the sources of financial exclusion especially that range of other charges that have disproportionate effects on people with low income .In its monetary Policy Statement (July 2009) the Reserve Bank of Zimbabwe noted that there is significant disparity in local bank charges on some products and services for individual and corporate clients and corresponding charges levied by some regional banking institutions .

The Handbook of Statistics on Indian Economy (2010 -2011) underscores that exclusion from a financial services and products can also be due to cultural and psychological barriers associated with access , conditions, prices , marketing /promotion of financial services. Bihari (2011) quoted by the Asian Journal of Research Sciences and Humanities (2011) observes that “the feeling that banks are not interested in looking into cause has led to self –exclusion for many of the low income groups .” Bihari (2011) and Kempson and Jones (2000) also agree that the negative nature of people’s psychological feelings impact negatively on financial inclusion .The level of income is another determinant of financial exclusion as noted by findings by SQW Consulting (2007), “ substantial proportion of households especially those with low income tend to live outside the **ambit** of the formal financial system .This is a result of the fact that if an individual has little disposable income, it follows that he /she has nothing to save and / or invest with banks. Bihari (2011) also notes that lack of legal identity documents like birth certificates , identity cards or written records excludes women , ethnic minorities, economic and political refugees and migrant workers from accessing financial services.

Strict documentation for opening bank accounts by most banks , also compounds the level of financial exclusion, (the Handbook of Statistics on Indian Economy 2010-2011) . Lack of attractiveness has also been cited by the Reserve Bank of India (2008) as one of the causes of financial exclusion .

Various scholars have deliberated on the negative consequences and effects of financial exclusion to the economy , banks and the general citizens of any country .As noted by Mohan (2009) , financial exclusion complicates day to day cash flow management as the financially excluded tend to deal entirely in cash and are susceptible to irregular cash flows .Again lack of financial planning and security in the absence of bank accounts and other savings opportunities limits options for providing the marginalized (excluded) when they reach old age and this worsens poverty.

Bihari (2011) observes that when small and medium firms face difficulties in accessing external finance , they lose opportunities to grow and innovate .The Handbook of Statistics on Indian Economy (2010-2011) , notes that financial exclusion also represents loss of business opportunity for banks. SQW Consulting (2010) also argue that financial exclusion can also lead to denial of access to better products and services that require a bank account. Individuals are also exposed to the inherent risk in holding and storing money (cash). Chakrabaty (2009) highlights the negative effects of financial exclusion at national level as he states that the wider level of society and the nation , financial exclusion leads to social exclusion as well as other associated economic and social problems. Mohan (2009) supports this view by Chakrababaty(2009) when he adds that the resultant social exclusion will be dominant in communities with limited access to financial service particularly in rural areas. The European Commission (2008) also adds that the more visible outcomes of financial exclusion includes among others , cost and security issues in managing cash flow and payments , compromised standard of living resulting from lack of access to short term credit , exposure to unethical , predatory and unregulated providers credit , vulnerability to un-insured risks and long term extended dependence on welfare as opposed to savings .

From the contributions by various authors , it is worth noting that they all concur that financial exclusion has negative effects to the economy, the banks and the excluded ones.

3. Methodology

The researchers applied both descriptive and exploratory research designs since the study required to explore the possible causes of financial exclusion and describe events that characterize the phenomenon of financial exclusion as they appeared more of qualitative than anything else .The target population was branch mangers , bank clients , unbanked people , officials from the Reserve Bank of Zimbabwe and Bankers Association of Zimbabwe .The researchers used sample sizes of , 45 bank clients , 105 unbanked people , 15 branch managers , 3 officials from Reserve Bank , and 2 officials from Bankers Association of thus bringing the total to 200 for the three delimitated areas that is Kwekwe , Gweru and Kadoma .Purposive and random sampling techniques were used to come up with the various samples .Structured and unstructured questionnaires , in-depth interviews and observation were used as data collection instruments .It must be noted that observation came in quite handy since one of the researchers is a seasoned banker .All the three research instruments focused on establishing the reasons /causes and effects of financial exclusion to banks , the economy and the financially excluded.

4 Results

Two major themes were used as the basis of analysis for this study and these were causes and effects of financial exclusion on the economy , the banks and the excluded population.

4.1 Causes of financial exlusion

Among the major reasons for financial exclusion as revealed by this study are;

(a) The respondents felt there were no tangible benefits as there was no return or interest (reward) to be earned from the banked money.

(b) Bank charges were perceived to be very high as a result of withdrawal , transfer and monthly service charges.

(c) Respondents lacked confidence and trust because of their nasty experience during the period between 2003 and 2008 when a lot of banks went under with the depositors' funds .

(d) Lack of innovative strategies to attract and retain clients by banks.

The Researchers noted that the above causes of financial exclusion are in agreement with what Sinclair (2001) as quoted by Asian Research Consortium (2011) who asserts that exclusion can be as a result of , problem with access conditions , prices , marketing or self – exclusion in response to negative experience or perception .The last point seem to be in agreement with Mohan's (2009) observations that banks contribute to higher level of financial exclusion when they fail to come up with measures that mobilizes funds from the people .

4.2 Effects of financial exclusion

(a)The US$2.5 billion circulating outside the formal banking channel partly contributed to liquidity crunch haunting the Zimbabwean economy.

(b)Financial intermediation role of banks is strained as banks lack the necessary financial impetus to deploy the funds to deficit areas of the economy. This has in turn impacted negatively on industrial capacity utilization as companies can not access working capital funds.

(c) Excessive reliance on expensive informal sources of credit loan sharks has resulted in low deposits base thereby making it difficult for banks to lend.

(d) Lack of meaningful investment as the excluded cannot access funds.

(e) Aversion of savings culture. The general public now hold negative public perception about putting their extra funds in the bank because of their past nasty , experience alluded to earlier on.

(f)Both small companies and the general public have resorted to holding of cash in unsafe places and this is highly risky besides contributing to the US$2.5 billion in the informal circulation.

5 Conclusions of the study

The most affected by financial exclusion are small to medium companies in the informal sector and the marginalized people in rural areas , high density suburbs and the low income earners. Financial exclusion of the above groups is two dimensional, namely self exclusion due negative perceptions about banks by the unbanked population and exclusion imposed by banks due to prohibitive requirements for one to access a bank loan.

6. Recommendations

In view of the findings of the study, the researchers made the following recommendations inter alia;

(a)Banks to increase the frequency of mobile banking facilities so as to bring the unbanked into the mainstream financial participation.

(b) Use of electronic banking is much cheaper and would reduce the pervaded high bank Charges.

(c)Aggressive promotional campaigns in remote and marginalized areas should be adopted in order to conscientise the un banked about the availability and how to use mobile banking products and services.

(d)Banks to streamline their bank charges in line with regional trends.

(e)Banks to devise affordable saving accounts with no or very low services fees to cater for the marginalized low income earners.

(f) The government through the ministry of Small and Medium Enterprises and Cooperative Development should ensure that all small to medium firms in the informal sector are registered and have bank accounts for their transactions.

(g)In view of the low confidence in the banking sector and the economy, the government ought to provide the conducive business environment through policy predictability and consistency to avoid speculative culture. In line with this , the government should give an official position on the fate of the Zimbabwean dollar to demystify unnecessary anxiety and speculative tendencies that have grabbed most Zimbabweans.

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