

# FROM FINANCIAL EXCLUSION TO FINANCIAL INCLUSION THROUGH MICROFINANCE: THE CASE OF RURAL ZIMBABWE

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## Abstract

This paper sought to shed light on the status of rural banking and financial exclusion in Zimbabwe. Various reasons put forth by existing commercial banks were examined to understand why a large population of the country remains unbanked. These ranged from perceptions of the rural communities being too poor to need financial services to real economic and business decisions. Various literature on banking the poor and success stories from other countries were discussed in the literature. To meet the objectives of the study, data gathered from various individuals, commercial banks and microfinance institutions based in Matabeleland North was analysed. It was found that the rural population is in fact largely bankable. However, due to inadequate basic infrastructure in the rural areas, it did not make business sense for established banks to service that population. Banks exist to make a profit and the burden of ensuring financial inclusion of the rural population was left mainly to microfinance institutions which however faced a serious of challenges ranging.

**Keywords:** Unbankable, Rural, Microfinance, Financial Exclusion, Zimbabwe

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## 1. Introduction

For many years, communities in rural areas in Zimbabwe were side-lined when it came to access to financial services. These rural communities were generally perceived as “unbankable” and poor, yet some of them had higher networths than urban dwellers. Banks argued that carrying out banking operations in rural areas would not be viable. Many commercial banks are private institutions whose shareholders would not even consider such a risky business venture.

All economies rely on the financial intermediary role of transferring resources from savers to borrowers. According to Kitchen (1988), in developed countries with market economies, this intermediary role is mainly performed by commercial banks and the capital markets. Otero (2004) added that in developing countries where these banking institutions and financial markets are still in the intermediate stage, microfinance institutions take up the financial intermediary role. This is largely due to the fact that the financial sector is underdeveloped to justify the existence of banks in some areas, especially rural centres. According to the United Nations’ Secretary General (2005), there are an estimated three thousand (3,000) microfinance institutions in developing countries, and these institutions have helped to create

deeper and more widespread financial markets in those countries.

On the one hand, in developing countries where formal financial institutions are unavailable, state-sponsored financial institutions such as Land Banks and Development Banks have set up branches to try and fill the void left by commercial banks. On the other hand, in Less Developed Countries (LDCs), informal financial institutions such as savings and credit cooperatives (SACCOs), self-help groups (SHGs) and rotating savings and credit associations (ROSCAs) have provided rural and other financially-excluded communities with basic financial services (Aryeetey, 1995). This set-up has worked equally well for the communities as they have found a means of saving and also getting access to credit, which are of paramount importance in poverty alleviation.

According to Harper (2003), microfinance has evolved during the era of liberalisation, and structural adjustment and reinforced a belief in the virtues of markets. Microfinance was preceded by years of subsidised and generally ineffective government and donor-financed credit programme, as was the case in Kenya in the 1980s. Liberalisation is in itself not a sufficient condition for improved financial services. The policy environment is also fundamental. Microfinance is about poverty alleviation and its sustainability has been noted as a key component in launching Small to Medium Enterprises (SMEs) in

developing countries. Microfinance Institutions (MFIs) are however faced with the pressure to make their operations sustainable, by being better able to cover their costs and earn a return on money invested in them.

Zimbabwe used to have a well-developed financial system. Given the economic and political events that have taken place in Zimbabwe in recent years, the problem of financial exclusion of a very large and significant portion of the country's population became evident. Financial exclusion in urban areas has been a result of potential clients failing to meet basic account-opening requirements which often require one to be earning a stipulated minimum salary. This usually automatically disqualifies the unemployed population. Also, a number of small-to-medium enterprises are excluded from the financial system because of their size in terms of capital and turnover. In rural areas, however, financial exclusion is a cause for concern as the population there is unbanked as a result of the absence of financial services' providers.

However, we are keen to understand how rural communities managed without banks for such a long time. Preliminary research indicates that formal financial services are not available in rural areas. These communities have devised their own innovative ways to counter the effects of being financially excluded. Some have formed associations ranging from burial societies to women's clubs and other saving initiatives. Through these associations, they have been able to save their income generated from various activities, as well as access small loans to enable them to embark on small-scale projects (Makumbe, 1996). Others were forced to travel to urban centres to do their banking, and this entailed very high expenses and the risk of robbery.

Microfinance institutions and non-governmental organisation ventured into the rural areas to try and offer basic financial services to rural communities. Was it possible then to turn to these MFIs to help create deeper financial markets, particularly in the rural areas? Unlike banks that are spurred by profit, the objective of microfinance is to alleviate poverty. The provision of financial services through sustainable microfinance operations is a primary goal which can greatly alleviate poverty and economically empower the poor in rural areas. With the important roles that MFIs have played globally, it has become imperative to highlight these roles and find out whether microfinance can improve rural livelihoods in rural Zimbabwe.

## 2. Literature Review

### *Financial Liberalisation: An Overview*

According to Shaw (1973), financial liberalisation encompasses a lot of economic issues such as interest

rate deregulation, relaxation of entry requirements into the financial sector, competitive banking and financial services. Financial liberalisation also includes general restructuring of the finance sector in line with market demands. He is further supported by McKinnon (1973) who says that financial sector reform involves the general deregulation of the economy's financial sector in order to enhance savings mobilisation, the quality and quantity of investment and economic development. By this, they meant that by relaxing existing banking laws and regulations, new players could come into the financial market, bringing with them fresh ideas and innovative products and services. In this way, it was hoped that even communities previously excluded from the financial system by traditional banks, could then become "bankable". Moreover, financial deepening was expected to promote competition which would force financial institutions to lower the costs of their products and services.

In Zimbabwe, several commercial banks were born out of financial liberalisation that occurred in the 1990s. These "new comers" included National Merchant Bank (now NMB Bank Limited, whose holding company is listed on the Zimbabwe and London Stock Exchanges), the now defunct United Merchant Bank and Kingdom Merchant Bank (now listed as Kingdom Financial Holdings Limited on the Zimbabwe and Botswana Stock Exchanges). These institutions were pioneers of the indigenisation of the financial sector in Zimbabwe, which was previously dominated by long-established traditional banks such as Barclays, Standard Chartered and Stanbic, all of which are characterised by international shareholding structures and are about to be affected by the recent Indigenisation Law.

### *Financial Exclusion*

According to Gloukiviezoff (1999), "financial exclusion is the process by which a person encounters such difficulties in accessing and/or using banking facilities that he is no longer able to have a normal social life in his society". This definition implies that a section of the population is discriminated against by the Government and private sector's ignorance of basic socio-economic needs. Kempson, Whyley, Caskew and Collard (2000) further broadened the definition to include exclusion by risk assessment and product design; exclusion through the cost of service relative to income; exclusion by ignorance; self-exclusion by people who believe they will be refused financial services, or may not wish to engage with financial institutions. Financial exclusion is therefore no longer merely a geographic issue, nor is it related to closure of bank branches and the continued concentration of people on low incomes in specific communities.

### **Microfinance and poverty**

Otero (1988) suggests that microfinance targets the poor. Poverty is one of the underlying drivers contributing to the rise of financial exclusion, while financial exclusion in turn enhances the growth of microfinance. This clearly spells out the population targeted by microfinance – the poor, who are immediately excluded from the financial system by virtue of their socio-economic status, and not geographic locations. Allen and Thomas (1992) state that the most common measure of poverty is an income- or consumption- based approach. The poor are identified through having an income insufficient to provide a minimum standard of living. According to the World Bank (1990), the consumption based poverty line is the expenditure necessary to buy a minimum standard of nutrition and other basic necessities, and the amount varies from country to country. There are various other ways of defining and measuring poverty. The globally accepted approach is to define poverty as “the failure to meet ones basic needs given their level of income”. In Zimbabwe, poverty is measured using the poverty datum line which is calculated monthly using based on the consumer family basket (CCZ, 2007). Anyone earning less than this monthly figure can be considered to be living in poverty as their income is insufficient to cover their basic needs of food, shelter, transport, clothing and education. However, this is subjective and difficult to apply in rural areas. Level of income is not an issue as the communities there measure wealth using real assets such as number of head of cattle, goats and sheep; as well as access to borehole water within the homestead. As far as they are concerned, they are far from being poor. However, to an urban dweller, most of the rural population is poor. For the purposes of this paper, poverty shall be used to apply to being without the basics of rural livelihood, such as a homestead, livestock, a field, and access to clean water.

### **Traditional Microfinance Systems**

Microfinance schemes were not developed by international aid agencies or non-governmental organisations. Many schemes have long existed in the developing world, the most common being the *Rotating Savings and Credit Associations (ROSCAs)*. ROSCAs require the formation of a committed group. Participants are required to pay a predetermined sum of money to a coordinator at regular intervals. At each interval, all the collected money is disbursed to one of the members on the basis of membership seniority or using a raffle system. A different member receives the entire “pot” each time. Once each member has received a pot or “hand”, as it is sometimes called, a new cycle begins, often with the same members, but with an adjustment to the order of receipt. According to Aryeetey (1995), ROSCAs go by different names

in different countries. For example, in South Africa they are called “stokvels”; “rounds”, “ukutshayelana” or “kutambirisana” in Zimbabwe; “susu” in Ghana; “tontines” in Senegal and “iqqub” in Ethiopia. Today, institutional microfinance innovations have revolved around ROSCAs. While the underlying concept remains basically the same; that is, save in order to access credit, various forms of microfinance institutions have evolved.

According to Reddy and Manak (2005), a *Self-Help Group (SHG)* is a small voluntary association of poor people who do not have access to formal financial institutions, preferably from the same socio-economic background. The people come together for the purpose of solving their common problems through self-help and mutual assistance. SHGs are a modification of traditional ROSCAs. The SHG promotes small savings among its members, and these savings are deposited in a bank. Self-help groups provide a cost-effective delivery mechanism for small credit to its members. Most SHGs in existence today are promoted by non-government organisations (NGOs) and other development agencies. The NGO is responsible for initiating the SHG, then nurturing it until it matures and becomes wholly self-sustaining and manageable. Self-Help Groups, as a type of microfinance institution, are sustainable because they are characterised by collective and participatory wisdom; give doorstep access to microfinance with near-zero transaction costs and offer interface with the banking network. In addition to this, members come together due to felt need on the platform of commonality of problems, often poverty and financial exclusion. Essentially, SHGs are savings-led and act as an adhesive among members which offer a platform for women’s empowerment, in line with the 2015 MDGs.

An alternative institution according to Zeller (1995) is the *village bank*, which is a mix of cooperative and solidarity group models. The village bank is a decentralised community credit and savings association managed by, and among, members. Members of a village organise themselves to provide community-based savings and credit services. Each member contributes to the equity capital of the “bank”. The success of the village banks relies on peer pressure among the members. Member loans are backed, not by goods or property, but by moral collateral. International NGOs such as CARE International, the Kellogg Foundation, Finca and the Catholic Relief Services (CRS) often promote the establishment of village banks.

According to Yunus of the Grameen Bank (2003), the *community banking model* treats the community as one unit and establishes semi-formal or formal institutions through which microfinance is dispensed. Community banks are formed with the extensive help of NGOs and other international donors. In Zimbabwe, CBZ Bank Limited has a subsidiary named the Community Banking Unit

(CBU) which was initially funded by the British Government's Department for International Development (DFID). The Kellogg Foundation has funded a similar initiative in the Masendu community in the Bulilima-Mangwe districts of Plumtree. Village/ community banks were not very successful in Zimbabwe.

Savings and Credit Unions all over the world have come to be known by different names. The most common of these however is the *Savings and Credit Cooperative (SACCO)*. Masuku (2004) says that they are unique member-driven, self-help financial institutions, offering saving and credit services to their members. SACCOs can either be employee-based or community-based. Their members are people of a common bond. They either work for the same employer; belong to the same church, labour union or social fraternity; or live in the same community. Sibanda (2004) further added that SACCOs are highly democratic in that no single individual is imposing on the rest of the group. The affairs of SACCOs are run by an elected board of directors, which has a responsibility to the members. In some countries, SACCOs have their own apex bodies. In South Africa, they are looked after by the Savings and Credit Cooperatives League of South Africa; while in Zimbabwe they fall under the jurisdiction of the National Association of Cooperative Savings and Credit Unions of Zimbabwe (NASCUZ).

Some of the objectives, mandates and operations of the above-discussed forms of microfinance institutions overlap. However, what is of importance to note, according to Otero (2004) is that they exist with the primary objective to alleviate poverty through economic empowerment, especially of women and rural communities where financial exclusion continues to be of great concern. Some organisations prefer to take the role of mother, and lead the communities to their destiny, while others are keen to wean the projects off as early as possible. International agencies and donors have continued to provide essential funds to support these initiatives.

### ***Microfinance and the Millenium Development Goals***

The Millenium Development Goals (MDGs) are globally-adopted targets for reducing extreme poverty by 2015 (United Nations, 2005). They address various issues including income, poverty, hunger and disease; lack of education, infrastructure and shelter; and gender exclusion and environmental degradation. According to the United Nations Capital Development Fund (UNCDF, 2005), while the MDGs do not formally set targets for financial sector access, low-income countries need microfinance to achieve the MDGs. The recommendations put forward by the United Nations Millenium Project for investing in development through microfinance are include amongst others: engage the informal economy; grow domestic deposits: mobilise microsavings; invest in

women; develop local private sectors and invest in innovation; develop rural areas; and improve health services. Empirical evidence suggests that "access to finance" rather than "poverty reduction" should drive the strategies that Governments adopt to build inclusive financial sectors (UNCDF, 2005). This thus explains the motives behind the Reserve Bank of Zimbabwe's drive towards achieving financial inclusion of the population in rural areas.

### ***Success Stories in Microfinance***

#### ***Grameen Bank (Bangladesh)***

The Grameen Bank is a microfinance organisation and community developed bank started in Bangladesh in 1976 by Professor Muhammad Yunus. Grameen Bank (literally, "Bank of the Villages", in Bangla) began as a research project by Yunus and the Rural Economics Project at Bangladesh's University of Chittagong to test the method of providing credit and banking services to the rural poor. The Bank began with the objectives of extending banking facilities to poor men and women; eliminating the exploitation of the poor by moneylenders, and creating opportunities for self-employment for the unemployed people in rural Bangladesh.

Grameen Bank used a self-help group system whereby each group of 5 individuals were loaned money. However, the entire group was denied further credit if one person defaulted on the loan repayment. This encouraged the group to act responsibly as a unit, while increasing the Bank's economic viability. Today, the Bank still provides small loans to the impoverished without requiring collateral. Additional services include accepting deposits, and running other development-orientated businesses including fabric, telephone and energy companies.

#### ***ACCION International***

ACCION International is an American, private, non-profit development organisation which runs micro-enterprise programmes designed to reach the smallest producers and vendors in twelve countries in Latin America, including Bolivia, Colombia, Dominican Republic, Paraguay, Honduras and Costa Rica. According to Otero (1991), the success of its programmes lies in the introduction of compulsory savings schemes in their credit programmes. Saving among borrowers is a means of capitalising their business and decreasing dependency on moneylenders. Also, saving presents an opportunity to introduce the borrower to the formal banking sector. If the savings are deposited in a bank, they dispel the myths regarding the poor's incapacity to save in a disciplined and regular manner.

ACCION statistics reveal that their programme reached about 50,000 men and women; disbursed approximately US\$2.3 million a month in loans

averaging around US\$350 in size. The repayment rates were good, with less than 1% defaults and less than 5% late repayments (ACCION, 1989). More recently, of the US\$7.6 billion ACCION has disbursed to almost 5 million micro-entrepreneurs since 1992, ninety-seven percent (97%) of the loans have been repaid, making the scheme economically sustainable. In its rural finance programmes, ACCION partnered with several other institutions such as El Comercio Financiera, a Paraguayan finance company. By 31 March 2004, El Comercio had more than four thousand (4000) active rural microfinance clients with an active portfolio of US\$1.9 million. In Africa, ACCION and the Uganda Microfinance Union (UMU) worked on an initiative sponsored by USAID and Hewlett-Packard to use point-of-sale device technology to reach deeper into remote areas more efficiently. According to ACCION, instead of travelling to UMU branches, clients are now able to visit selected local merchants to make loan payments or deposits, to receive loan disbursements or to withdraw savings.

### ***Microfinance in Zimbabwe***

According to the Zimbabwe Association of Micro-Finance Institutions (ZAMFI, 2005), the microfinance sector in Zimbabwe has been sailing in murky waters for the past few years, despite its growth into a crucial sector of the economy. Mandivenga (2005) stated that 75% of all Zimbabweans were classified as poor, and the unemployment rate stood at around 60%. This segment of the population classified as poor, unemployed and therefore unbankable is the one targeted by microfinance institutions. Shoriwa (2005) points out that the majority of the Zimbabwean population lives in rural areas and is the hardest hit by poverty. The role of microfinance in Zimbabwe remains no different from that of the rest of the world: sustainable poverty alleviation.

While ridding the microfinance sector of unscrupulous loan sharks, the regulatory framework in Zimbabwe presented challenges for the remaining microfinance institutions. These institutions were unable to disburse loans using funds from savings' mobilisation because they were prohibited from accepting deposits. This thus restricted them to using their own funds, borrowings or funds from donor agencies. However, according to ZAMFI (2005), equity alone is insufficient to cater for the necessary loans. Also, Zimbabwe experienced donor fatigue, leaving most rural people exposed to poverty.

### ***Success Stories in Zimbabwe***

#### ***a) Farmers' Association of Chief/ Headman Investment Groups Cooperatives Union (FACHIG)***

FACHIG is a microfinance institution based in Bindura whose mission is to attain a deep rural

outreach of more than 15,000 members through keeping banking services simple and affordable to rural communities in Zimbabwe. It is modelled in a fashion similar to that of Grameen Bank in Bangladesh, although it follows Zimbabwe's local traditional leadership styles. FACHIG's membership consists of rural farmers who are organised into Investment Groups (IGs) of not more than fifteen (15), on a voluntary basis. All the IGs in a Chief's or Headman's area are then grouped together to form the Chief/ Headman Investment Group (CHIG). FACHIG is the provincial level group. Affiliate CHIGs have been running credit schemes for their members since 2000. This was, however, affected by hyperinflation in the local economy, resulting in the suspension of the schemes. This led to the idea of operating savings clubs to mobilise savings and revive the credit schemes. The savings club or village banks are aimed at providing a revolving fund for FACHIG members that allows them easy access to their savings and loans. Dotito Savings and Credit Union is one of FACHIG's village banks in Mashonaland Central. As at 2005, Dotito had 1161 members from the four (4) CHIGs it covers. It extended financial services to both its members and non-members in the surrounding rural communities in Dotito (Choga, 2005).

#### ***b) Self-Help Development Foundation (SHDF)***

The Self-Help Development Foundation (SHDF) is an organisation that was established in 1963 by Brother Francis Waddelove, a Catholic Missionary based in Chishawasha, with the objective of helping poor people to save money. Since its inception, the organisation has undergone major changes which resulted in three entities coming out of the unbundling exercise. These are SHDF Trust, SHDF Training and Advisory Services (TAS) and SHDF Savings and Credit Company (S&C). Today, SHDF TAS seeks to improve the living standards of the underprivileged sections of the population, with particular attention paid to the financial hardships and financial independence of these people. The organisation advocates for the savings concept, economic empowerment of women, gender equity, skills development, self-reliance and poverty alleviation. SHDF strives to promote the promotion of savings awareness through initiation and support of formal savings Government's policy of self-reliance and the development of rural areas. SHDF-TAS is sensitive towards women. This is the result of several factors. Chief among these is the fact that during the colonial era men flocked to the cities in search of work, leaving the women to fend for the families alone. Also, women cannot own assets such as livestock and land under customary law in Zimbabwe. The most popular projects that women under the self-help development scheme have successfully undertaken are tie-and-dye fabrics and batiks, dairy farming, peanut butter processing, poultry projects and soap-

making ventures. Some of the members now even boast of international markets as far as Mauritius for their products.

### **Sustainable Rural Banking and Microfinance**

According to Cuevas (1996), building sustainable financial systems for poor men and women is of critical interest from three perspectives. Firstly, from the point of view of financial sector development - people who have not been integrated into the formal financial sector because of low incomes, gender, ethnic identity or remote location often represent a large and potentially profitable market for institutions that develop ways to reduce the costs and risks of serving them. Secondly, from the standpoint of enterprise formation and growth, we need to understand that the availability of stable sources of funding and deposit services contributes to successful start-up and operations of small-to-medium enterprises. Finally, from the perspective of poverty reduction, access to reliable, monitored savings facilities can help the poor smooth consumption over periods of cyclical or unexpected crises, thus improving their economic security. Once this degree of economic security is attained, access to credit can help them move out of poverty by improving the productivity of their enterprises or creating new sources of livelihood.

According to Harper (2003), microfinance pioneers in the 1970s were and still are motivated by a desire to help the poor, not to make a profit. However, the issue of sustainability will continue to be a major factor in microfinance activities especially in developing countries. To this day, it has not been decided globally whether it is possible to have a sustainable microfinance programme which at the same time reaches and assists the poor people it targets. As such, three major paradigm shifts in microfinance can be identified. It has moved from "charity" to business; microcredit to microfinance services; and enterprise investment to household money management. This is the trend that the microfinance sector in Zimbabwe also appears to be following. Efforts are being made to wean microfinance clients off the dependency syndrome which has been characteristic of communities in which microfinance institutions and non-governmental organisations were present.

### **3. Methodology**

The general aim of this study was to analyse and assess the impact of financial exclusion on rural populations in Zimbabwe. The main research questions were:

1) How have rural communities handled financial affairs in their respective areas?

2) How has financial exclusion affected rural communities?

3) What challenges have MFIs in Zimbabwe faced?

4) What are the attitudes of established banking financial institutions towards rural banking?

5) How can the goals of the "Rural Banking Development Programme" in Zimbabwe be achieved?

In this paper, a survey was used to collect the relevant data from a sizeable population comprised of various stakeholders including people from the rural communities, Commercial Banks and Microfinance Institutions and Non-Governmental Organisations in the Lupane and Hwange rural districts of Matabeleland North in Zimbabwe. Each of the three surveyed groups was interviewed to gain insight of their financial services requirements, microfinance and banking activities as well as developmental issues in their areas.

### **4. Results and Analysis**

The main purpose of this study was to investigate how financial exclusion has affected rural communities in Matabeleland North. The study further sought to understand the role of microfinance in Zimbabwe, and the challenges facing service providers.

It was found that while Hwange had more commercial banks, there were more savings groups in Lupane. Eight microfinance institutions were surveyed. Of these, seven were based in Bulawayo and only one was in rural Lupane. The Lupane MFI was a village bank registered as a SACCO but it was no longer operational. Of the seven Bulawayo-based microfinance institutions, four were bank MFIs, one was a government agency while the other two were ordinary or non-bank MFIs. The microfinance institutions were geographically dispersed throughout the country, although they were largely concentrated in urban areas. Non-bank MFIs preferred working with female clients as they were generally considered to be more enterprising and responsible than their male counterparts. Products and services offered were mainly group loans, although individual loans could be accessed once a relationship had been established between the MFI and the client. Activities financed by the MFIs were anything legal, viable and bankable including manufacturing of soaps and candles, poultry, cross-border trading and flea market operations. Loan amounts were varied and interest rates ranged between 53% and 60% per month, and the government-managed MFI charged 100% per annum.

Challenges faced by the MFIs had to do with the legal, economic, social and political environment they operate in. The biggest problem highlighted was that funds have become too expensive for the targeted clients and as a result, MFIs could no longer satisfactorily achieve poverty alleviation, and by default, financial inclusion. While the law requires that MFIs charge rates as laid out in the

Moneylending and Rates of Interest Act (Chapter 14:14), doing so would threaten their viability and hence their existence. The *in duplum rule* no longer applies in Zimbabwe. The *in duplum rule* states that a client cannot repay more in interest and capital than the initial amount borrowed.

The commercial banking institutions covered in the survey were a combination of indigenous, listed, subsidiaries of international banks, private limited and government-backed financial institutions involved in commercial banking activities. In relation to the objectives, this study revealed that financial institutions were keen to contribute positively to the Central Bank's financial inclusion policy. This was mainly evidenced by the number of banks vying to open up branches in unbanked areas such as commercial farming, mining and border towns. The respondents indicated that for the rural banking rollout to be successful, Government had to ensure that other basic infrastructure such as road, water, electricity and telecommunication networks were put in place so as to encourage further investment, thereby eventually resulting in the social and economic empowerment of previously marginalised rural and urban communities.

#### Microfinance Activities in rural Lupane.

Savings organisations and clubs are plentiful in rural Lupane. Forty-four percent of the interviewed respondents belonged to an active savings club of some sort, while the remainder did not. Thirteen percent of the respondents who no longer belonged to a savings club highlighted that they were members of Lupane Savings and Credit Cooperative (LUSACCO), a registered village bank in the area, which went defunct when the then-Manager absconded with ZW\$24 million (old currency) in 2004. That experience left many villagers lacking confidence in the financial system as none of the funds were recovered.

The constitution of the savings groups in Lupane varied. One savings group comprised of family members only, while the remaining six existed along lines of some commonality such as being all women living in the same ward, or women actively engaged in the running of a nutrition garden as well as groups of enterprising women involved in either poultry rearing or soap-making projects. None of the interviewed males belonged to a savings group. A reason given for this was generally that such associations were meant for women who were good at coming up with productive ideas on how to use the proceeds to generate income. If men came together, it was often to drink beer and socialise but not to formally contribute towards a savings group. One group, for example, used the pooled resources to buy seedlings and maintain their market gardens in the rural areas, while another used their monthly contributions to purchase groceries in bulk (such as

sugar, flour and cooking oil) which would be distributed to members at the end of the year.

#### Microfinance Activities in rural Hwange

Savings organisations and clubs were scarce and almost unheard of in rural Hwange. It should be noted that the ethnic constitution of families in Hwange is wide and varied. There are Nambyas, Dombes, Shonas, Ndebeles and Nyanjas (foreigners from Malawi, sometimes referred to as "Manyasalands"). As a result of this diversity in culture, there is a general lack of unity and trust amongst the villagers. It then becomes difficult for them to agree to work together for a common good cause and power struggles often arise. In this part of the country, it was a "one man for himself" set up. This tends not to be conducive for savings groups or engagement in any income-generating activities, where "many hands would make work lighter". So, while some of the villagers were aware of savings clubs and the benefits arising from them, they would not form them because they did not wish to associate with certain individuals.

It can therefore be concluded that financial institutions have, to a large extent, shunned setting up operations in the rural areas because of the misconception that rural folk are poor, and therefore "unbankable". This research has demonstrated that rural folk are as bankable as clients in the urban centres. It is worth noting that, as a result of financial exclusion, deliberate or otherwise, people in rural areas have continued to enjoy a sustainable livelihood, wholly financed by themselves. Those surveyed stated that they had never formally borrowed money. They attributed this to the absence of financial institutions that understand the nature of their needs for additional temporary finance, such as microfinance institutions. Commercial banks in the rural areas were treating the rural people on the same terms and conditions as urbanites. This has only resulted in a gap being created between the rural communities and the financial system.

## **5. Conclusions and Recommendations**

Based on evidence gathered in this study, we can conclude that savings groups in rural areas are still popular. Despite financial exclusion, these groups have managed to survive without relying on cash as a form of payment. These rural communities have reverted to the old system of barter trade. In this time of economic recession and shortages of basic commodities in Zimbabwe, barter trade is working well for the rural folk. It is highly advantageous to them as they do not encounter transaction costs. Microfinance institutions have been trying to fill the gap where commercial banks have been lacking insofar as rural outreach, as well as favourable credit lending terms, is concerned. However, the stringent

regulatory regime threatens the viability, and hence existence of these MFIs.

This research was intended to inform policy makers and policy implementers of facts on the ground, regarding financial exclusion in rural areas in Zimbabwe. In view of this, it is recommended that:-

1. Government fast-tracks the development of rural areas in order to attract investment even from the private sector. Also, by developing the rural areas, Government would effectively be carrying out one of the key recommendations put forward by the United Nations Millenium Project as an aid to achieving the United Nations' Millenium Development Goals (MDGs) of reducing poverty by 2015.

2. Government should offer those microfinance institutions involved in servicing the rural communities, concessionary funds at favourable rates as an incentive. The current market interest rates are defeating the purpose for the existence of microfinance institutions – to alleviate poverty, as the funds are working out to be too expensive for those really needing them.

3. As financial inclusion is a national policy, stakeholders need to come together and set up consortiums which would be wholly operational in rural areas. The consortiums will belong to no particular bank. After a trading period, they would surrender equal amounts of whatever they would have realized in profits and consolidate these into the individual banks' main reporting accounts. In this way, every financial institution would have played a part in realizing the Government's dream of providing basic financial services to the entire population of Zimbabwe, irrespective of their social or economic standing.

4. The Central Bank further deregulates the microfinance industry sufficiently to allow them to undertake activities in rural areas, similar to those carried out by commercial banks in urban centres. In this way, they would become self-sufficient rural banks like the Grameen Bank in Bangladesh and Centenary Rural Development Bank in Uganda.

5. Commercial banking financial institutions should consider appointing agencies to represent them in the rural areas. These agencies could be run under the jurisdictions of chiefs, local non-government organisations, local shopkeepers, schools and churches. Such an arrangement would have to be sanctioned by the relevant regulatory authorities such as the Reserve Bank of Zimbabwe, as the agents would effectively become part of the financial system and hence require regulation and supervision of some sort.

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