SIVI INSTITUTE

FINANCIAL INCLUSION OF MICRO, SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

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Acronyms

AFI	Alliance for Financial Inclusion
COVID-19	Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-Cov-2)
FI	Financial Inclusion
FinTech	Financial Technology
G20	Group of 20 Countries
GDP	Gross Domestic Product
GoZ	Government of Zimbabwe
ISALs	Informal, Savings and Lending Groups
KYC	Know Your Customer
MENA	Middle East and North Africa (Countries)
MSMEs	Micro, Small and Medium Enterprises
MWSMED	Ministry of Women's Affairs, Community, Small and Medium Enterprise Development
NFIS	National Financial Inclusion Strategy
OECD	Organisation for Economic Cooperation and Development
RBZ	Reserve Bank of Zimbabwe
RSALS	Rotating Savings and Lending Groups
SSA	Sub-Saharan Africa
ZIMRA	Zimbabwe Revenue Authority

Introduction

In the year 2016, the Government of Zimbabwe (GoZ) introduced the National Financial Inclusion Strategy (NFIS) which was inspired by the desire to ensure that economic agents are adequately integrated within existing financial services inclusive of savings, credit and insurance provided by private and government players across Zimbabwe. Prior to this, Zimbabwe had become the 86th member of the Maya Declaration in 2012[1] and the NFIS was the country's effort to make Financial Inclusion (FI) a priority for Zimbabwe's development.

FI is a key component of many national sustainable development goals and part of the G20[2] agenda. The Reserve Bank of Zimbabwe (RBZ) acknowledges the benefits of financial inclusion some of which include:

- Promotion of inclusive and equitable development leading to poverty reduction;
- Enabling freedom from of citizens from informal lenders who charge high interest rates;
- Faster economic growth rates;
- Growth of formal credit sources;
- Increased formalisation of the economy;
- Increased employment;
- Enhanced financial stability.

To this end, GoZ introduced the NFIS in 2016, and the first phase of the strategy ended in 2020. A new strategy is currently being developed and its main objective is to build upon the success of the first phase of the strategy whilst reshaping some aspects of implementation. The NFIS used data from the 2014 Fin Scope survey, which highlighted key vulnerable groups namely Micro, Small and Medium Enterprises (MSME's), women, youth and people living with disabilities. According to the RBZ (2020), in 2014, 23% of the Zimbabwean adult population was financially excluded without access to a bank account. The NFIS sought to improve inclusion within various themes namely improving access of women, youth and people living with disabilities, improving access of MSMEs, improving agriculture and rural finance, improving digital financial services, improving microfinance, and improving access to insurance, pensions, and capital markets.

In this report, we analyse, the impact of the NFIS (2016 to 2020) on MSMEs. The report is based on findings from a survey that was carried out across rural and urban areas in Zimbabwe. The survey focused on entrepreneurs who run micro, small and medium scale enterprises to assess their level of financial inclusion, and understanding the progress that has been made since the NFIS was introduced in 2016. However, some gaps in the system need to be identified for robust recommendations considering that the NFIS Phase 2 planning and implementation process is on-going.

Trends in Financial Inclusion

Inclusive finance aims to create equity in the distribution of financial products and services with an emphasis on accessibility and affordability for groups previously excluded from formal financial systems. It has been stated before, that achievement of FI can contribute towards reducing poverty, promote enterprise growth, improve employment whilst creating new and safer mechanisms for fund disbursement which minimises losses for households and businesses(Hasan, Le, and Hoque, 2021). Furthermore, FI helps to improve the pace/speed of inclusive growth and development

1. The Maya Declaration was launched in 2011 at the Alliance for Financial Inclusion's Global Policy Forum hosted in Mexico's Riviera Maya. The Declaration is the first set of global commitments by country governments towards the advancement of financial inclusion around the world.

2. G20 or Group of 20 is a strategic intergovernmental association of 19 countries and the European Union (EU) working to address major economic and developmental issues around the world such as climate change, economic stability and sustainable development.

(Martinez, 2011). Financial exclusion in contrast, creates vulnerability to losses and theft, increasing the possibility of bankruptcy at enterprise and household level. In Zimbabwe Financial Inclusion is defined as the:

> **Effective use of a wide range of quality, affordable and accessible services provided in a fair and transparent manner through regulated entities by all Zimbabweans.(Reserve Bank of Zimbabwe, 2015).**

The World Bank (2021) stresses the importance of dignity, respect, and convenience in the provision of financial products and services and in how FI is defined. Several factors including location, gender, language, ease of technology use, cost of the products, and their convenience for access all determine the depth of access and quality of inclusion. According to the Zimbabwe Statistical Agency (2017), 68% of Zimbabweans live in rural areas (communal or resettlement) and 32% live in urban areas. Of the overall Zimbabwean population, 40% are young and are below the age of 15, while 6% are above the age of 65 years. The level of inclusion amongst these key groups is an important determinant of Zimbabwe's economic growth.

Gender, Age and Financial Inclusion

Less than half of the world's 1.2 billion youth have access to formal financial services and youth are 2 to 3 times more likely to be unemployed (World Bank, 2015; Horton et al 2020). In Africa, the youth population is rising and 'economic citizenship' amongst young people is seen as a solution to the challenges arising from growing populations. These challenges include limited job prospects and constrained public services for many of the continent's poor. This has resulted in young people being more involved in the informal sectors and the growing GIG[3] economy (AFI, 2021) The reason being that these livelihood options are easier for youth to access. Economic citizenship as defined by the World Bank (2015), is the combination of financial inclusion, financial education, and livelihoods education. Livelihoods education is seen as a strong driver to improving entrepreneurship and employability.

Despite the role that entrepreneurship can play in improving livelihoods, constraints in access to finance continue to create significant barriers to youth entrepreneurship in Africa (Horton et al., 2020). Young people require patience when it comes to financial products because they are less experienced, they are lacking in assets and have limited financial literacy. For funding in business and personal needs, youth require flexible conditions which take into consideration the varied circumstances that they face (Horton et al., 2020). These conditions include flexible disbursements, customised products, customised training and mentorship. Such flexible arrangements mitigate risks associated with access to credit, insurance and investment products. (Horton et al., 2020). The most significant barriers to youth inclusion are observed to be lack of financial literacy, lack

3. The GIG economy is a growing labour market fueled by temporary/short term and flexible jobs that are carried out online or on mobile platforms proving extra income.

Table 1: Comparison of Levels of Youth Inclusion in Different Regions

	Sub-Saharan Africa (%)	Middle East and North Africa (%)	Latin America And the Caribbean (%)	Eastern Europe and Central Asia (%)	South Asia (%)	East Asia (%)
No Financial services used	77.4	88.9	78.1	64.7	63.6	80.9
Informal Financial Services	13.8	2.4	4.7	17.2	21.3	7.9
Formal Financial services	6	6.3	15.1	27.3	26.1	11.8

***Source*: (*Sykes et al., 2016*)**

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COVID–19 pandemic has dramatically increased the vulnerability of all groups. The impact is more significant for young people because they are more likely to be found in the informal sector away from the formal mechanisms of COVID–19 support.

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of collateral and lack of appropriate financial products (AFI, 2021). Sub-Saharan Africa (SSA), the Middle East and North African (MENA) countries have the lowest rates of youth inclusion sitting between 6% and 6.3% compared to other regions. For access to finances, SSA youth are prone to using informal sources such as families, friends and Informal Savings and Lending Groups (ISALs) instead of formal institutions and this is outlined in Table 1.

The gender gap is also significant and has been detected even amongst young people. In many developing countries young boys are more likely to have access to a bank account earlier than young girls. Similarly, the OECD (2020) showed that young people and women in remote areas are more likely to face exclusion than those in more accessible areas. The financially excluded are most likely to be female, living in rural areas, belonging to poorer groups of their countries or from disadvantaged socioeconomic backgrounds and are more likely concentrated in the world's poor regions of SSA and MENA as well as Latin America and the Caribbean.

In all these areas, young people and women groups may struggle to access digital financial technology which further limits their access to financial information and digital services. To add on, the COVID-19 pandemic has dramatically increased the vulnerability of all groups. The impact is more significant for young people because they are more likely to be found in the informal sector away from the formal mechanisms of COVID-19 support. In addition, more than 1 in 6 young people aged 18 to 29 are out of work worldwide because of the pandemic (ILO, 2020).

The Role of Digital Technology in Promoting Financial Inclusion

Financial Technology (FinTech) also known as internet finance or digital finance is used interchangeably to refer to the use of digital applications and platforms which promote the use of or information regarding financial services and products (Cassanova, Cornelius, and Dutta, 2018, Hasan, Le, and Hoque, 2021). Digital financial services can refer to a wide product mix such as online and mobile banking, third party payment systems, direct sale of funds, insurance, crowd funding and online -banking

(Claessens, Glaessner and Klingebiel, 2002; Hill and Hill, 2018) . There have been notable improvements in financial inclusion due to the increase in mobile banking platforms with functions of money transfers, credit, savings, investments, and payments on a domestic and international level. FinTech is key to bridging poor access to banking systems and information for rural and previously excluded populations regardless of distance, gender, income or level of education. Every type of financial communication is based on technology and this shows the vital role technology can play in future financial inclusion efforts. The key drivers of FinTech adoption are young people who are making their contribution to financial inclusion more significant (OECD, 2020). This is evidenced by how the FinTech adoption index has moved from 16% to 64% when accounting for the contribution of young people. In Africa, digital financial services are promoted by increasing accessibility of agent networks, low transactions costs, stable and reliable networks, and ease of use (International Finance Corporation, 2018)

Informal Savings Networks (Informal, Savings and Lending Groups-ISALs)

Informal financial services such as ISALs have been cited as viable strategies in promoting financial activity especially in rural or remote areas. The enterprise development and livelihoods among the young people are growing because of the contribution of ISALs which promote enterprise development, savings, and investment. They have proven to form a reliable network of encouragement and education around financial goals. Informal sources can serve as a bridge to formal saving sources with over 95 institutions in 27 countries offering loans to informal groups (World Bank, 2015).

Sykes et al (2016) shares the view that the level of education (comparing tertiary versus primary education) has a positive impact on inclusion even in SSA where 28.3% of tertiary young people had bank accounts compared to 4.4% of primary educated people. Marital status also affects inclusion. Globally, married people have twice the access to financial services as compared to those who are unmarried (Sykes et al., 2016). The level of household vulnerability affects inclusion in that wealthier families are more likely to have financial services and products (Sykes et al., 2016). Religious beliefs can impact inclusion negatively across and within genders. Religions such as the African Apostolic Faith and Islamic religions have strong views about which gender groups should handle money and how it should be handled.

“In Africa, digital financial services are promoted by increasing accessibility of agent networks, low transactions costs, stable and reliable networks, and ease of use”

Small Enterprises/Enterprise Development in Africa

The role of MSMEs as a driver of both developing and developed economies contributing to poverty reduction, employment creation, value addition, and economic resilience is well documented (Horton et al., 2020). The development of the MSME's sector has over the years been identified as a necessary ingredient to be included at policy level in order to address the needs of the growing 1.2 billion African youth between the ages of 15 and 24 years.

Financial Inclusion for Small Enterprises

Financial inclusion supports the growth of small enterprises and makes expansion, procurements, and employee support possible especially for early-stage start-ups. Key factors that promote inclusion for MSMEs include the cost of products and services; the complexity of financial products and services and the treatment received from service providers during the attempted access (Eton et al., 2021).

Developing economies have started to prioritise financial literacy, level of access to financial products and the quality of the supporting framework as they develop new polices (IMF, Undated; Eton et al., 2021). In some countries this is achieved through access to cheap and affordable finance, financial literacy programs or through the promotion of new trading structures that minimise barriers to market entry and trade.

The importance of early-stage access to finance is also signified by the high termination rates of MSMEs due to un-supportive environments and lack of financing for growth and expansion. According to Albanis and Arthur (2013), most MSMEs do not survive past their 3-year anniversary.

Provision of digital services is now a priority for governments in developing countries to promote access to financial products and services. For small enterprises, FI mobilises household saving, it leverages capital for investment and expands the class of entrepreneurs into more formidable or robust businesses. Damodaran (2013) articulates that FI helps to channel money into the economy allowing both rich and poor to access it with ease. FI at household level improves national GDP (Gross Domestic Product) and household expenditure thereby promoting macroeconomic growth (IMF , Undated).

Barriers to Inclusion

The greatest barrier to inclusion is a lack of flexibility in the provision of financial services. This happens where the products are unsuitable and the requirements for setting up accounts or services are problematic for the target group. Know Your Customer (KYC) polices which are stringent, make it difficult for young people in developing countries, 70% of whom may not have identity documents (UN Commission on Legal Empowerment of the Poor, 2008). This also applies to migrant communities who may be fleeing from other conflict zones in neighbouring countries. A lack of trust in the banking systems is commonplace in developing countries where systems are open to political sway and this negatively impacts the level of inclusion of small enterprises, women, and youth (Sykes et al., 2016). The level of inclusion is significantly influenced by policy and the prevailing law (Sykes et al., 2016), and the systems of support that are put in place determine the ease of access of any targeted group.

"Provision of digital services is now a priority for governments in developing countries to promote access to financial products and services."

Methodology

The Financial Inclusion Study on MSMEs was conducted in September and October 2021. Our target sample for the whole country was 1200 enterprises broken down into 60 micro, 40 small and 20 medium enterprises in each district. Our sampling also targeted a distribution of 63% in rural areas and 37% in urban areas. This target was based on data from ZIMSTAT findings on the percentage distribution of MSMEs in rural and urban areas in Zimbabwe. We used the classification of MSMEs according to the Ministry of Women's Affairs, Community, Small and Medium Enterprise Development in Zimbabwe (MWSMED) to identify the target enterprises for the survey. This is illustrated in Table 2 below:

Table 2: Micro, Small and Medium Enterprise Classification

Sector of Sub-sector of Economy	Class	MAXIMUM total number of full-time paid employees	MAXIMUM total annual turnover US$	MAXIMUM gross value of assets (excluding immovable property) US$
Agriculture	Medium	75	1'000'000	500'000
	Small	30	500'000	250'000
	Micro	5	30'000	10'000
Arts, Entertainment, Culture, Education, Sport	Medium	75	1'000'000	500'000
	Small	30	500'000	250'000
	Micro	5	30'000	10'000
Mining and Quarrying	Medium	75	3'000'000	2'000'000
	Small	40	1'500'000	1'000'000
	Micro	5	50'000	50'000
Manufacturing	Medium	75	1'000'000	1'000'000
	Small	40	500'000	500'000
	Micro	5	30'000	10'000
Construction	Medium	75	2'000'000	2'000'000
	Small	40	1'000'000	1'000'000
	Micro	5	50'000	10'000
Energy	Medium	75	2'000'000	1'000'000
	Small	40	1'000'000	500'000
	Micro	5	50'000	10'000
Financial Services	Medium	75	1'000'000	500'000
	Small	30	500'000	250'000
	Micro	5	30'000	10'000

Source: Ministry of Women's Affairs, Community, Small and Medium Enterprise Development, Zimbabwe, SME Policy, (2020)

Data Collection Method, Tools and Techniques

We exceeded our target of 1200 and suceeded in collecting data from a total of 1402 small enterprises across all the 10 administrative provinces of Zimbabwe through a convenience sampling method[4] . Central to the methodology was the consensual participation of the enterprises in the study through enumerators deployed into both rural and urban locations. Enumerators were responsible for identifying MSMEs according to criteria set by SIVIO Institute using the guidelines in the National Policy for MSMEs listed in Table 2.

4. The convenience sampling method is a method of collecting samples using respondents who are conveniently available. In this survey 'conveniently available' enterprises were chosen based on their proximity to business centres that are easily accessible by road.

Findings

Section 1

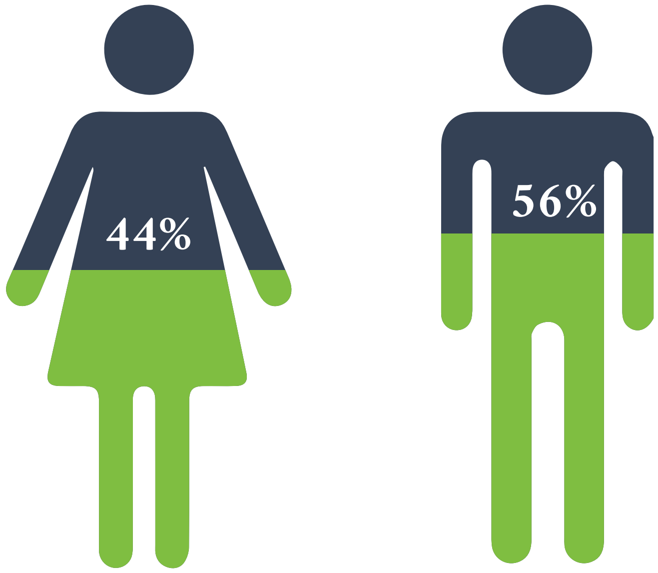
Demographic Characteristics

Gender of Enterprise Owner

Our sampling method prioritised the size of the enterprise and its location, we did not restrict based on gender of the founder or owner. We instead asked our enumerators to ensure guidelines are followed on the characteristics of the enterprise rather than the gender of its owner/ founder. Our aim was to understand the general distribution of enterprise ownership by gender. We noted that more than half of the enterprise owners who took part in the study were men (56%) compared to their women counterparts who constituted (44%) as indicated in Figure 1 below.


SOCIAL
GOAL

Figure 1 Gender Distribution of Enterprise Owners Interviewed



Our data shows that ownership of micro enterprises is evenly distributed between men and women founders with each gender constituting 50%. However, the percentage of women ownership decreases as the size of enterprise grows suggesting that women entrepreneurs are more likely to own smaller enterprises compared to men as shown in Figure 2 below.

Figure 2 Changes in Gender of Owner Based on Size of Enterprise

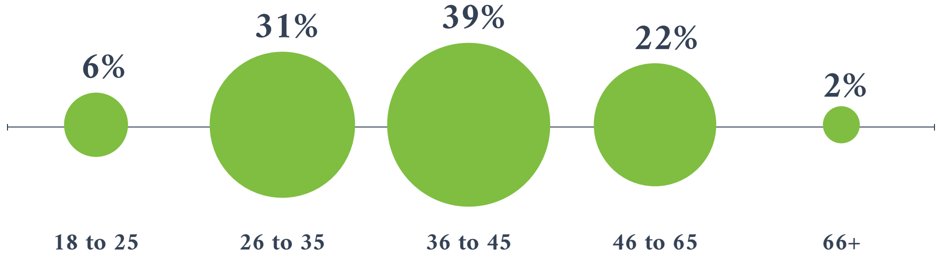
This could also mean that restrictions to women-headed enterprises increase as the entity grows. This is evidenced by the fact that for small enterprises, 29% of the founders are women, whilst 71% are male. Similarly, in medium enterprises, 22% of founders are women and 78% are men.

Age of Enterprise Owner

Figure 3 shows that the founders we interviewed were mostly beyond the category of youth, that is, they were 35 years and above. Thirty-nine percent (39%) were aged 36 to 45 years; 31% were aged 26 to 25 years and 22% were aged 46 to 65 years. Very few were pensioners, that is, above 66 years (2%) and only 6% were aged 18 to 25 years. The total youth population was 37% of enterprises (n=31%+6%) which is over one third of the overall population, whilst the total adult population was 63% (n=39%+22%+2%). Our sample indicates a growing representation of enterprise ownership with age, from age 18 to 45 years. Young people develop the confidence to start enterprises from age 25 years as evidenced by the significant shift in the percentage of owners from the 18 to 25 age group to the 26 to 35 age group.

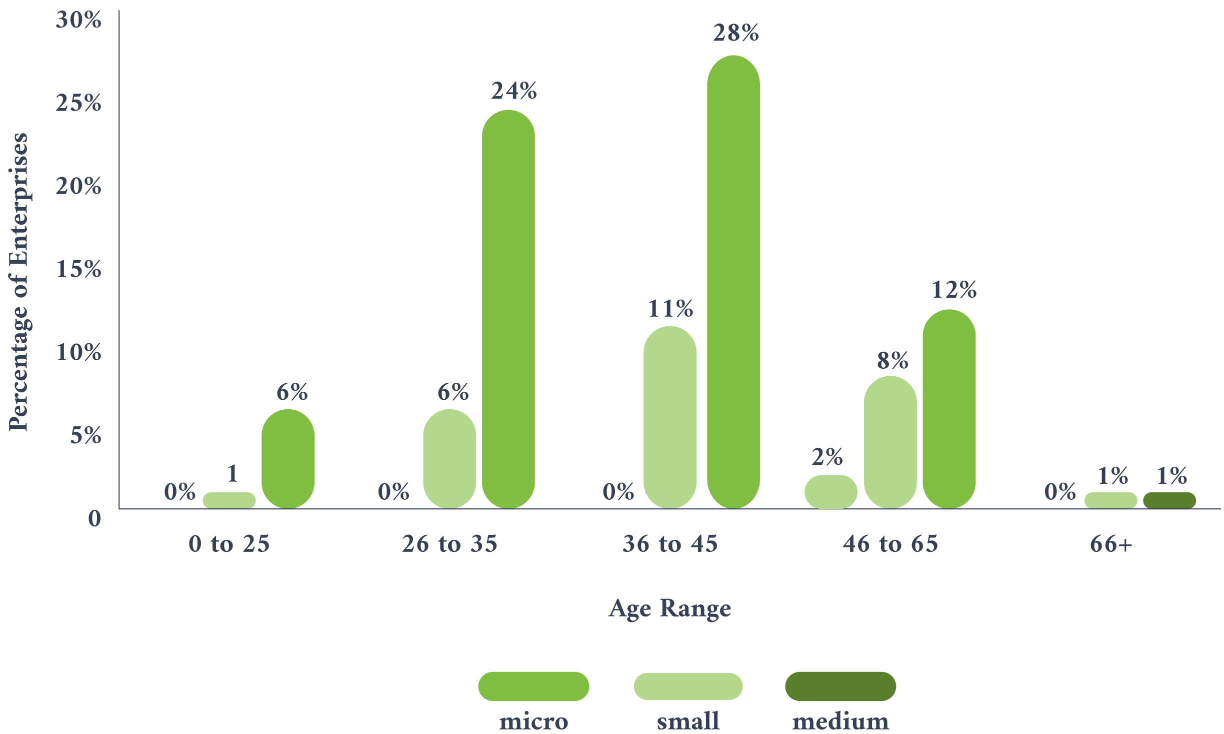
Figure 3

Age Distribution of Enterprise Owners



We conducted a cross tabulation of age of owner/founder and enterprise size (see Figure 4 below), to determine if there is a significant contribution of age to the size of an enterprise. We found that the age distribution in the sample matched the distribution when considering enterprise size. The proportions of youth and adults follow similar patterns meaning that the size of enterprise is not necessarily affected by the age of the founder.

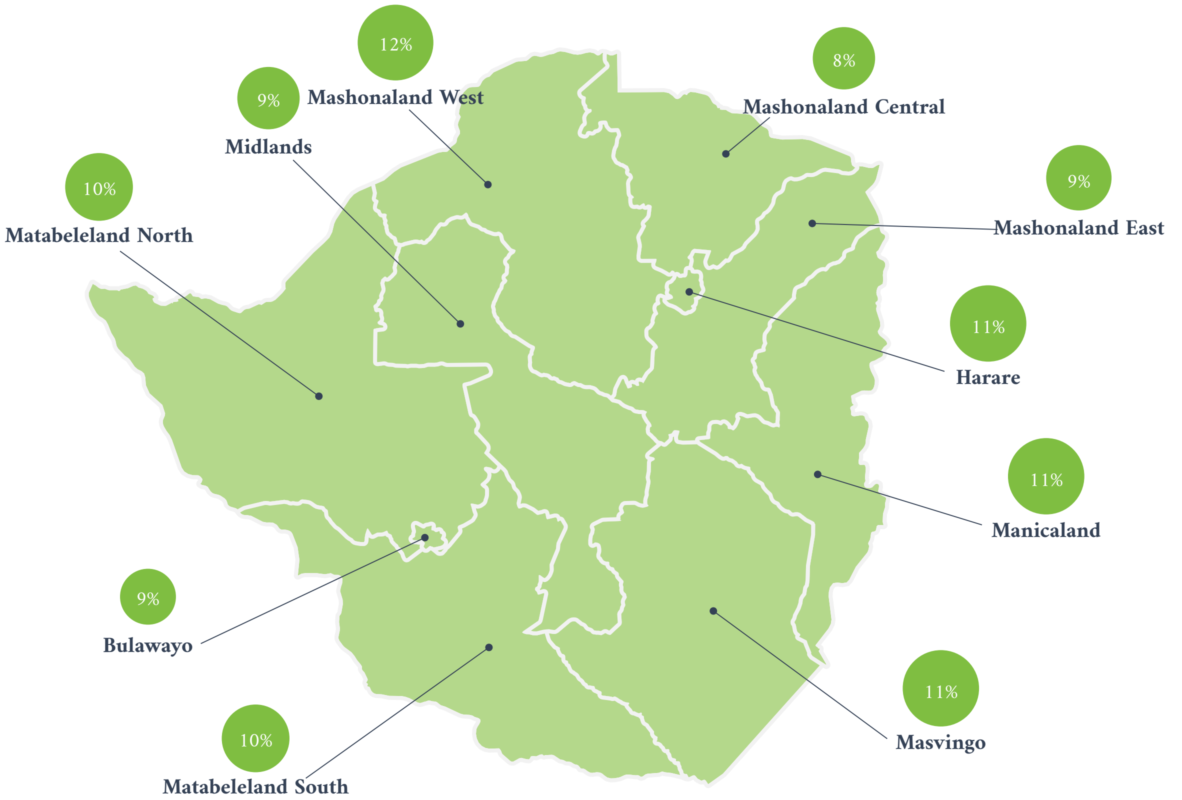
Figure 4 Age of Owner and Enterprise Size



Location of Enterprises by Province

Our objective was to make sure that we sample equal numbers (120) of MSMEs from across all the provinces. However in our final sample, some provinces had instances of more than the targetted respondents as enterprise owners were more responsive in those areas. By contrast provinces with lower numbers had challenges in gaining consent of enterprise owners to take part in the survey. The interview selection was based on the availability of small enterprises, their willingness to be interviewed and the enumerators' ability to travel to the chosen locations[5]. The result was a distribution of respondents as noted in Figure 5 below. The highest number of respondents was in Mashonaland West, followed by Harare and Masvingo provinces. Our lowest response rate was noted in Mashonaland Central.

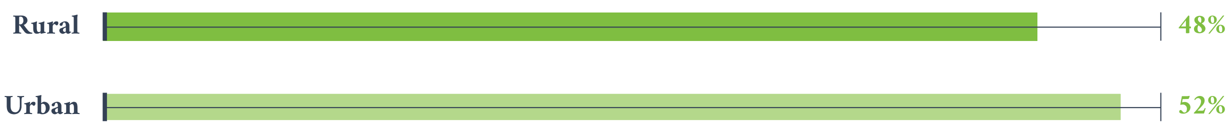
Figure 5 Distribution of Responding Enterprises



Rural and Urban Distribution of Enterprises

Our data collection yielded a response rate of 48% in rural areas and 52% in urban areas as indicated in Figure 6. The main hindrance in rural areas was the long distances and spatial distribution between small enterprises which made travel between them logistically challenging. In urban areas the key challenges experienced were that of gaining consent as enterprise founders were unwilling to share information about the financial status of their entity due to fear of reprisal by national authorities or forced compliance by revenue authorities.

Figure 6 Rural and Urban Distribution of Responding Enterprises

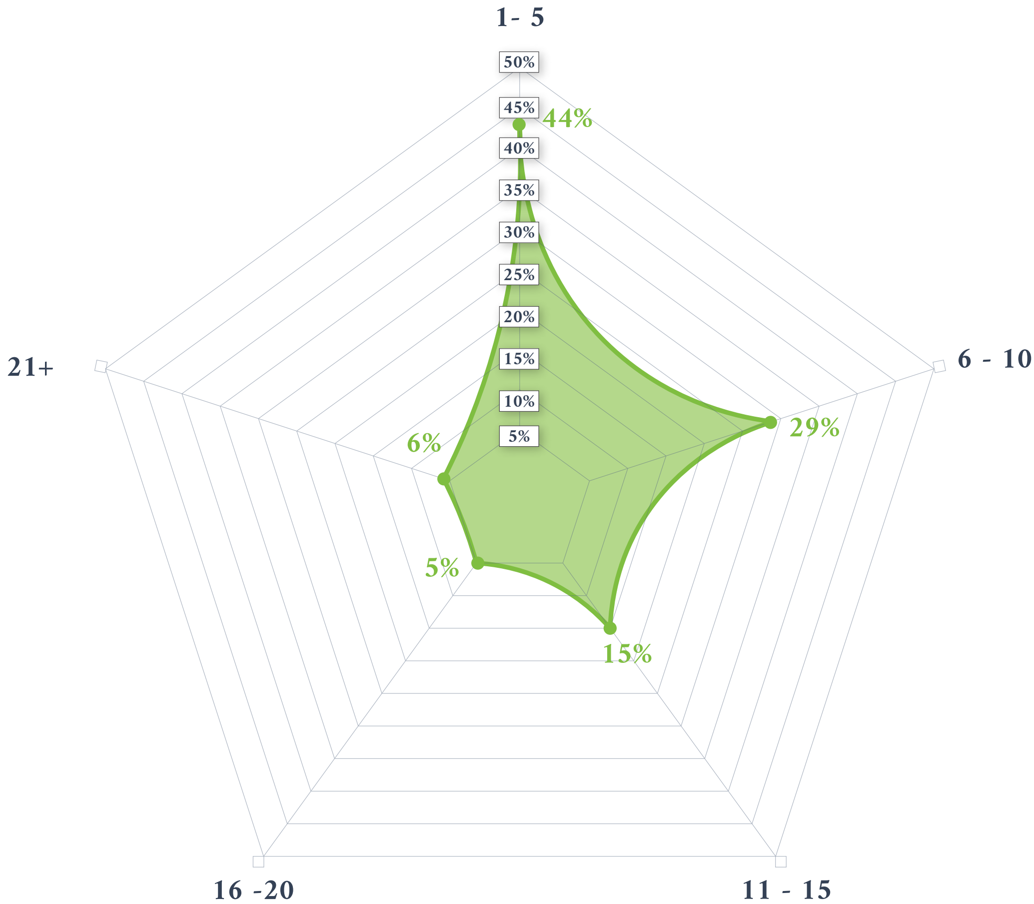


5. The survey was carried out during the COVID-19 period and we were alert to concerns about face-to-face encounters and travel.

Age of Enterprise from Date of Establishment

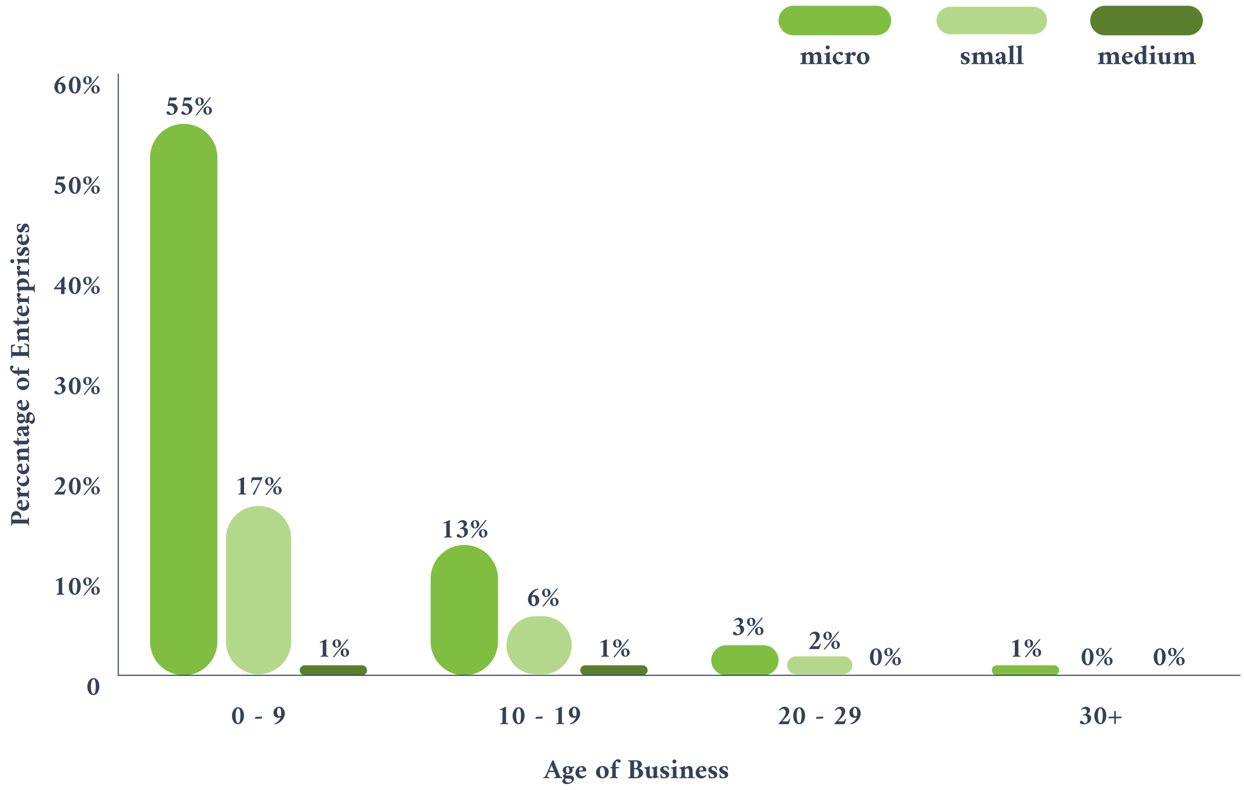
We asked our respondents to indicate the date since their business operations began[6]. Most enterprises interviewed are 1 to 5 years old (44%) with 29% of them being 6 to 10 years old (see Figure 7 below). In the micro enterprises the average operations age is 7 years, whilst for small enterprises the average age is 10 years and for medium enterprises the average age is 15 years since business operations began.

Figure 7 Age of Enterprises from Date of Establishment



6. This could be different from the date of incorporation or date of ideation (when the business was conceptualised)

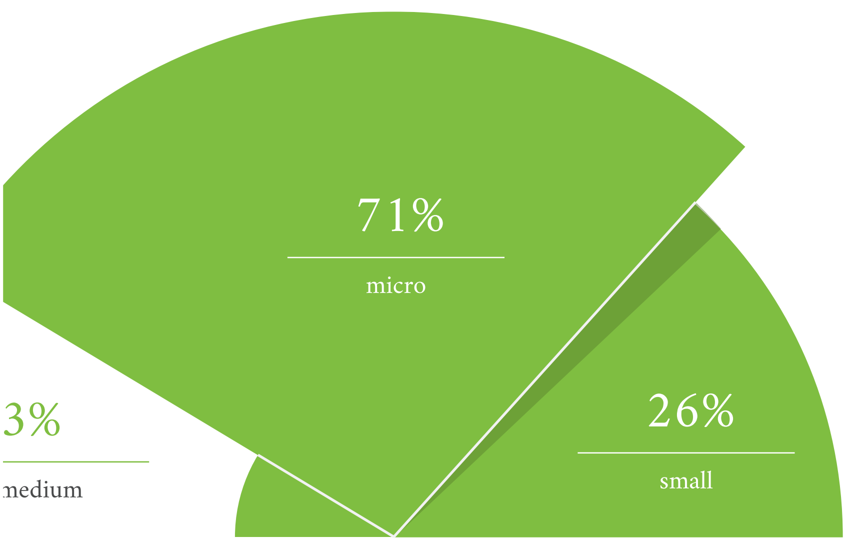
Figure 8 Age of Business and Enterprise Size



Age of Business and Enterprise Size

Enterprises that are under 9 years old were predominately micro enterprises (see Figure 8) with 55% of enterprises under 9 years being micro, 17% being small and 1% being medium sized. In the 10-to-19-year age range, 13% are micro, 6% are small and 1% are medium. In the 20-to-29 age range, the percentages of micro and small are reduced to 2% each. Very small numbers of enterprises are seen in the age range above 30 years in business.

Figure 9 Size of Enterprises Interviewed



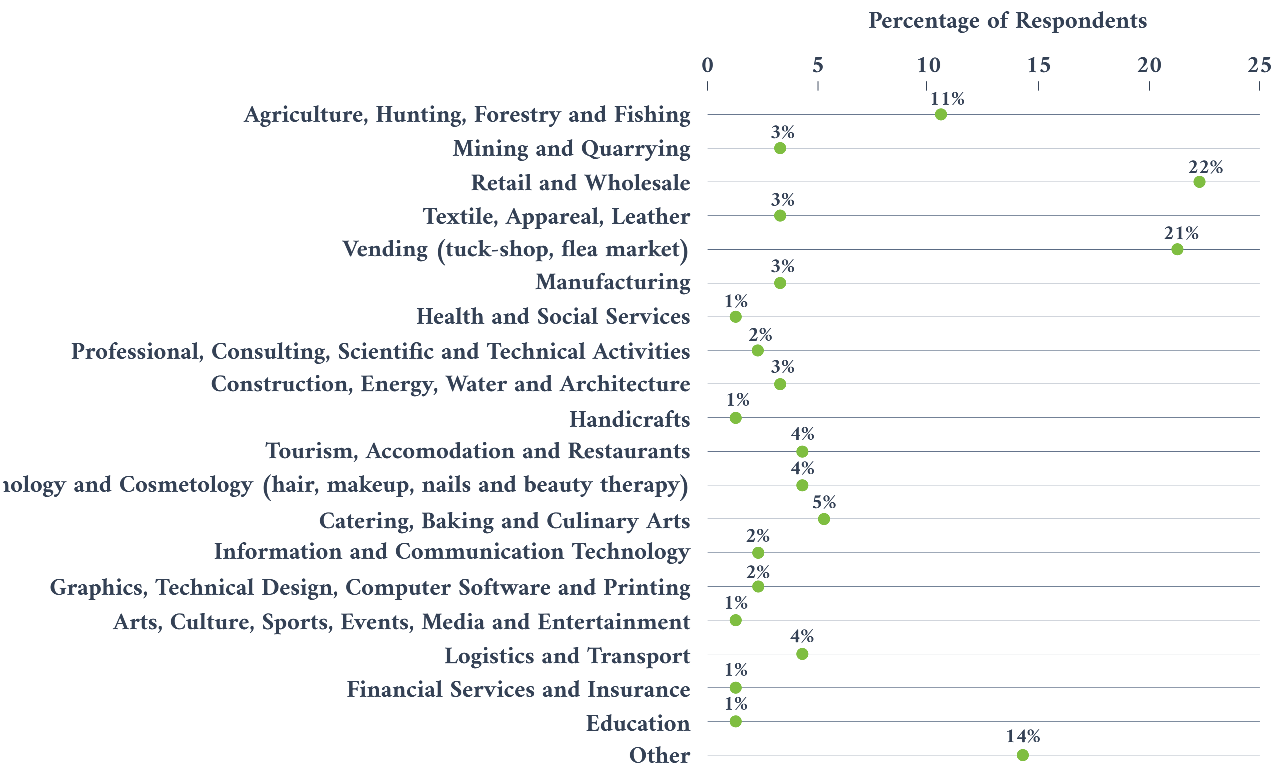
Size of Enterprises

Figure 9 shows that most enterprises interviewed in this survey (71%), can be classified as micro enterprises using the classification chart of the MWSMED listed in Table 2. Twenty six percent (26%) were small enterprises and only 3% were medium enterprises.

Industry Representation

According to Figure 10 below, enterprises interviewed were strongly represented in the retail and wholesale sectors (22%), vending in flea markets (21%), agriculture related entities (11%) and other specialised retail outlets such as butcheries, car/ automotive dealers, and hardware shops.

Figure 10 Industries Represented by Respondent Enterprises

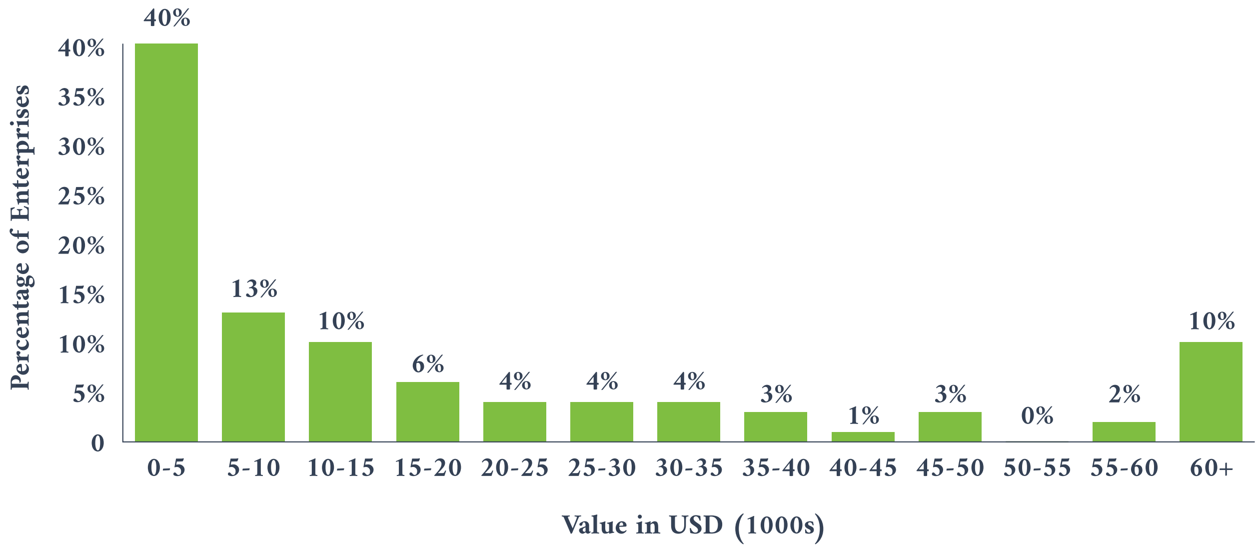


Our data shows that micro enterprises are prominently involved in retail, vending and agriculture sectors. Small enterprises are prominently involved in agriculture, retail, tourism, and logistics and catering. Medium enterprises are prominently involved in retail, agriculture, tourism, logistics, manufacturing, textile, and catering. Sectors such as tourism, logistics, manufacturing, textile, and apparel take up larger proportions of the medium enterprises.

Annual Turnover

The average annual turnover of micro-enterprises was US$7,589; the average for small enterprises was US$76,647.00 and the average for medium enterprises was US$803,022.00. There were 561 enterprises (40%) with a turnover of less than US$5,000 per annum and only 160 enterprises (12%) have a turnover above US$60,000 (see Figure 11).

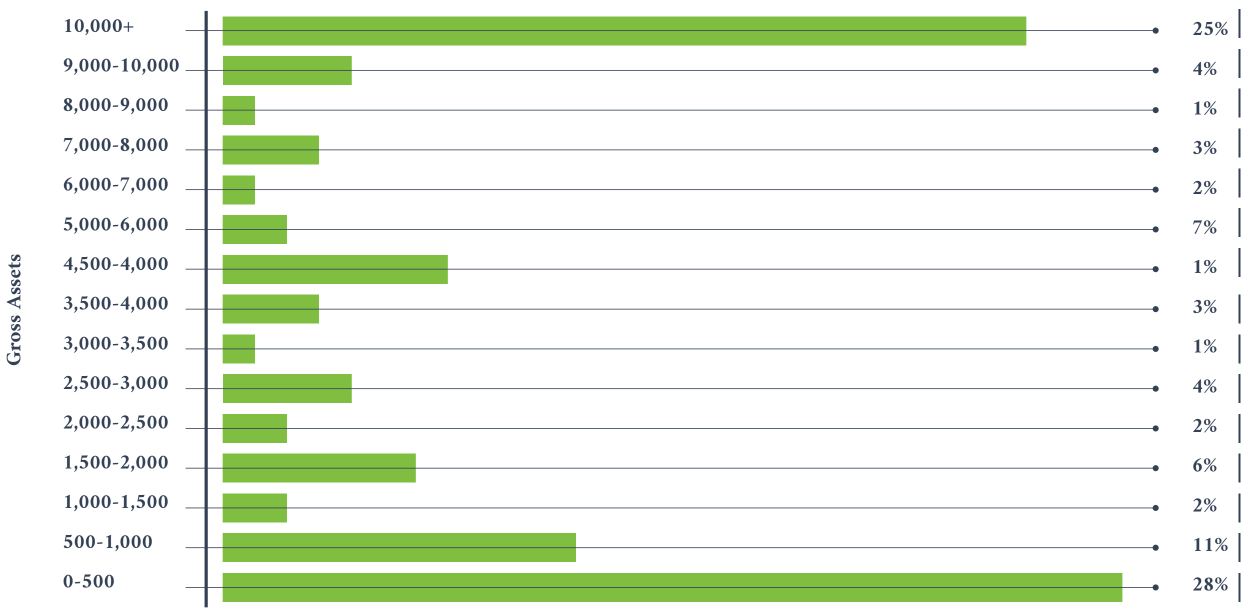
Figure 11 Annual Turnover of Respondent Enterprises



Gross Assets

The average gross value of assets for the micro enterprises that we interviewed is US$3,368.00 for small enterprises, the average gross value of assets is US$41,975.00 and that for medium enterprises is US$306,096.00. However, as shown in Figure 12 below, up to 41% (n=574) of enterprises have assets that are valued at less than US$1,500.00.

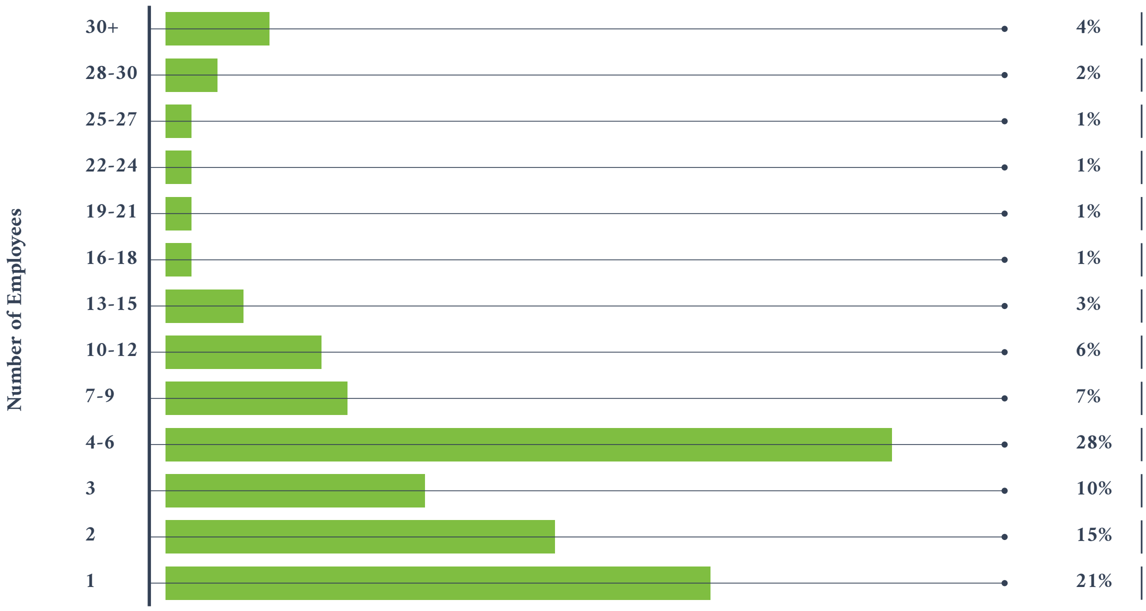
Figure 12 Gross Assets of Respondent Enterprises



Number of Employees

According to the MWSMED classification of enterprises, entities employing between 0 and 5 employees are classified as a micro, those employing 6 to 30/45[7] employees are considered as small whilst entities employing between 30/45 up to 75 employees are classified as medium. Based on the data collected in our survey, the average micro-enterprise has 3 employees, the average small enterprise has 12 employees, and the average medium enterprise has 48 employees. Figure 13 below shows the majority (74%) had less than 6 employees.

Figure 13 Number of Employees of Respondent Enterprises

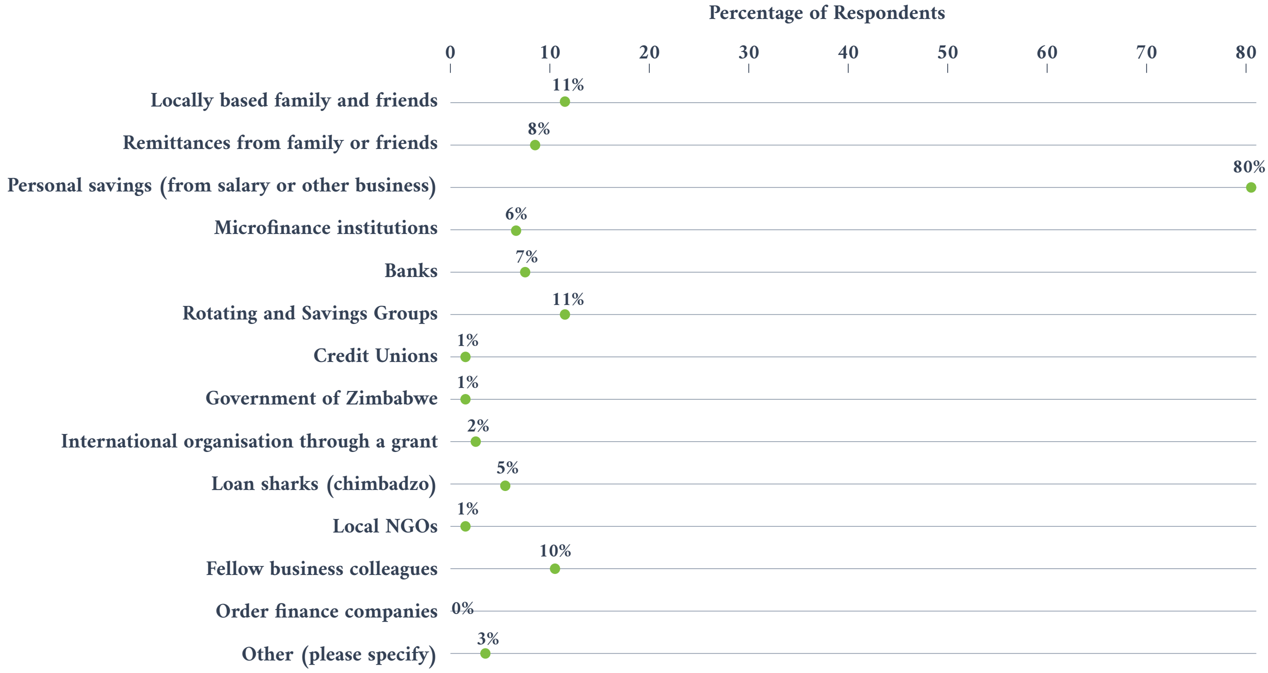


Sources of Funds for Business Establishment

Founders of enterprises use many sources of funding to gain sufficient access to start-up financing. Eighty percent (80%) of founders used their personal savings to start their businesses (see Figure 14 below). Informal relationships are more significant for enterprise development in Zimbabwe than relationships with financial institutions. For instance, 11% of the respondents secured funds from family and friends to finance their start-ups whilst another 11% secured funding from income savings and lending groups. A tenth of the sample (10%) secured funding from fellow business colleagues. Only 7% used banks and 6% used microfinance institutions to secure funding. The Government, credit unions and local NGOs have contributed to start up financing for only 1% of the enterprises.

7. The number of employees affecting classification changes based on the type of industry.

Figure 14 Sources of Funds for Business Establishment



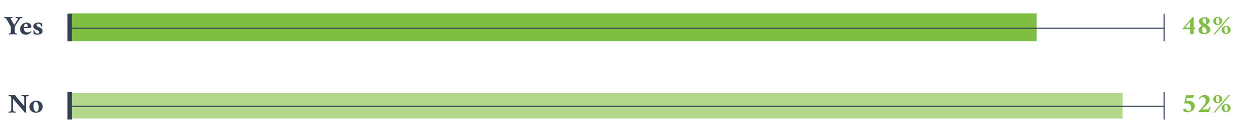
Section 3

Compliance

Status of Compliance through Enterprise Registration

The distribution of compliant and non-compliant enterprises is almost equal (see Figure 15 below). There are however slightly more unregistered enterprises (52%) compared to those which are registered (48%). Of the registered enterprises, 65% use memorandums and articles of association, 9% defer to a constitution; 7% are registered a trust and 7% are registered through local councils. When considering the distribution of registration in rural and urban areas, 59% of the registered enterprises are located in urban areas whilst 41% are located in the rural areas. When asked why they had not registered, 39% indicated that they felt the process was bureaucratic and up to 17% did not know how to go about getting their business registered.

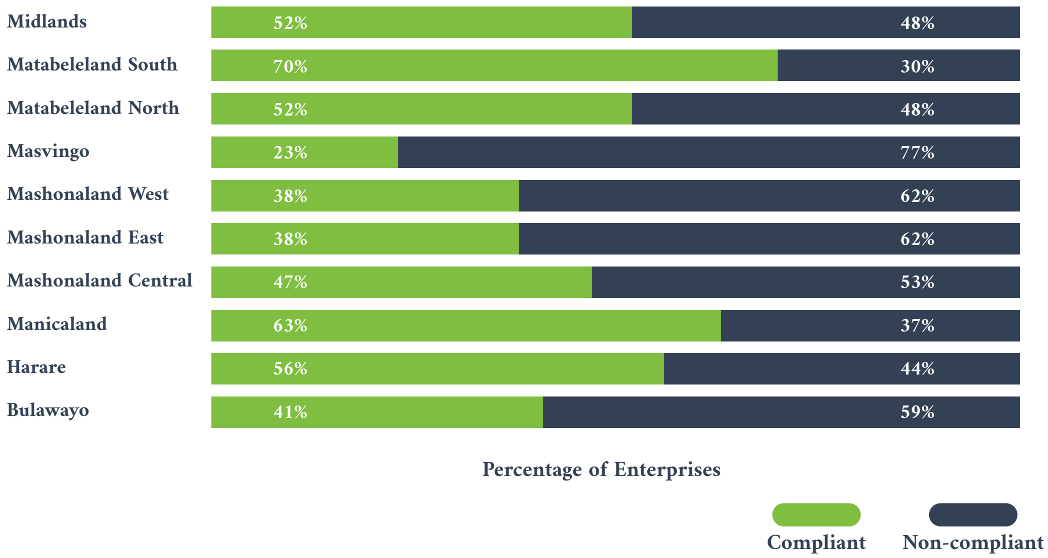
Figure 15 Status of Company Registration



Registrations by Province

Matabeleland South has higher registration compliance levels (70%) followed by Manicaland Province at 63% (see Figure 16, below). The lowest registrations were in Masvingo Province (23%) followed by Mashonaland West and East Provinces which both had a 38% compliance.

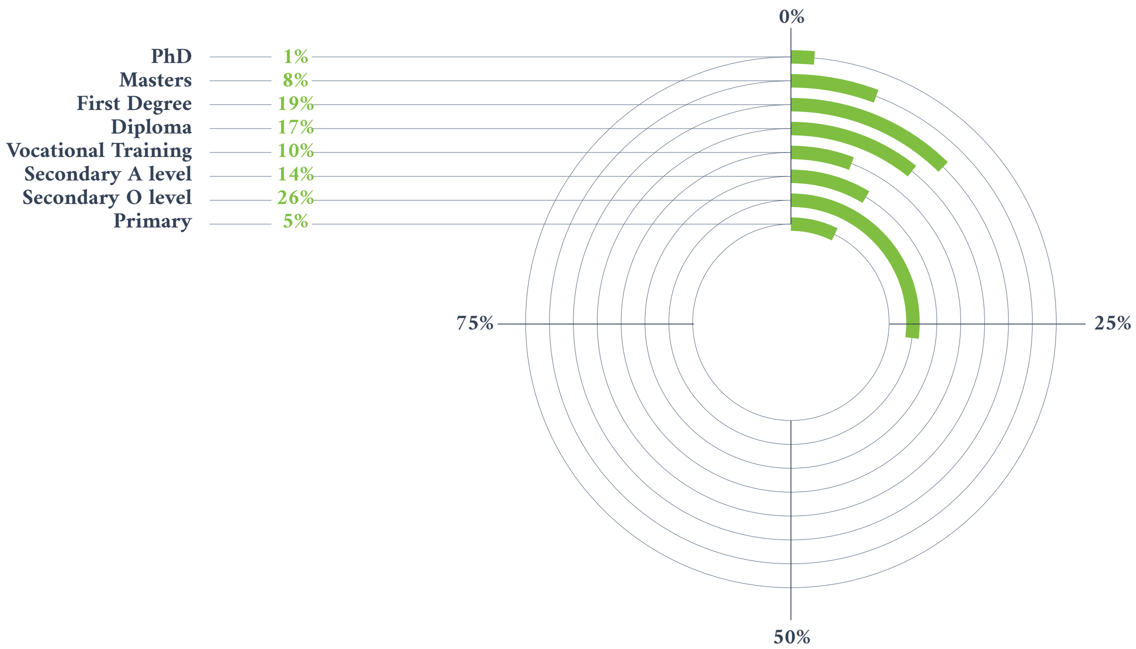
Figure 16 Status of Compliance Across Provinces



Registrations by Education Qualifications

Many founders or business owners have received secondary education (26%), a first degree (19%) and a diploma (17%) as seen in Figure 17 below. The lowest representation was seen in PhD graduates who are 1% of enterprise founders. It was also seen that many micro enterprise founders (32%) have only finished Secondary Ordinary Level. A total of 46% of micro enterprises have high school qualifications, while 77% of small enterprise founders go beyond high school and 28% have a first degree.

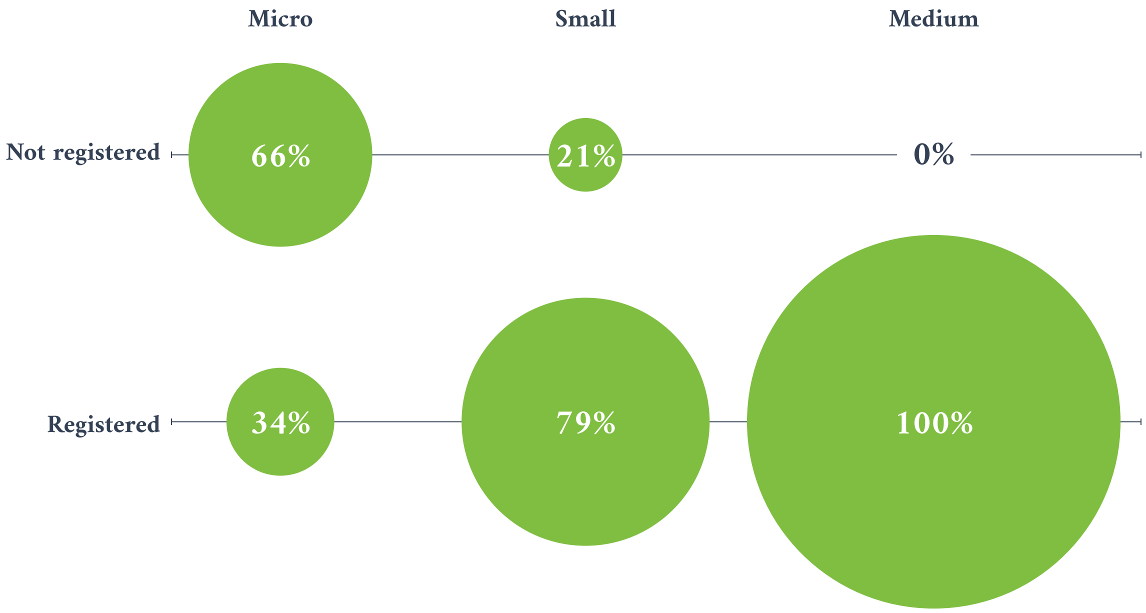
Figure 17 Interaction of Education and Level of Compliance



Registration Status by Size

All the medium enterprises are registered in some form, while 79% of small enterprises are registered (see Figure 18, below). However, the propensity to stall or avoid registration is more evident amongst micro-enterprises, 66% of which are not registered. Registration as mentioned earlier, has an influence over access to all forms of formal financial products and services and is a major factor in determining the level of inclusion.

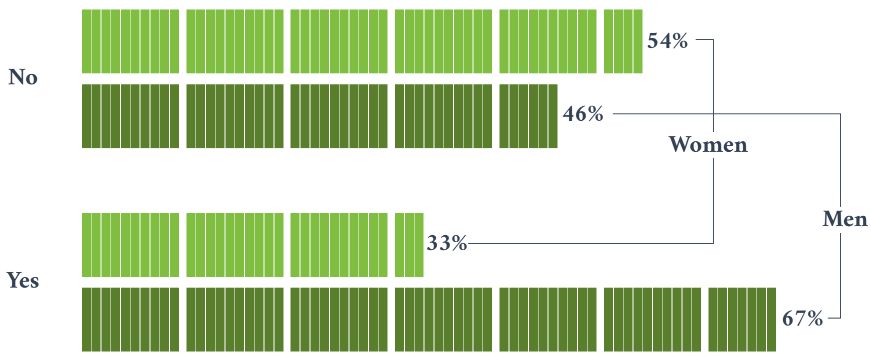
Figure 18 Registration Status by Size



Registrations Based on Gender

In relation to the gender/ registration nexus, it was seen that the majority of unregistered entities are run by women constituting 54%, whilst 46% are led by men as shown in Figure 19. As previously mentioned, women founders are more likely to own micro and small entities. In registered entities, only 33% are women-owned whilst 67% are owned by men. See the ensuing section for 'reasons behind non-registration of micro and small enterprises.'

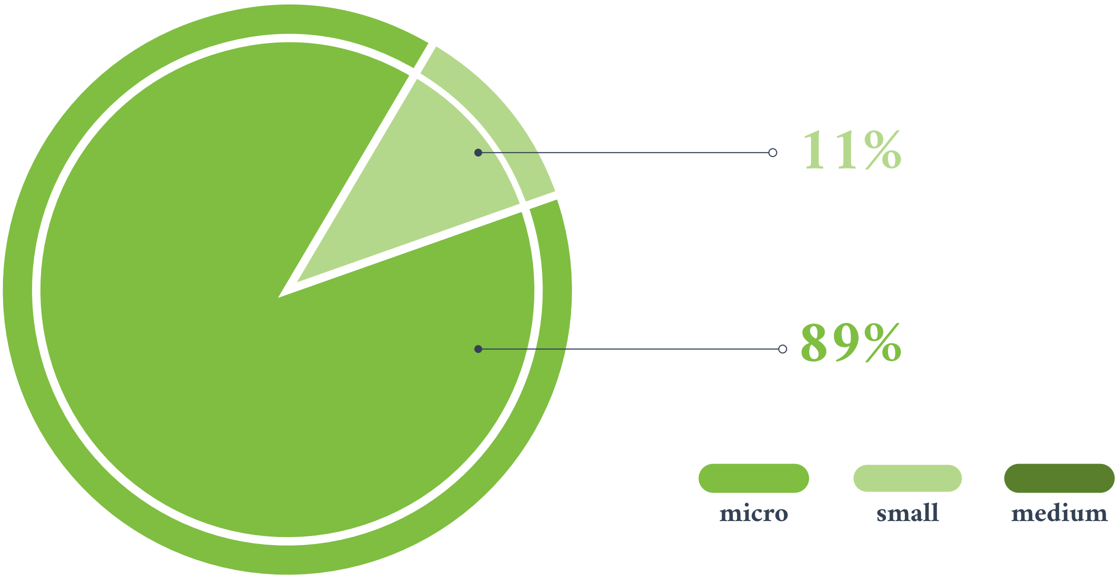
Figure 19 Registration Status Based on Gender



Restrictions to Compliance by Size

It is worth mentioning that up to 89% of enterprises indicated that they felt some form of restriction to compliance (see Figure 20). Forty percent (40%) of micro enterprises are NOT registered because it costs too much and another 19% do not know how to register. Meanwhile, 33% of small enterprises are not registered because it costs too much and 26% feel discouraged by the lack of simplicity and accuracy in the company registration law.

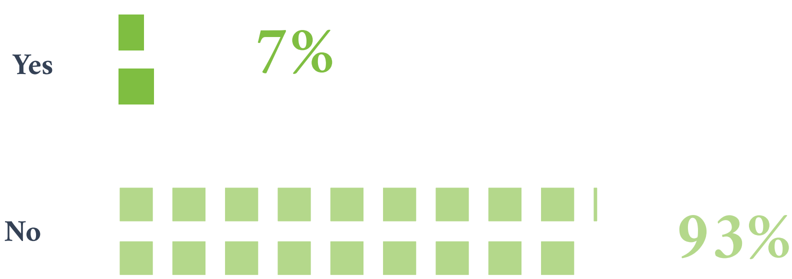
Figure 20 Restrictions Experienced During Attempts to Comply



Registration on MSME Forex Exchange

Figure 21 shows that only 7% of small enterprises are registered on the SME forex exchange. Of the 93% who are not registered, 40% indicated they are not aware of the processes of registration and another 15% do not see the need or place no value on the foreign currency auction system. Most micro-enterprises charge for goods and services in cash (ZWL and USD) and therefore, may access their foreign currency requirements directly from customers or from changing their ZWL cash into USD outside formal financial systems.

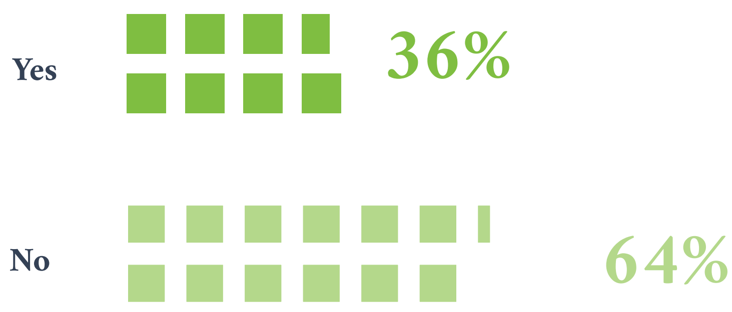
Figure 21 Registration on the SME Forex Exchange



MSME Access to Bank Accounts

Only 36% of all enterprises interviewed have access to a bank account. The remaining 64% had different reasons for not having bank accounts. A substantial proportion of enterprises (31% of urban and 22% of rural) do NOT have bank accounts because the business is not legally registered (see Figure 22). The reasons for not having a bank account are comprehensively discussed in the ensuing section on 'reasons for not having a bank account'.

Figure 22 Percentage of Enterprises with Access to Bank Accounts

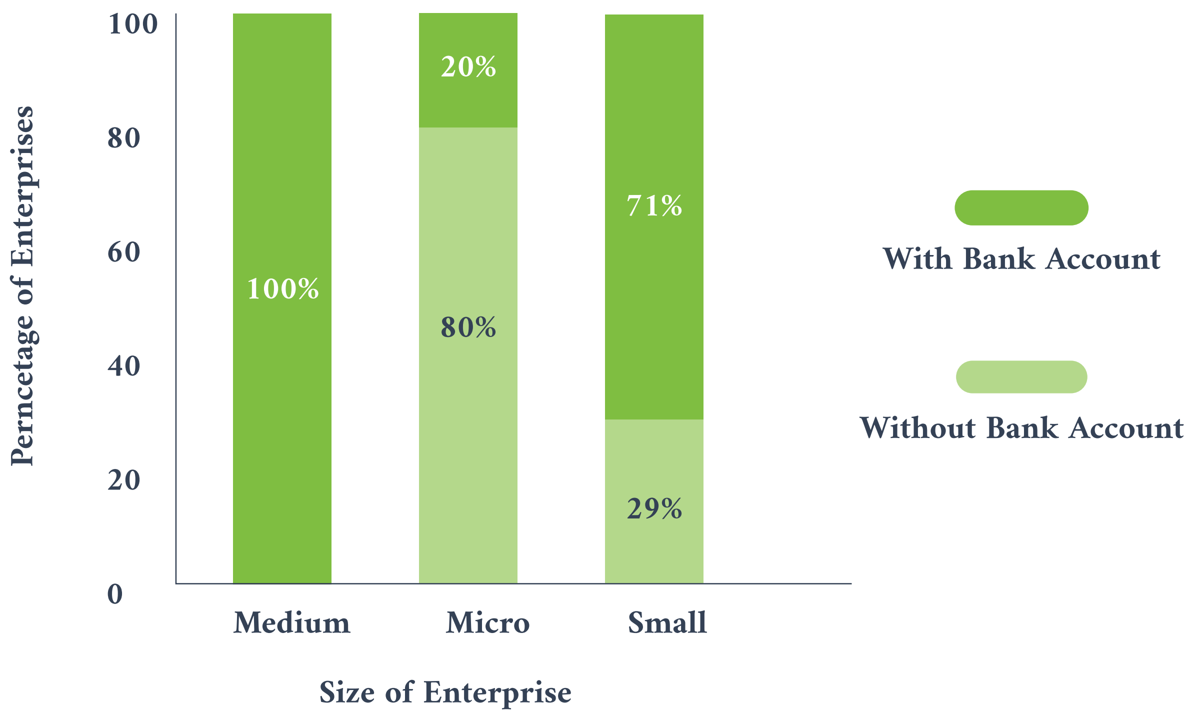


Bank Account Access by Size

All medium enterprises have a bank account whilst only 71% of small enterprises have access to a bank account and only 20% of micro-enterprises have access to a bank account (see Figure 23, below).

Since smaller entities are less likely to be registered, their access to formal systems through banks are restricted. The access to bank service additionally has a downstream effect on access to loans and investments through formal channels.

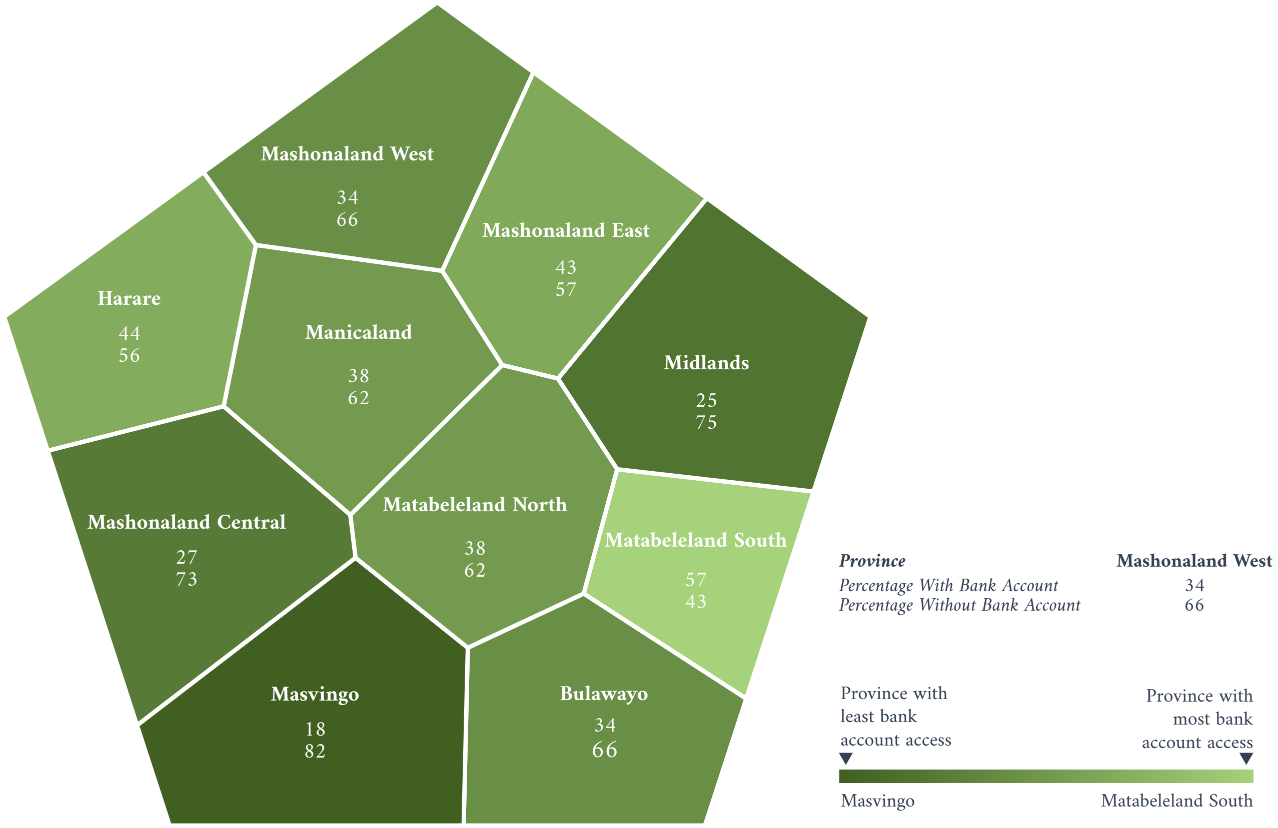
Figure 23 Correlation of Bank Account Access to Size of Enterprise



Bank Account Access by Province

There are more enterprises with bank accounts in Matabeleland South (57%), followed by Harare (44%) and Mashonaland East (43%). The lowest access to bank accounts is evident in Masvingo (18%) followed by Midlands (25%), and Mashonaland Central with 27% (see Figure 24 below).

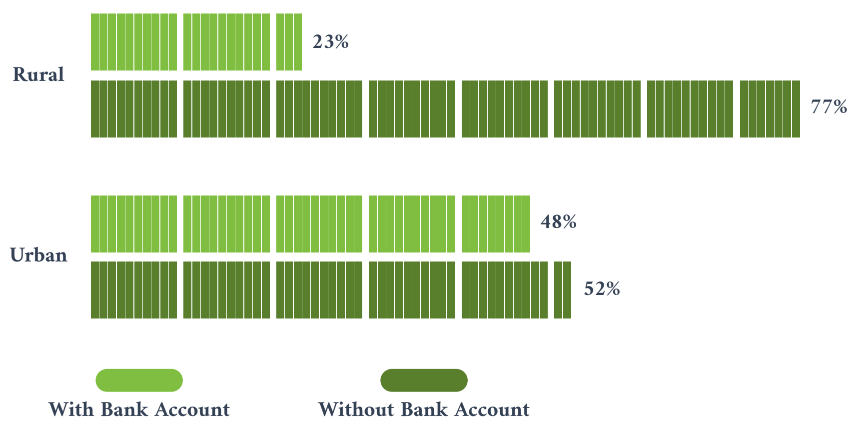
Figure 24 Differences in Bank Account Access Across Provinces



Bank Account Access in Rural vs Urban Locations

Next when considering location, our data shows that in rural areas only 23% of enterprises have access to bank accounts whilst that number rises to 48% in urban areas (see Figure 25).

Figure 25 Access to a Bank Account by Location

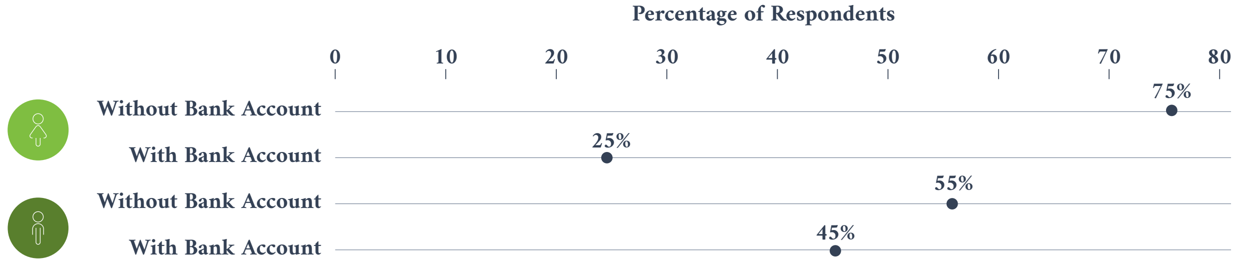


Access to Bank Account by Gender

Seventy-five per cent (75%) of women-led enterprises do not have access to bank accounts as shown in Figure 26. The access to a bank account is also related to the level of registration and enterprise size.

Women are more likely to own smaller entities which are less likely to be registered. On the other hand, just over half of the enterprises owned by men do not have access to banking facilities (55%).

Figure 26 Difference in Bank Account Access Based on Gender

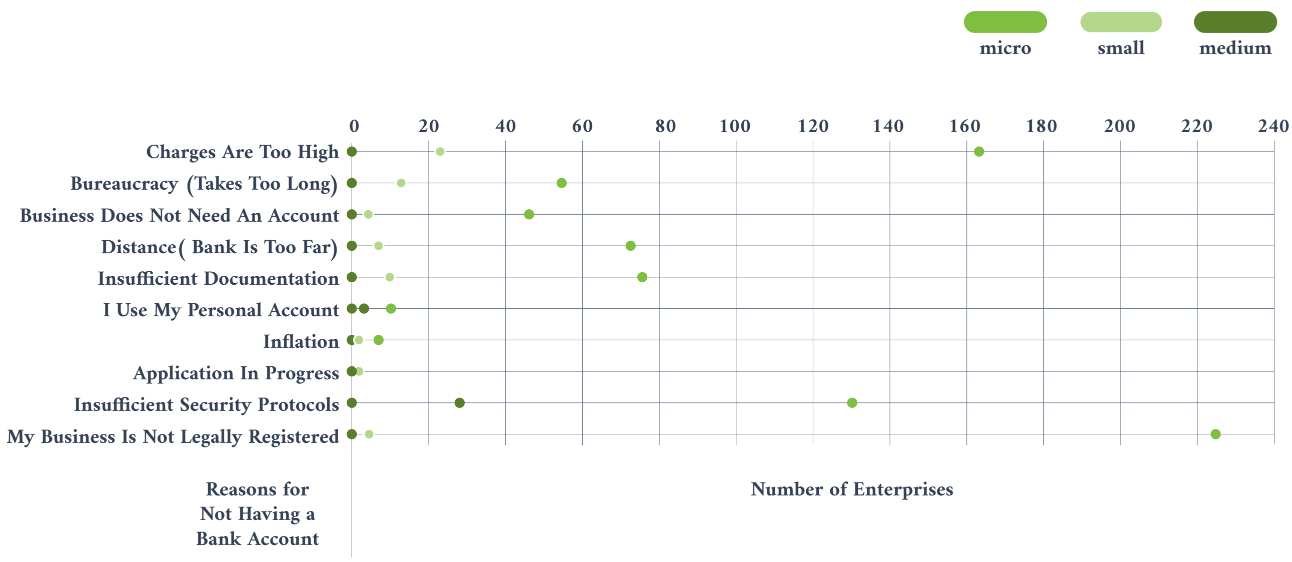


Reasons for Not Having a Bank Account

We considered all our bank account data and using the cross-tabulations of size and gender, we observed the reasons why MSMEs did not have bank accounts. We found that a total of 64% (n=898) did not have bank accounts. The most significant reason for micro-enterprises not having an account is non-registration (n=222 or 24%) indicating that although an enterprise may want an account, they have not followed all the processes that allow them access to one. Other reasons mentioned as significant by micro-enterprises include charges being too high (n=162 or 18%) and the perception by many founders that there are not enough security protocols to safeguard their money in the bank (n=129 or 14%). Micro enterprises also gave the reasons that the bank account opening process takes too long (n=55); the banks are too far (n=72) and they do not have sufficient documentation to meet KYC requirements.

When considering small enterprises only, 26% (n=229) indicated non-registration as the reason; 20% (n=184) indicated high bank charges as the reason whilst 17% of small enterprises (n=157) indicated insufficient security protocols as the reason for not having a bank account.

Figure 27 Reasons for Not Having a Bank Account



Bank Account Access by Size

We analysed enterprises by size and asked the 80% of micro enterprises without bank accounts why they have no bank accounts. Of those micro enterprises without bank accounts, 28% of them indicated they do not have accounts because the business is simply not registered, whilst 20% cannot afford to open an account.

Bank Account Access in Rural vs Urban Locations

Our data shows that in the rural areas only 23% of enterprises have access to bank accounts whilst that number rises to 48% in the urban areas, 24% of urban enterprises and 17% of rural enterprises cannot afford a bank account whilst 19% of urban and 15% of rural enterprises do not feel their money is safe within the banking system.

Access to Bank Account by Gender

Seventy-five percent (75%) of women led enterprises do not have access to bank accounts. Women with no access cited the following reasons for lack of access: 27% indicated they do not have bank accounts because their businesses are not legally registered, whilst 22% cannot afford a bank account, and 17% do not feel their money is safe. When considering enterprises owned by men, 24% of those without bank accounts are not registered and therefore cannot open one, 19% cannot afford an account and 18% do not feel their money is safe in the banking system.

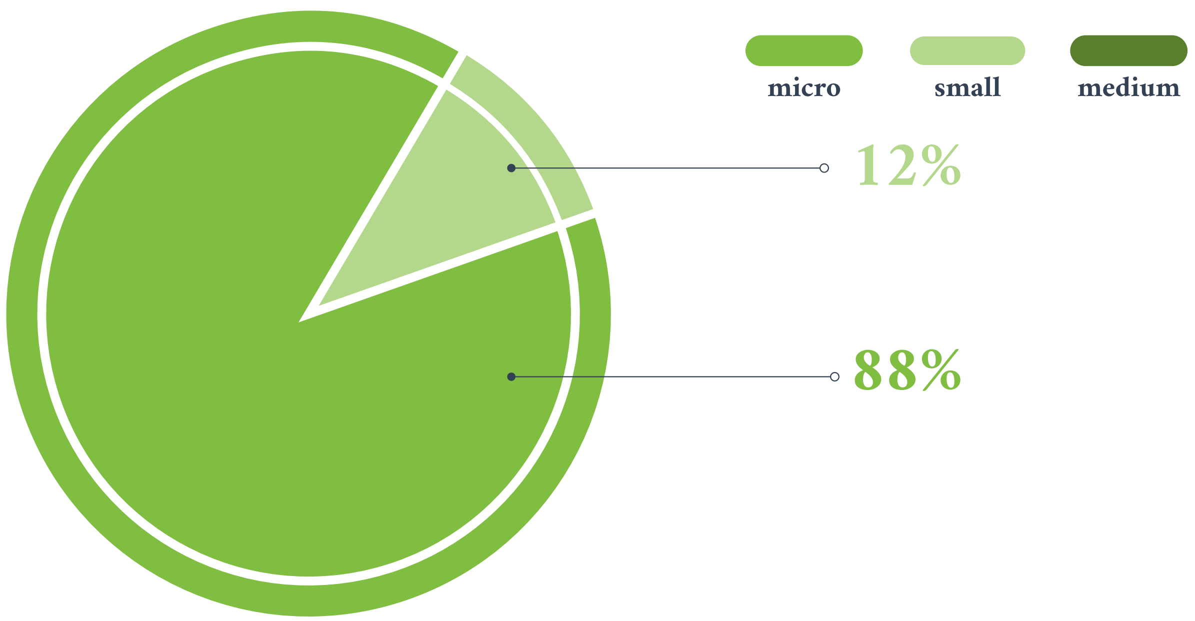
Restrictions to Banking by Size

We also sought to understand if there are restrictions to accessing banking services. The majority (88%) of the businesses that experience restrictions run micro enterprises, whilst no medium enterprises experienced any restrictions (see Figure 28 below). The remaining 12% who experienced restrictions were small enterprises. We inquired further of those who were experiencing restrictions to opening a bank account and we established that 28% did not have one because they are not registered whilst another 20% cannot at all afford opening an account meaning that they find banking services entirely expensive.

75%

Seventy-five percent of women led enterprises do not have access to bank accounts.

Figure 28 Restrictions Experienced by Respondent Entities Based on Size




CABS

» Section 5

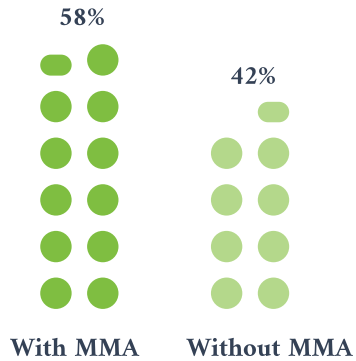
Mobile money

Mobile phones and financial technology have improved rates of access to financial products and services. Our survey sought to understand how these services are being used by MSMEs spread across the country. We found that the most prominent services include mobile money services are provided by Econet Wireless through the Ecocash platform and ZIPIT Smart (provided by ZIM Switch). We ascertained that up to 97% of all MSMEs that use mobile money will use Ecocash at some point, 30% will use ZIPIT Smart and up to 19% will use One Money.

Presence and Use of Mobile Money Accounts

More than half (58%) of enterprises in rural and urban areas have a mobile money account (see Figure 29). Since many of the respondents were micro enterprises, they preferred to use cash in their transactions which is easier to move and creates stronger liquidity which is crucial for micro entities. Of all those enterprises with a mobile money account, 73% use their accounts every day; (micro enterprises n=73%; in small enterprises n=73% and in medium enterprises n=74%).

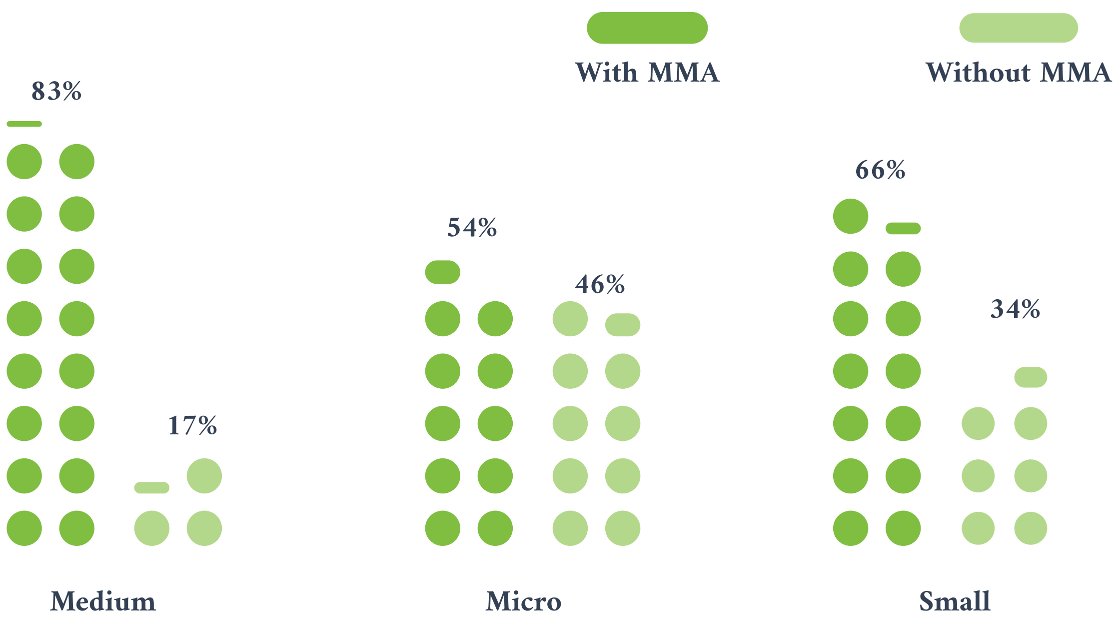
Figure 29 Level of MSME Access to Mobile Money Accounts



Mobile Money Use Based on Size of Enterprise

In relation to the size of enterprises, many medium enterprises (83%) have access to mobile money, and only 17% of medium enterprises do not have access to a mobile money account at all (see Figure 30, below). In micro-enterprises, 54% have a mobile money account whilst 46% do not use mobile money transactions. In small enterprises, 66% have a mobile money account and up to 34% do not have access to mobile money transactions. The reasons why enterprises do not have access to a Mobile Money Account are comprehensively explained in section "reasons for not having a mobile money account"

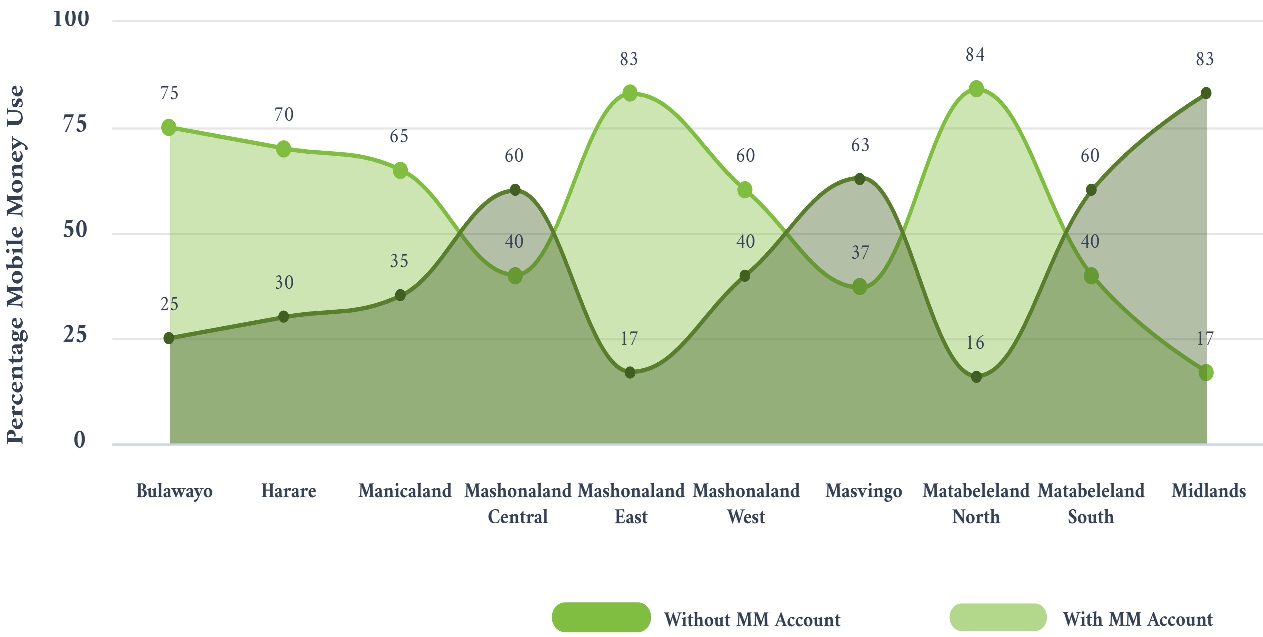
Figure 30 Differences In Mobile Money Use Based on Size



Use of Mobile Money Services Based on Province

The differences in access to mobile money across provinces are quite distinct. The provinces which demonstrate lower rates of mobile money access are Midlands where only 17% have access, followed by Masvingo where only 37% have access (see Figure 31 below). The highest rates of mobile money use were seen in Matabeleland North where 84% have access and Mashonaland East where 83% have access. The rate of access for Bulawayo is stronger at 75% compared to Harare which has 70% access.

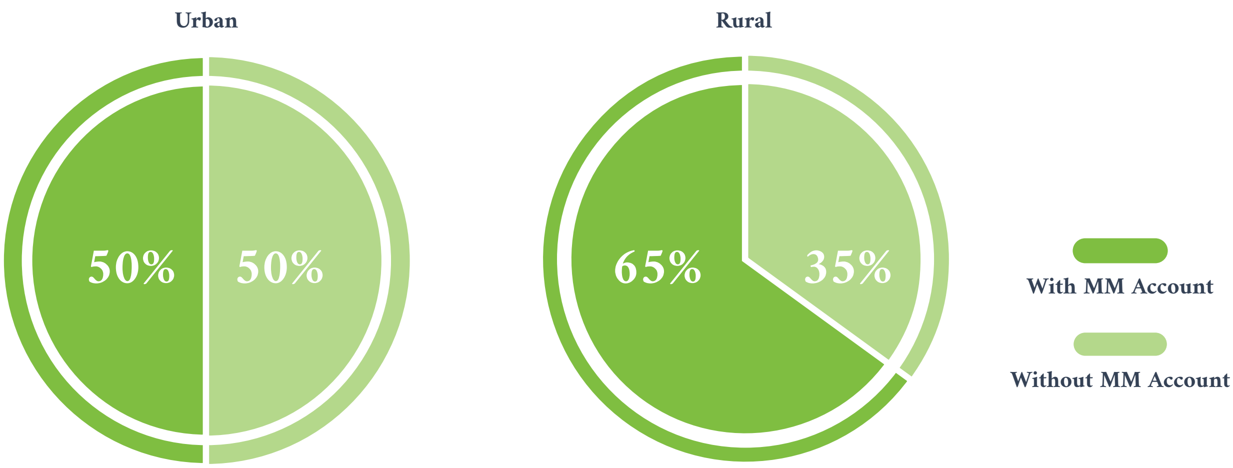
Figure 31 Changes in Mobile Money Use Across Provinces



Changes in Mobile Money Account Access in Rural and Urban Locations

In rural Zimbabwe, there is an even distribution between those with access to mobile money services and those without (see Figure 32 below). However, in urban areas, those with mobile money accounts are more significant at 65% of the population of MSMEs.

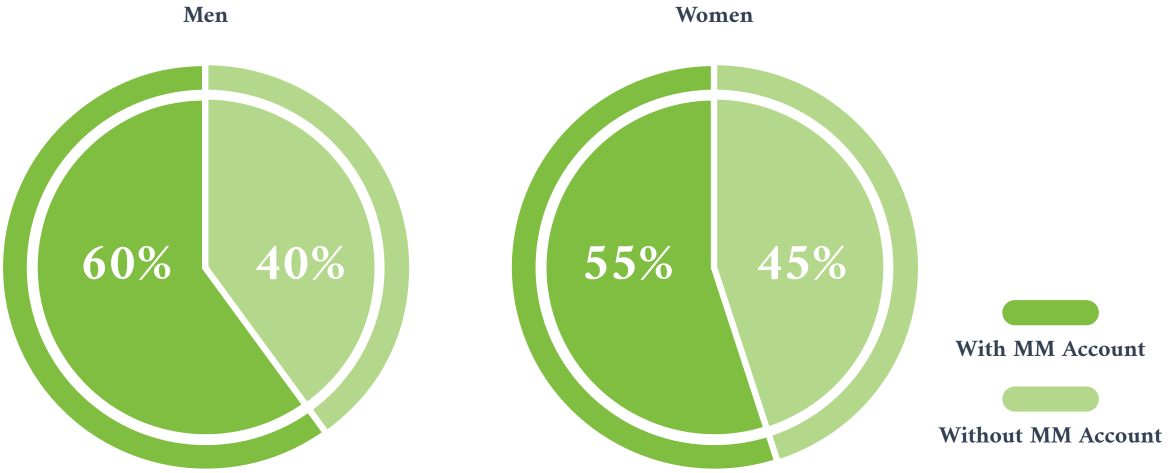
Figure 32 Differences in Mobile Money Use Across Provinces



Changes in Mobile Money Use Based on Gender

The relationship between mobile money use and the gender of the enterprise owner/founder reveals that more men (60%) have access to mobile services whilst 40% do not have access. Amongst women founders, 55% have access to mobile services, whilst 45% do not have similar access as shown by Figure 33 below.

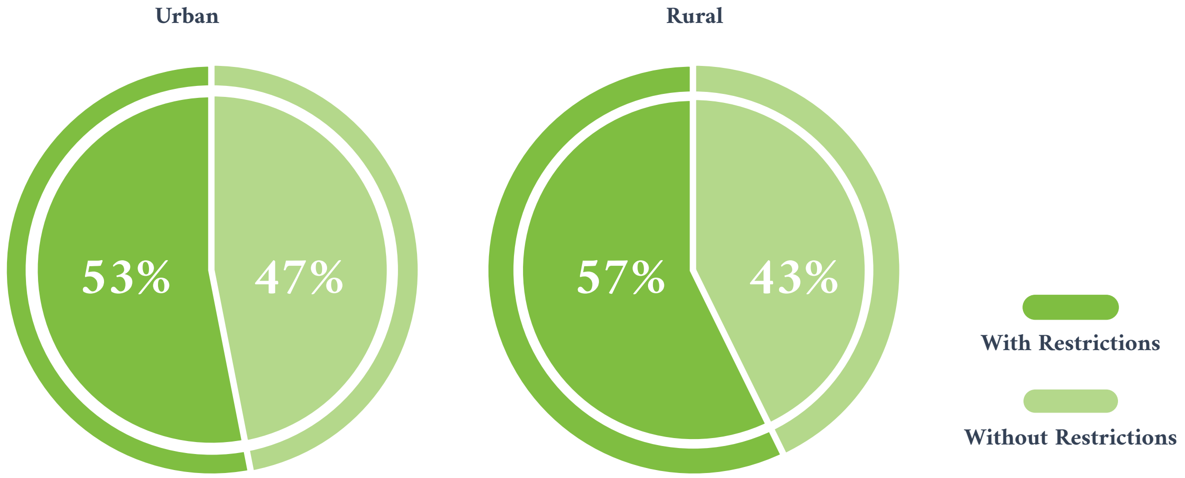
Figure 33 Differences in Access to Mobile Money Based on Gender



Restrictions to Mobile Money Use Depending on Rural and Urban Locations

Enterprise founders/owners in rural areas experienced more restrictions (57%) to mobile money use whilst 53% of enterprise founders in urban areas experienced such restrictions (see Figure 34 below). Restrictions which were mentioned by MSMEs include high bank charges, transactions which are lost or incorrectly billed and mobile devices being incompatible with the mobile money applications rendering them in accessible.

Figure 34 Restrictions in Experienced in Accessing Mobile Money Based on Location

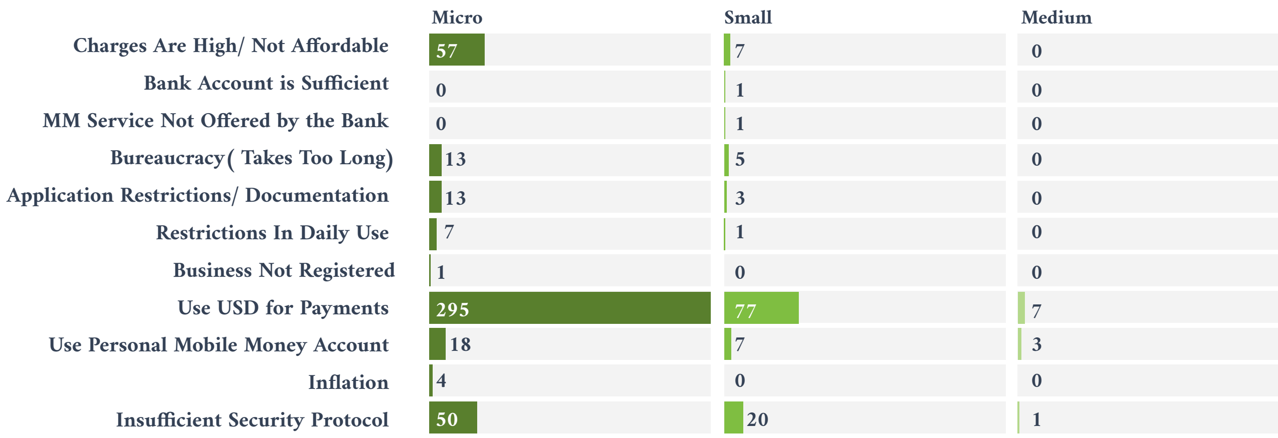


The Reasons for Failure to Access Mobile Money Accounts

We asked respondents without Mobile Money accounts their reasons for not being able to access these accounts. As shown in Figure 35 below, we found that 591 enterprises do not have mobile money accounts. In this group most (n=295 or 49%) said they use USD (United States Dollars) or ZWL (Zimbabwe Dollar) cash for payments and therefore do not need a mobile money account; whilst a small number mentioned insufficient security protocols in mobile wallets (n=50 or 8%) and high/ prohibitive charges (n=57 or 9.6%) as the reasons for non-access to mobile money facilities.

We asked those who experienced restrictions what the most significant impediments were. We learned that of those experiencing restrictions, 12% do not trust the system itself, whilst 11% feel the system is too expensive. We also discovered that of those who do not use mobile money, 63% indicated that they do not need a mobile money account because their business handles cash transactions only.

Figure 35 Reasons Why Enterprises Do Not Have Mobile Money Accounts

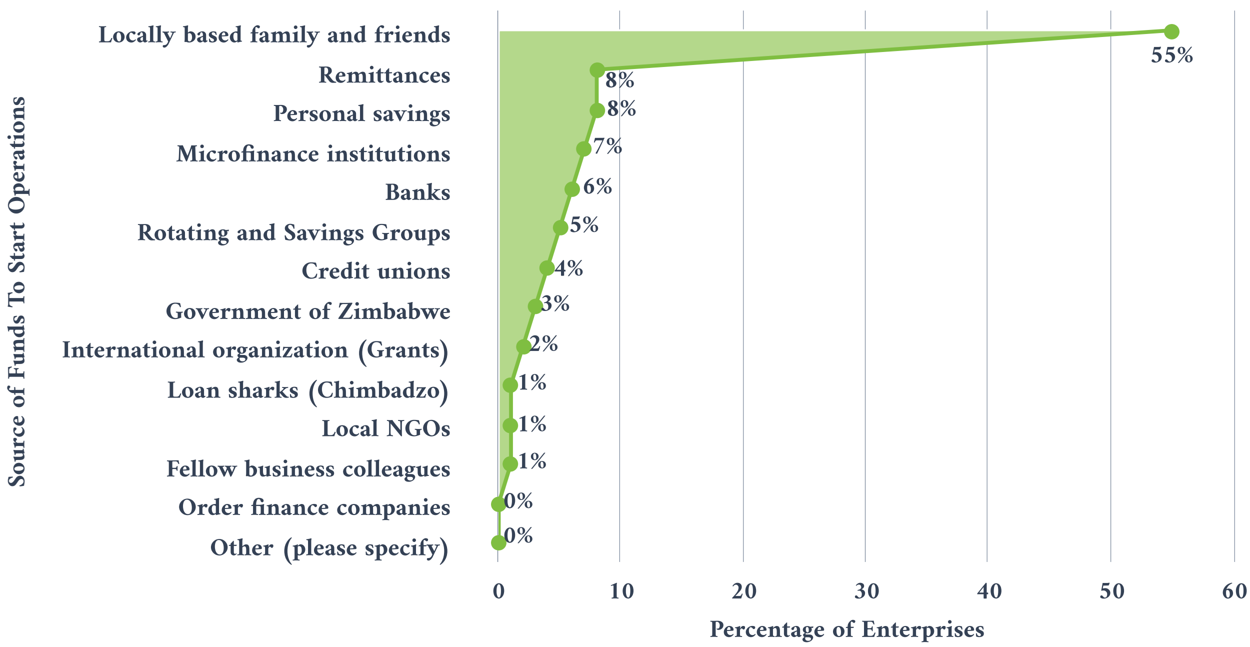


Sources of funding for business operations and loan applications

Typical Funding Sources for Business Establishment

We explored how small enterprises interact with other entities outside their business to access financial services and products. Most enterprises (55%) indicated that they sourced funds from locally based family and friends to start their business operations (see Figure 36 below). Remittances from family and friends outside Zimbabwe and personal savings were a significant source of income for 8% of the respondents, whilst banks and microfinance institutions only contributed to 6% and 7% of funding options, respectively. Credit unions were regarded as important by 4% whilst the government of Zimbabwe was regarded by 3% of respondents as an important source of funding. International organisations were acknowledged as sources of funding by only 2% of respondents.

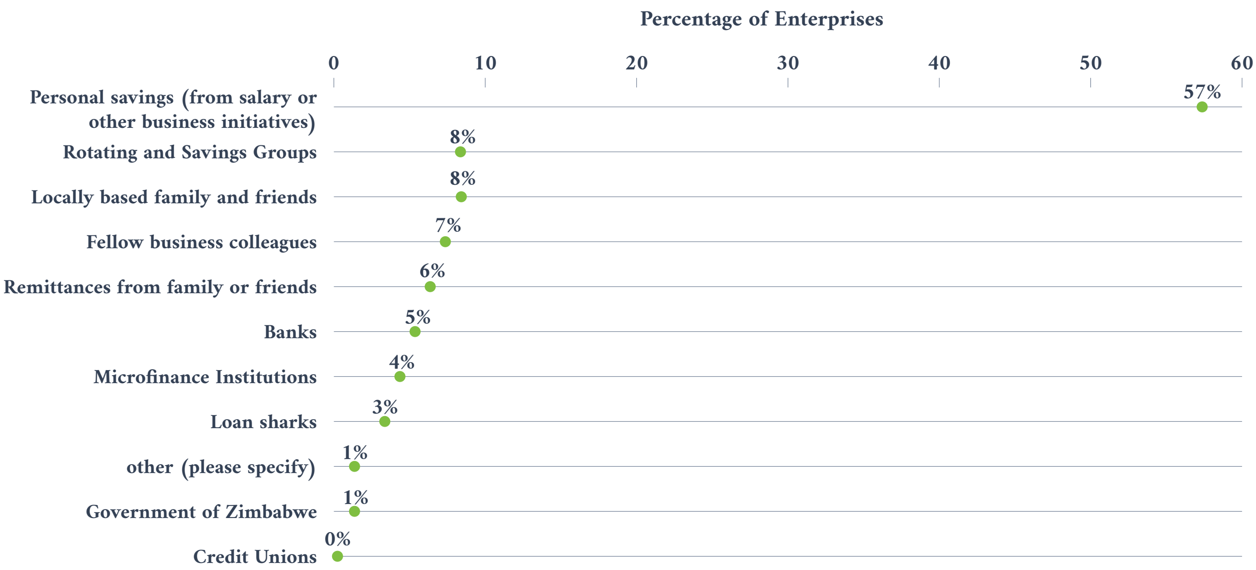
Figure 36 Funding Sources of Respondent Enterprises



Typical Funding Sources for On-going Business Operations

We sought to understand how funding sources take on a different role once the business is established and the enterprise needs funds for ongoing business operations. As indicated in Figure 36 above, most founders had to rely on their family and friends to start their enterprise. However, once the enterprise started running, founders relied on their own savings and own initiatives to keep their businesses afloat (see Figure 37 below). This of course makes them more susceptible to economic shifts making it easier for their enterprises to fail. Founders also rely on networks such as savings and lending groups (8%), family and friends (8%), remittances (6%) and fellow business colleagues (7%). Banks take up a small role in funding (5%) and microfinance institutions even less (4%). The Government of Zimbabwe was only mentioned by 1% of enterprise founders as a source of funding for business operations.

Figure 37 Key Funding Sources for On-going Business Operations



Applications for Loans and Credit Patterns

Only 14% of small enterprises in Zimbabwe make loan applications to formal entities like banks or microfinance institutions with the hope of receiving funding as they attempt to get into business (See Figure 38). As highlighted in Figures 36 and 37, small enterprises rely on themselves or their family and friends (local and in the diaspora) when they would like to start an enterprise.

Figure 38

Percentage of Enterprises Making Loan Applications to Start Their Businesses

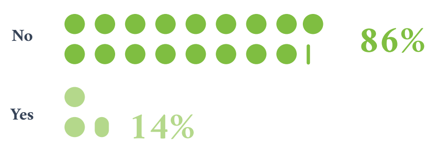
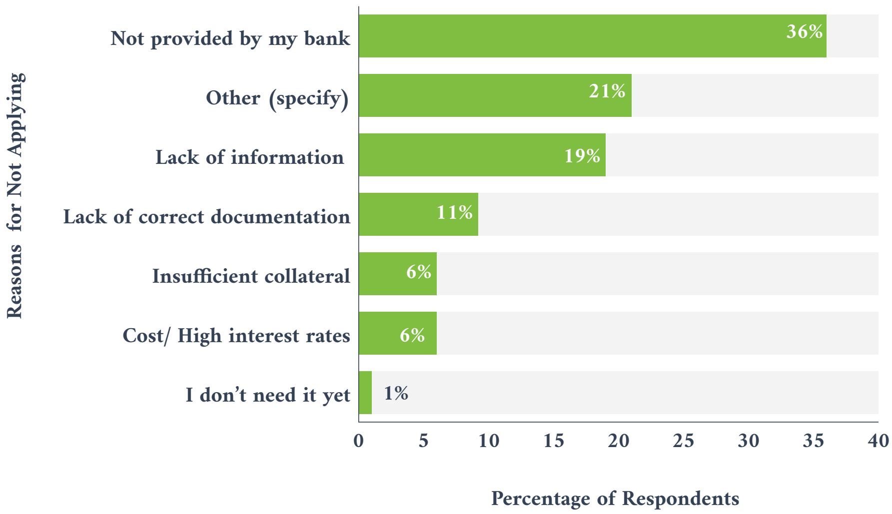


Figure 39 Restrictions Experienced In Loan Applications

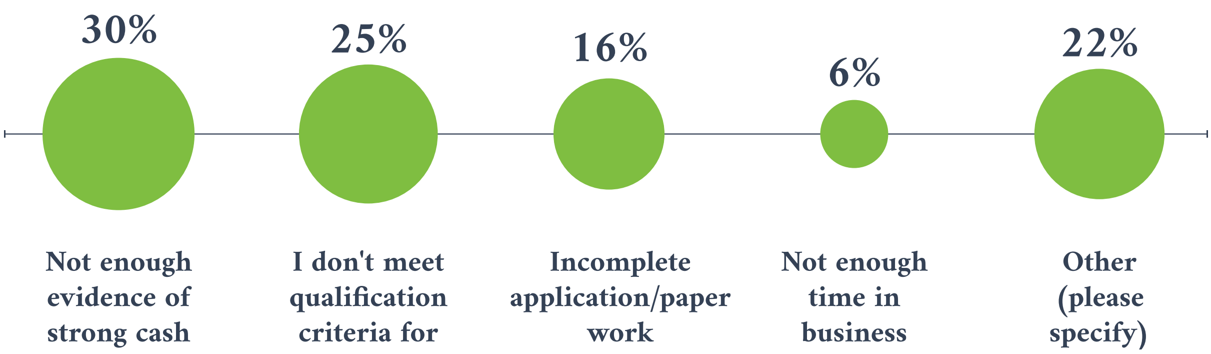


When asked about the reasons for not making loan applications, 36% said that loan services were not available to them from the bank. The services may have been available to other customers but were not available to them as individuals. Other founders noted that they did not have sufficient information on how to make the application, whilst 11% had insufficient documentation, 6% had no collateral or were weary of high interest rates associated with loans in Zimbabwe (see Figure 39 below). Those who indicated 'other' as a reason expressed their fear of inflation and lack of trust in the system as prominent reasons. Many referred to loan applications as an "impossible process" perhaps demonstrating the limited trust that small enterprises have in the financial services sector in this regard.

Reasons for Rejection of Loan Applications Submitted by MSMEs

Of those who had applied for funding (n=194), 30% had their applications rejected because they had not demonstrated a strong cash flow, 25% did not meet criteria for assets or collateral, 16% had incomplete paperwork and 6% had not been in business long enough to demonstrate a viable enterprise (see Figure 40 below). Of those who applied for loans in the last 12 months, 30% were rejected because of insufficient evidence to demonstrate cash flow and another 25% did not meet the criteria to receive a loan.

Figure 40 Reasons for Rejection When Attempting to Access Loans

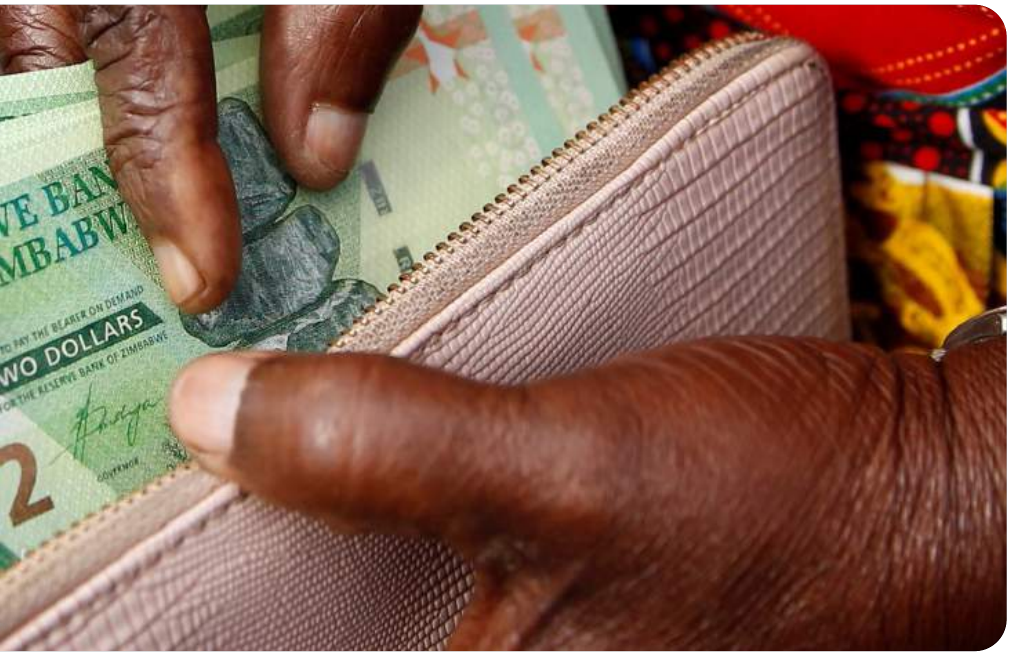


Section 7

Insurance and pensions

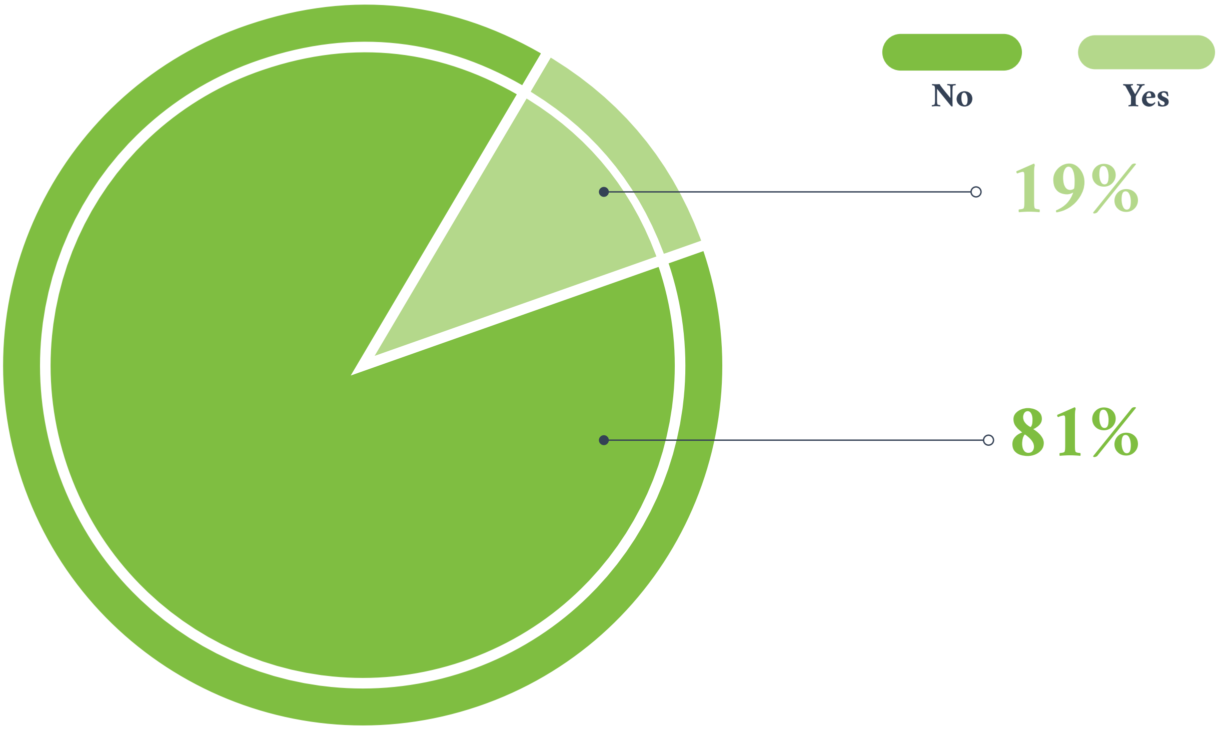
Access to Insurance

Most small enterprises (81%) did not have access to insurance products and services as seen in Figure 41. However, when we asked those with a history of accessing mobile based financial services like insurance, we noted that those who access insurance using mobile platforms (where n=161) 77%, use Econet wireless based products such as Ecosure, EcoLife or Ecofarmer.



30% of loan applications were rejected because they had not demonstrated a strong cash flow

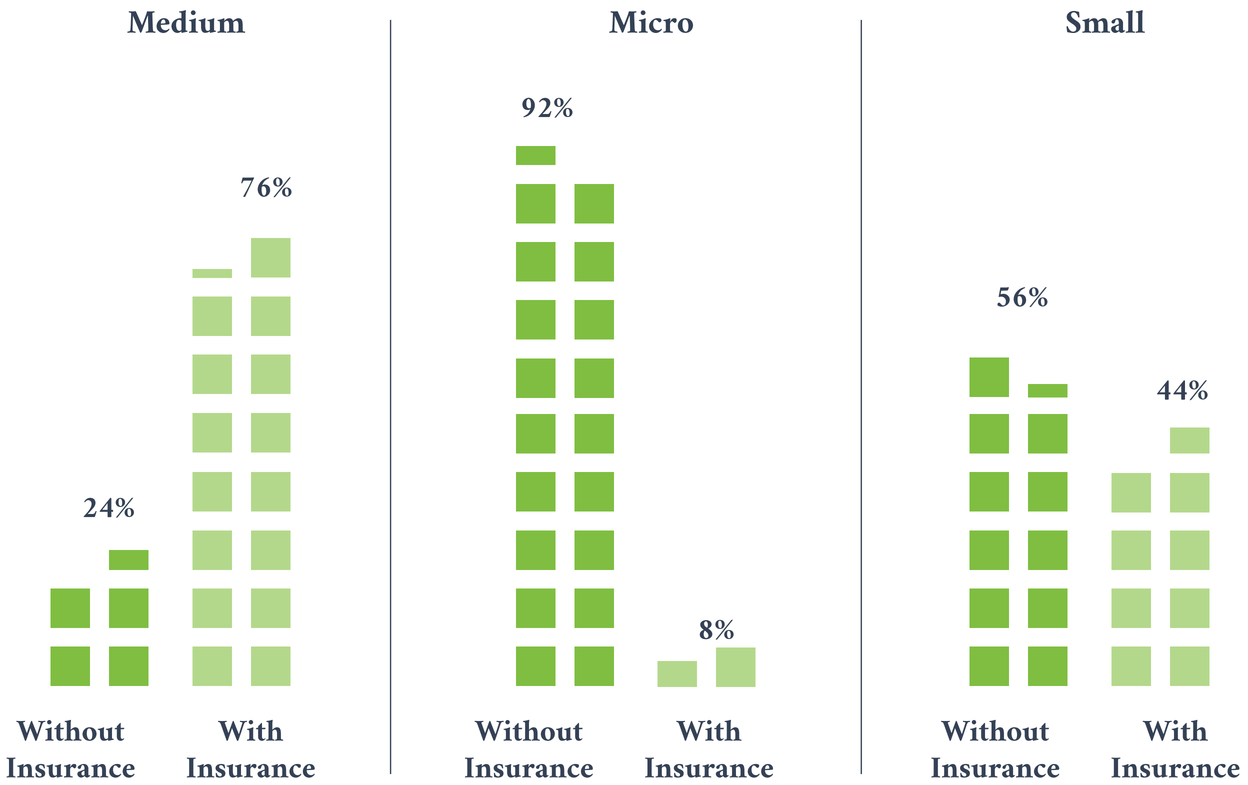
Figure 41 Access to Insurance



Insurance Access Based on Size of Enterprises

Enterprises who have access to insurance are mostly small and medium in size (See Figure 42, below). In the category of medium enterprises, 76% have access to insurance, whilst in the small enterprise category, 44% have access to insurance. Only 8% of micro enterprises have access to insurance.

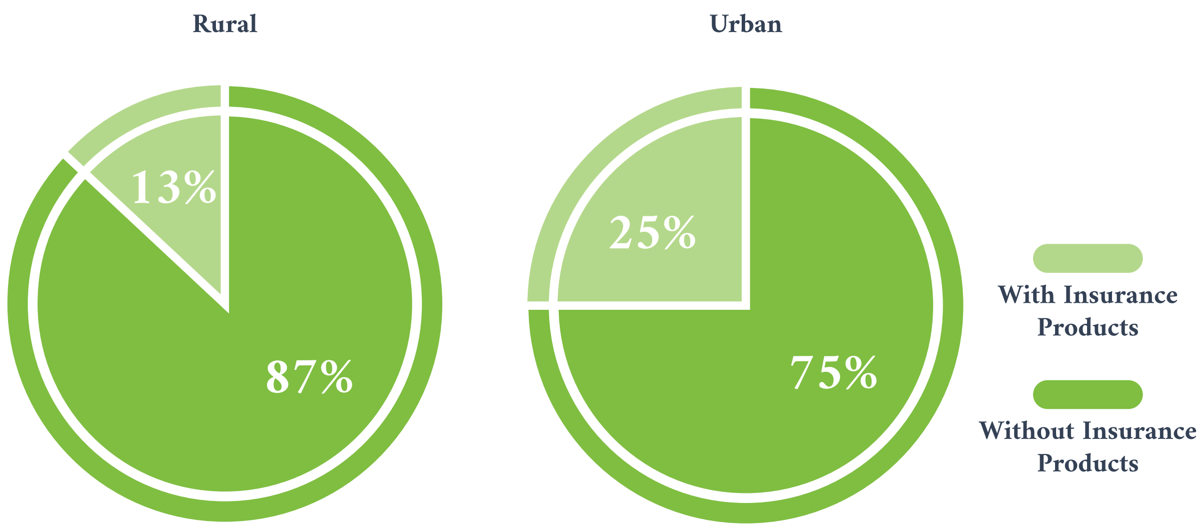
Figure 42 Differences in Insurance Access Based On Size of Enterprise



Insurance Access Based on Rural and Urban Location

Our survey found that in urban areas, up to 25% of enterprises have access to insurance, but in rural areas only 13% have access to insurance as shown in Figure 43 below. It seems there is a widespread unavailability of insurance products within sample different locations and within the different categories of enterprises.

Figure 43 Differences in Insurance Access Based on Size of Enterprise



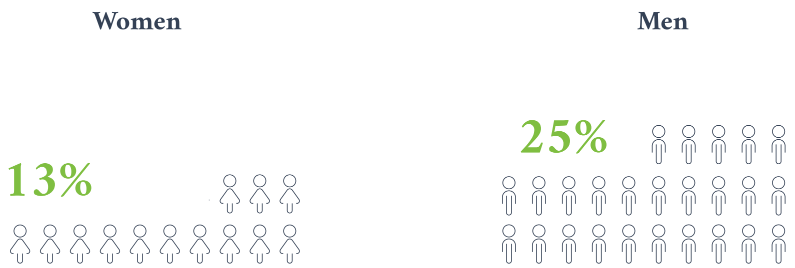
31% of women enterprise owners with insurance have comprehensive business insurance

Access to Insurance Products by Gender

When considering the gender of enterprise owners and their likelihood of accessing insurance, Figure 44 shows that more entities that are owned by men have insurance (25%) compared to women-founded entities where only 13% have insurance. When only considering those with access to insurance 36% of entities founded by men have comprehensive business cover whilst 30% have staff insurance for accidents and injuries and 9% have staff insurance for pensions and health, 34% have specific product insurance and up to 71% have vehicle insurance in some form.

We also discovered that 31% of women enterprise owners have access to comprehensive business insurance, 23% have staff insurance for accidents and injuries and 10% have insurance for pensions and health with up to 72% having vehicle insurance products

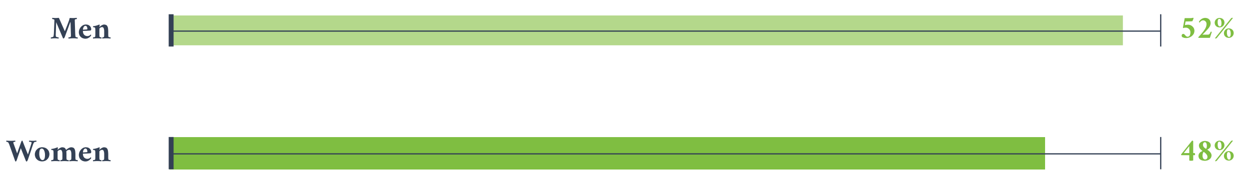
Figure 44 Insurance Access Based on Gender



Restrictions to Insurance Experienced by Different Genders

Of those who do not have access to insurance (n=1130) we asked what restrictions are faced when attempting to access insurance products and services. We learned that of those who experienced some restriction, 52% are men and 48% are women as shown in Figure 45 below.

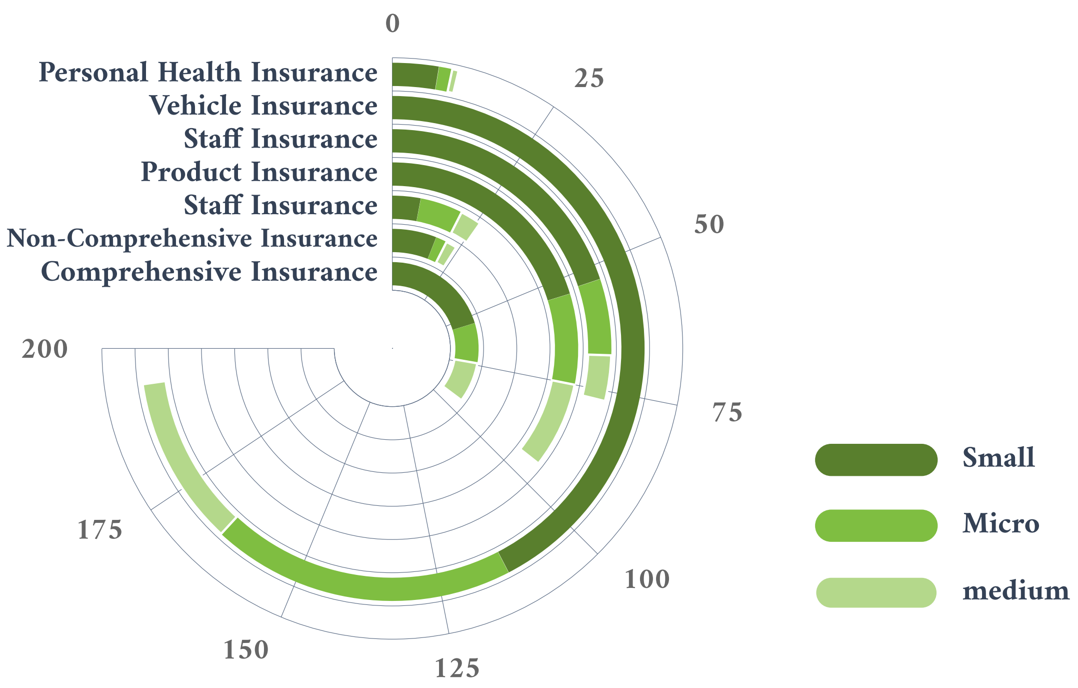
Figure 45 Restrictions to Insurance Experienced By Different Genders



Changes in Insurance Access Based on Enterprise Size

Insurance products are more common in small entities (compared to micro entities) and the key products sourced by enterprise founders are vehicle insurance, comprehensive business insurance and staff insurance for accidents and injuries as well as specific product insurance. We analysed the entities with insurance (n=272) and found that the most common type of insurance accessed by MSMEs is vehicle insurance where 71% have access (n=194) as shown in Figure 46 below. Comprehensive business insurance was accessed by 34% of insurance holders (n=94) whilst specific forms of product insurance were accessed by 34.5% (n=95) and staff insurance is accessed by 28% (n=77%).

Figure 46 Changes in Insurance Preference Based on Enterprise Size



Size	Personal Health Insurance	Vehicle Insurance	Staff Insurance	Product Insurance	Staff Insurance	Non-Comprehensive Insurance	Comprehensive Insurance
Medium	1	29	9	20	6	4	20
Micro	2	52	15	21	12	4	20
Small	7	113	53	54	8	16	54

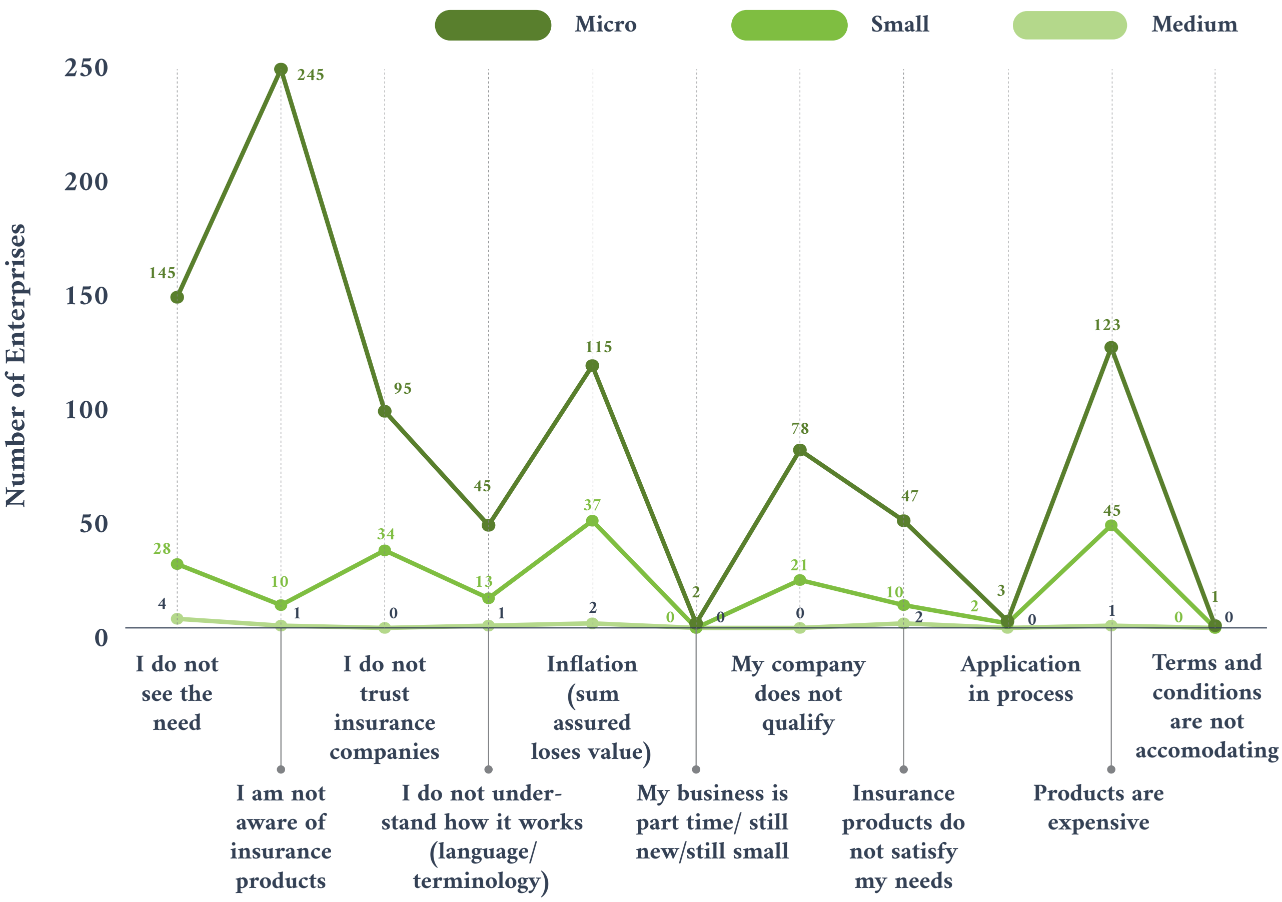
Reasons for Not Having Insurance

We found that 81% of MSMEs (n=1130) do not have any insurance products for their business. When asked what the reasons are for non-insurance, we discovered that the following reasons are most significant namely: -founders not seeing its value, lack of knowledge on the product, lack of trust and unaffordable products. Figure 47 shows that lack of awareness was mentioned by 21% (n=245); founders not seeing value in insurance was mentioned by 13% (n=145), the high cost of insurance was mentioned by 10.8% (n=123) and inflation was mentioned by 10% (n=115). A lack of trust was reiterated by 8.4% (n=95) stemming from a failure to claim when in need or in the midst of other emergency situations.

34%

of MSMEs with insurance will have comprehensive insurance.

Figure 47 Reasons for Not Accessing Insurance



Use of Pension Schemes

Only 7% of enterprises have accessed pension schemes for their workers (n=105). Of those with pension schemes in the medium enterprises, 43% have pensions schemes for workers; in the small enterprise category 16% have pension schemes for workers and only 3% of micro enterprise have pension schemes for workers (See Figure 48 below). This shows that as enterprises grow, they are in a better position to provide services such as insurance and pensions for workers, something difficult for a smaller entity to accomplish.

Figure 48 Changes in Pension Access Based on Enterprise Size

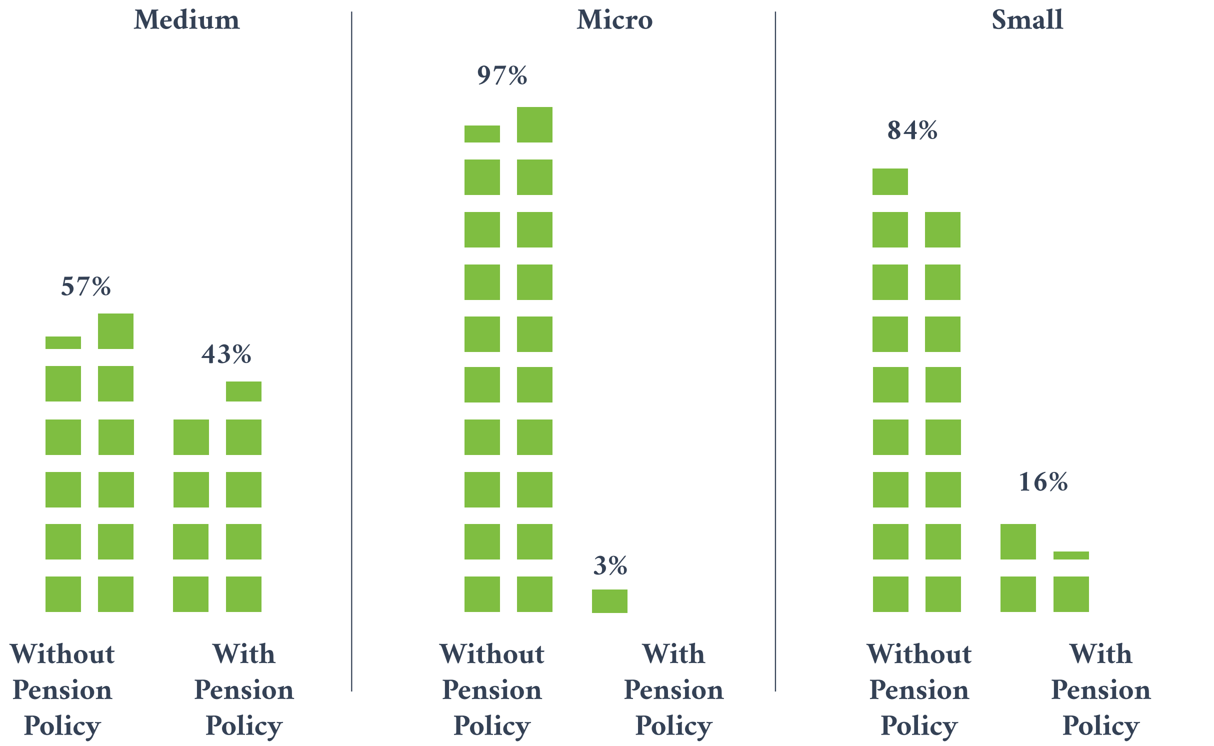
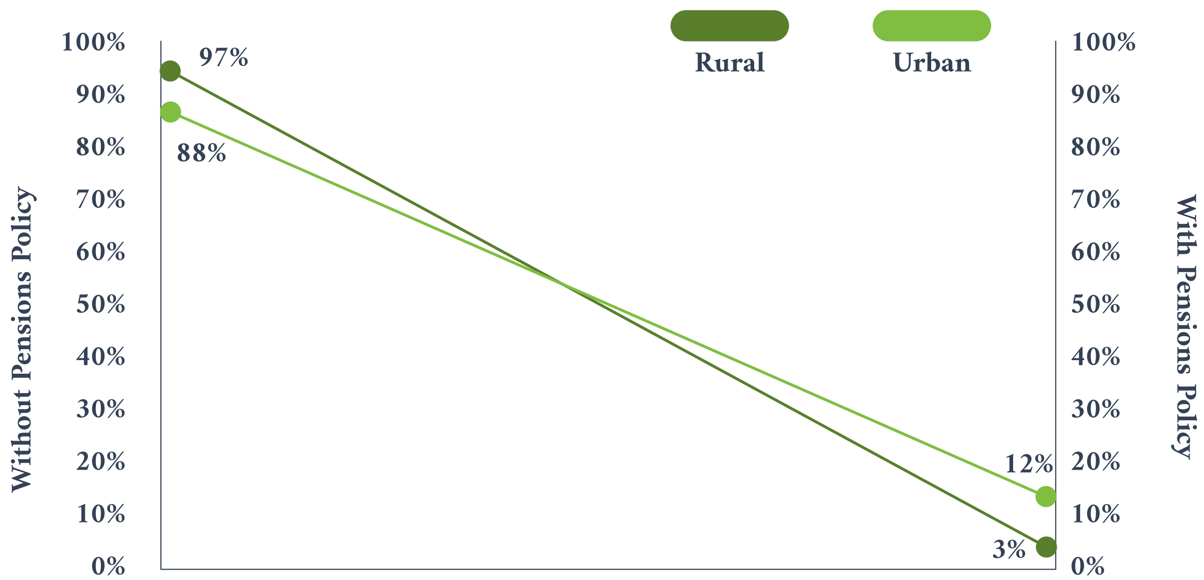


Figure 49 Changes in Pension Access Based on Location



Changes in Pension Access Based on Rural and Urban Locations

The distribution based on location displays that there is a higher likelihood of urban enterprises making pension schemes available to their workers as compared to rural based entities (see Figure 49). In urban areas, 12% have this service available whilst only 3% have done so in rural areas.

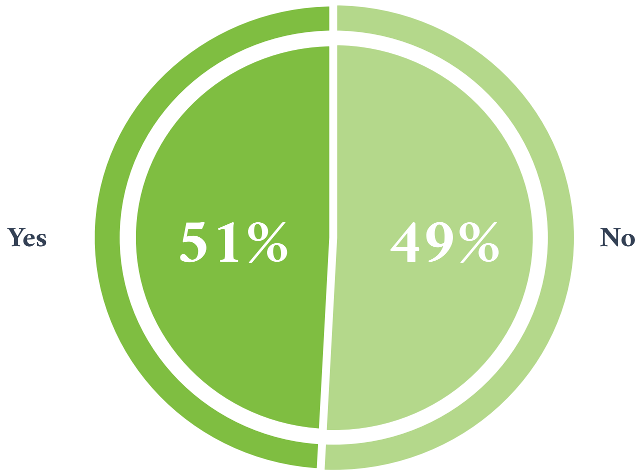
» Section 8

Investments and capital markets

Presence of Savings Facilities in Small Enterprises

Over and above our investigation to determine the level of access to products from different financial institutions, we attempted to find out the habits of MSMEs when it comes to savings and investments. As shown in Figure 50 below, we found that just over half the population, (51%) of enterprises have planned for savings of some sort.

Figure 50 Presence of A Savings Facility In Enterprises



Despite the challenging and unstable economic circumstances, 51% of enterprises with savings indicated they still prefer to keep their savings through a bank, whilst 26% prefer to buy foreign currency, 14% will invest in other business and only 4% will use the stock market to purchase shares. Five (5%) will keep their money hidden in their homes or other secure facilities whilst only 1% said they will save using a savings and lending group (see Figure 51 below).

Figure 51 Methods Used by MSMEs to Save

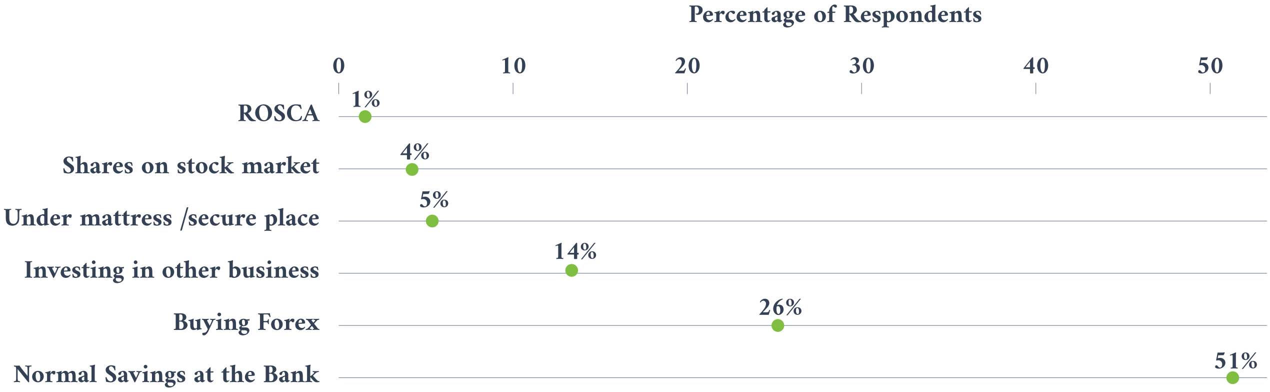
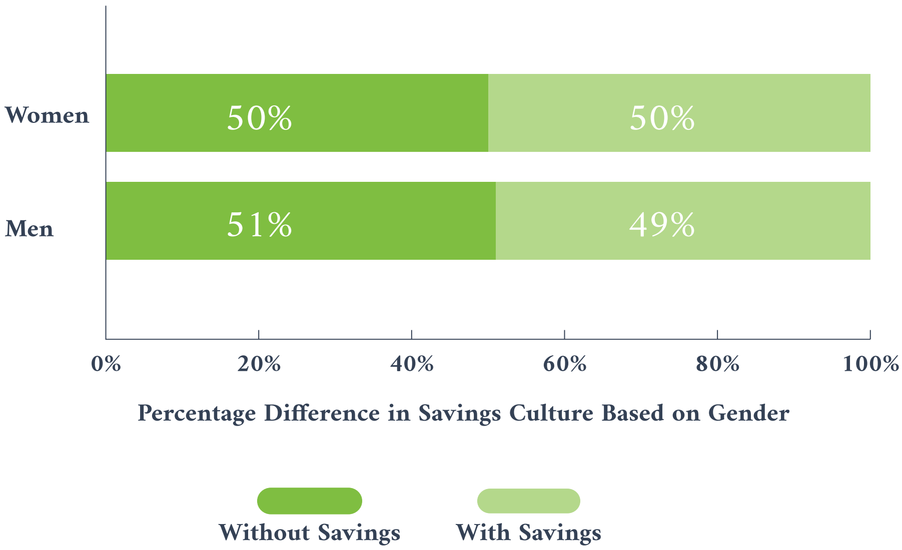
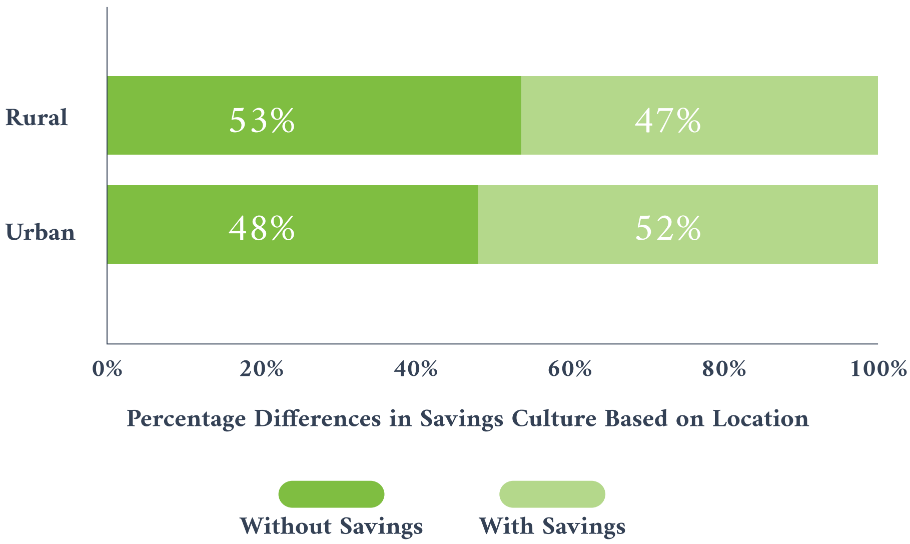


Figure 52 Difference in Savings Culture Based on Gender of Enterprise Owner



The propensity to save is also almost equal across the genders. Fifty per cent (50%) of women have some form of savings facility as shown in Figure 52, whilst 49% of men have some form of saving facility. Because our question was a multiple response question, we also saw that MSMEs that save their money in the bank concurrently use the purchase of forex and other fixed assets as a way to save.

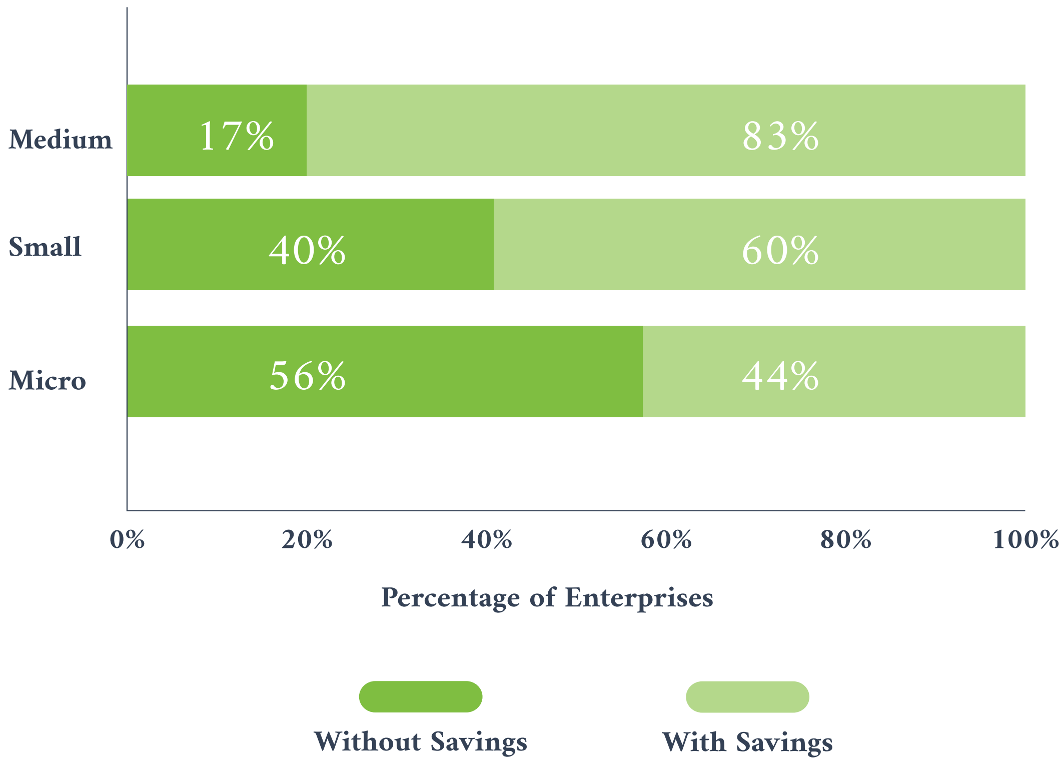
Figure 53 Differences in Savings Culture Based on Location



Our survey found that in urban areas 52% of enterprise founders have savings compared to 47% of enterprise founders in rural areas (see Figure 53). This could also be linked to Figure 51 which shows the preferred method of saving is buying forex or using the bank. Rural based entities may not have easy access to either of these options and therefore their saving habits become slightly different.

The true nature of saving culture is noted when considering the different habits of enterprises based on size. Medium enterprises are most likely to save as illustrated by the 83% of medium enterprises having savings or regularly making attempts to do so. Sixty per cent (60%) of small enterprises have a savings facility whilst only 44% of micro enterprises have a savings facility (see Figure 54 below). The savings facilities used are a combination of formal and informal methods with the predominant methods being the bank or buying forex.

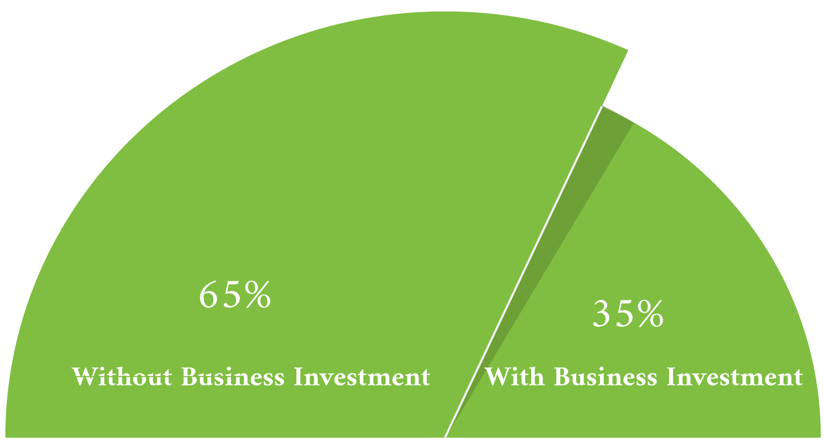
Figure 54 Propensity to Save Based on Enterprise Size



Status of Investments by MSMEs

Our survey found that only 35% of enterprises have access to some form of business investment whilst the remainder (65%) do not have any investments as shown in Figure 55. Enterprise founders indicated that they may have savings as individuals but not necessarily as a business. As previously observed, most of the enterprises we interviewed are micro and informal and therefore may not have the required documentation for investment on behalf of the business. The section on 'Reasons for lack of investment" provides more reasons why investments are not done e.g. lack of agreement, poor cashflows and lack of information.

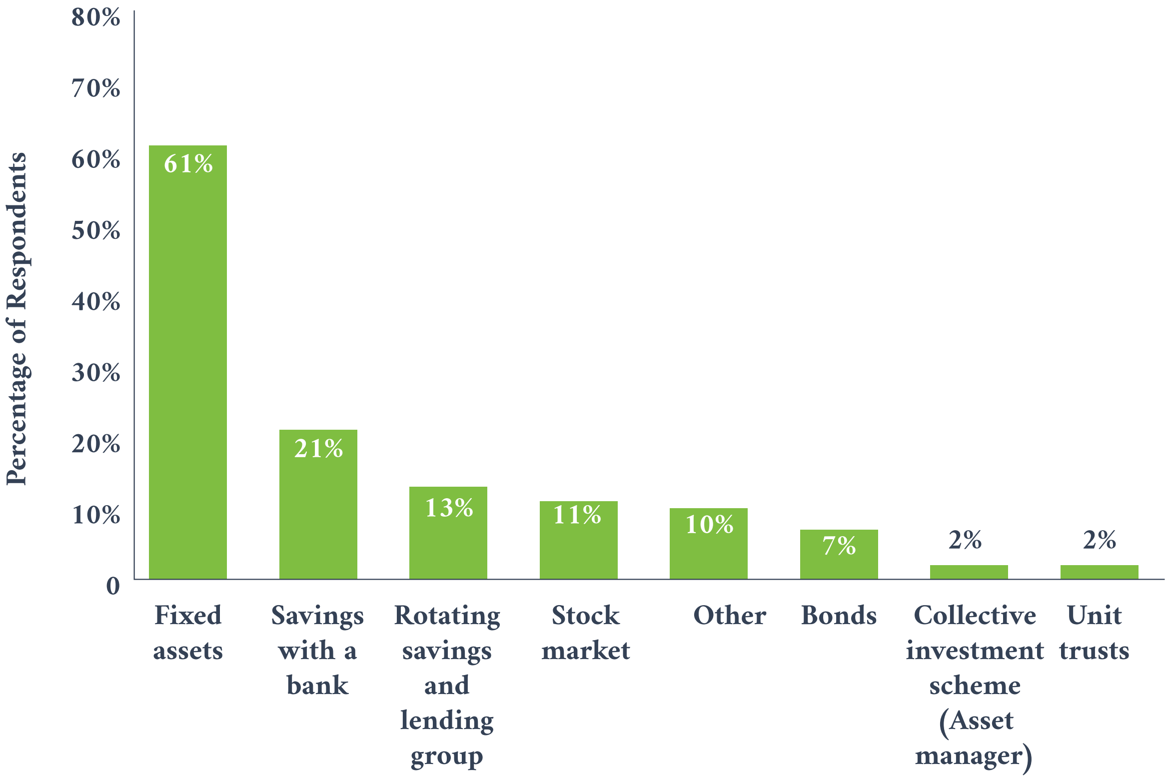
Figure 55 Presence of Investments in Enterprises



Types of Investments Secured by Enterprises

Typically, when investing, MSMEs prefer to purchase fixed assets (61%) or use a bank and bank products (21%), make investment using an informal group /ISAL (Informal Savings and Lending) (13%), purchase stocks (11%), purchase bonds (7%), purchase Unit Trusts (2%) and use a collective investment scheme with other people (2%) as seen in Figure 56 below.

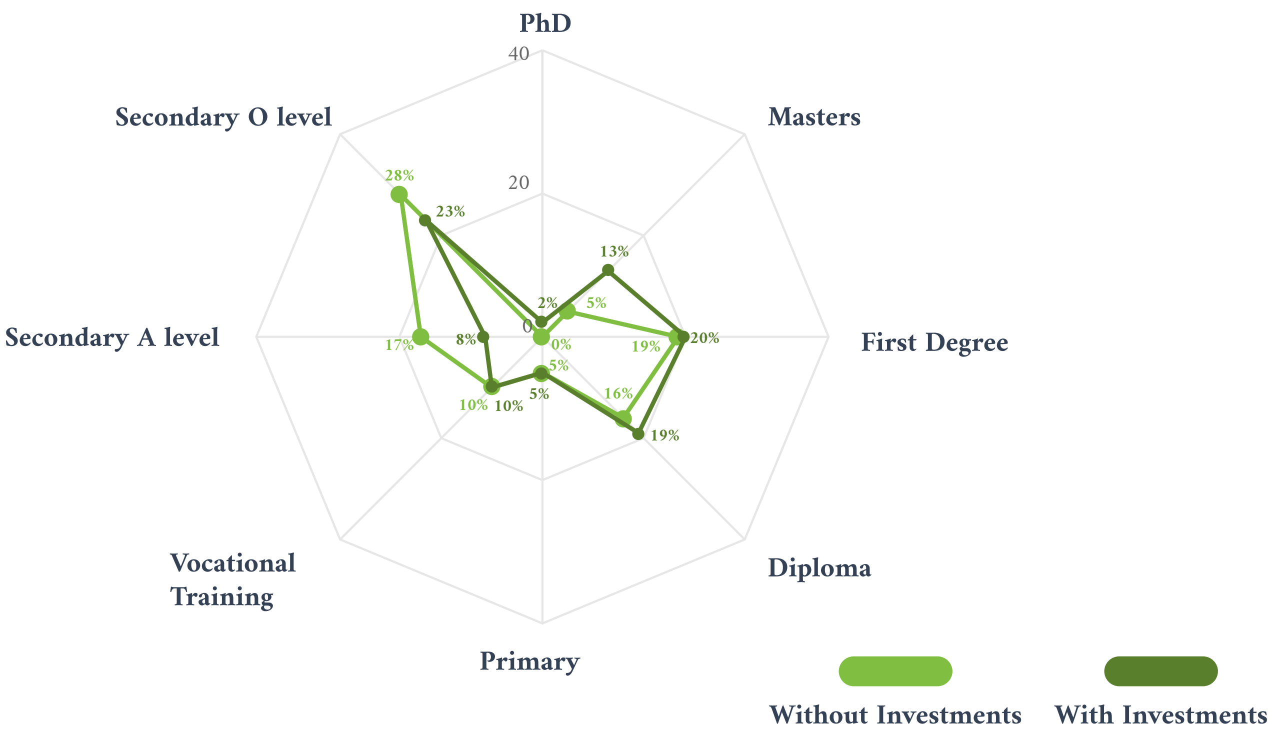
Figure 56 Types of Investment Facilities Used by MSMEs



Changes in Investment Patterns Based on Level of Education

We analysed the propensity to invest against the level of education and we found that the higher the education qualification, the more likely the enterprise founders are to make investments for their business (see Figure 57 below). Amongst PhD graduates, all of those present in the sample have investments even though their contribution to the larger sample is small. More enterprise owners with master's degrees had investments (13%) compared to those without (5%), similarly more enterprise owners with first degrees (20%) had investments compared to those without (19%). With lower levels of education, it is more common to find that the enterprise owners have a lower rate of investment. For example, only 23% of enterprise owners with Ordinary Level have investments compared to 28% without, whilst 8% of enterprise owners with Advanced Level have investments compared to 17% without.

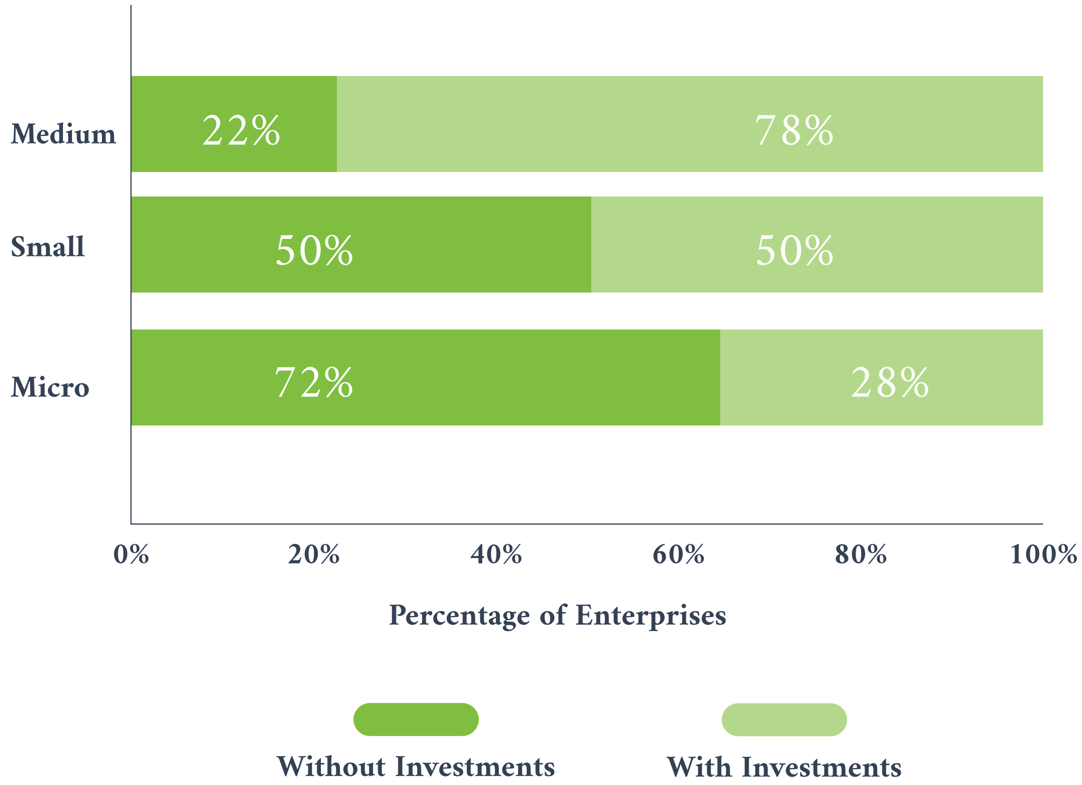
Figure 57 Changes in Investment Patterns Based on Level of Education



Types of Investment Preferred Based on Size of Enterprise

The inclination to save increases as the size of the entity grows, 78% of medium scale enterprises have some form of savings compared to 50% of small enterprises and 28% of micro enterprises (see Figure 58 below). The findings suggest that micro enterprises are more at risk of economic shock compared to the larger enterprises. This is due to factors such as inexperienced founders and greater household demands on micro enterprise incomes.

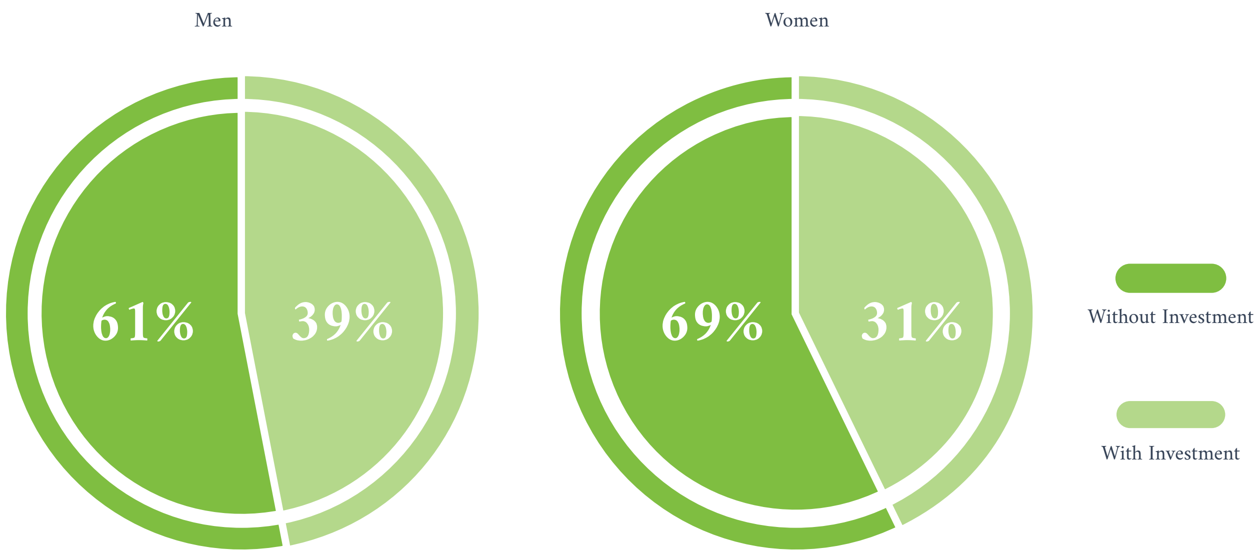
Figure 58 Propensity of MSMEs to Save Based on Enterprise Size



Propensity to Invest Based on Gender

Figure 59 shows that more enterprises owned by men had investments (39%) compared to the 31% of enterprises owned by women. It was also seen that 69% of women enterprise owners have no investments. An ensuing section on reasons for lack of investment provides in-depth expiations for this lack of investment. However, one of the major reasons is the failure to agree with partners on how investment shares should be distributed. This was especially true for women-owned enterprises that were seeking investment agreements with potential business.

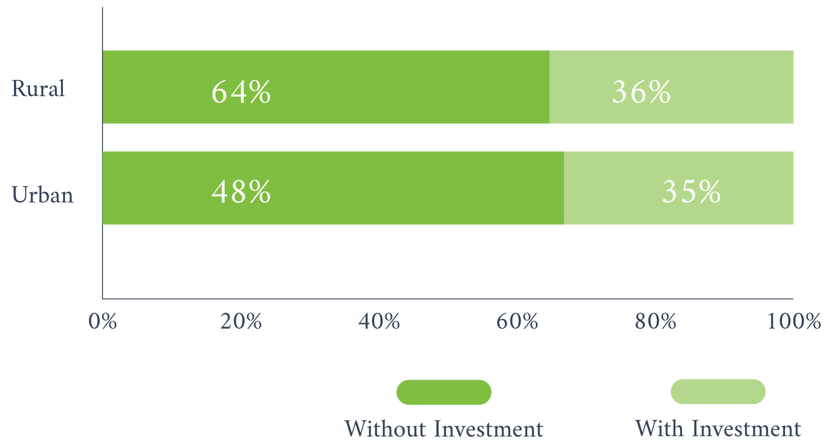
Figure 59 Differences in Investment Patterns Based on Gender of Owner



Difference in Investments based on Rural and Urban Location

When analysing the enterprises with investments only, the survey revealed that enterprises in both rural (64%) and urban (65%) areas made efforts to have some form of investment indicating that regardless of location, enterprise owners will find a way to invest the surplus from their businesses (see Figure 60)

Figure 60 Differences in Investment Based on Location

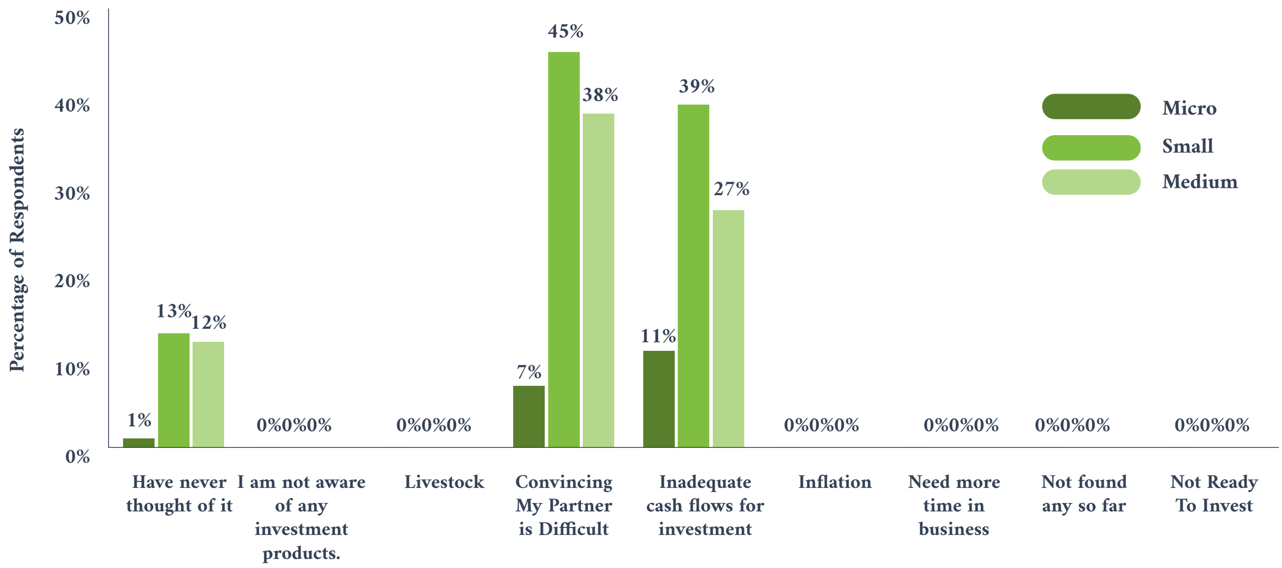


Reasons for Lack of Investment

We asked the enterprises with no investments (n=907 or 64%) the reasons for not having investments and we found out that in that group, a large number have three main reasons: challenges in business partnership, insufficient cash flows and just never having considered making an investment. More small enterprises had challenges with partnership (45%) as well as challenges with cash flows (39%) as shown in Figure 61. Similarly, 38% of medium enterprises without investment indicated challenges with business partners and 27% indicated poor cash flows as their reasons for non-investment.

With reference to our findings on savings and investment we found that more women are inclined to save but more men are inclined to invest. The challenge of business partners could be attributed to women enterprise owners who may feel they need an agreement with partners before making an investment, but this is not necessarily the case with saving money which they see as something easy to do.

Figure 61 Reasons for not Making Investment



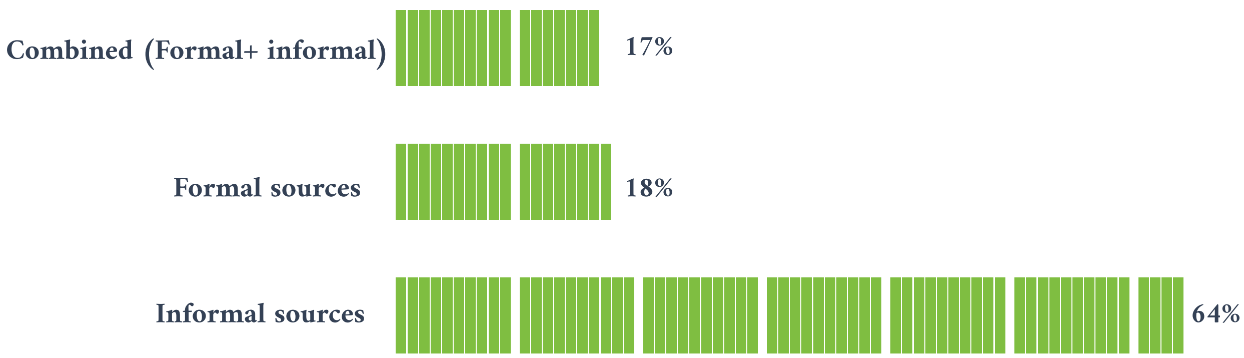
Access to information

Key Sources of Information on Financial Products Used by MSMEs

Access to information determines, to a considerable extent, the quality and success of financial decisions made on behalf on an enterprise. Formal sources of information include banks, account or financial advisors and investment brokers whilst informal sources of information include family and friends.

As indicated in Figure 62, the majority (64%) comprised mainly of micro-enterprises use informal sources of information, whilst 18% use formal sources of information and 17% use a combination of formal and informal sources of information.

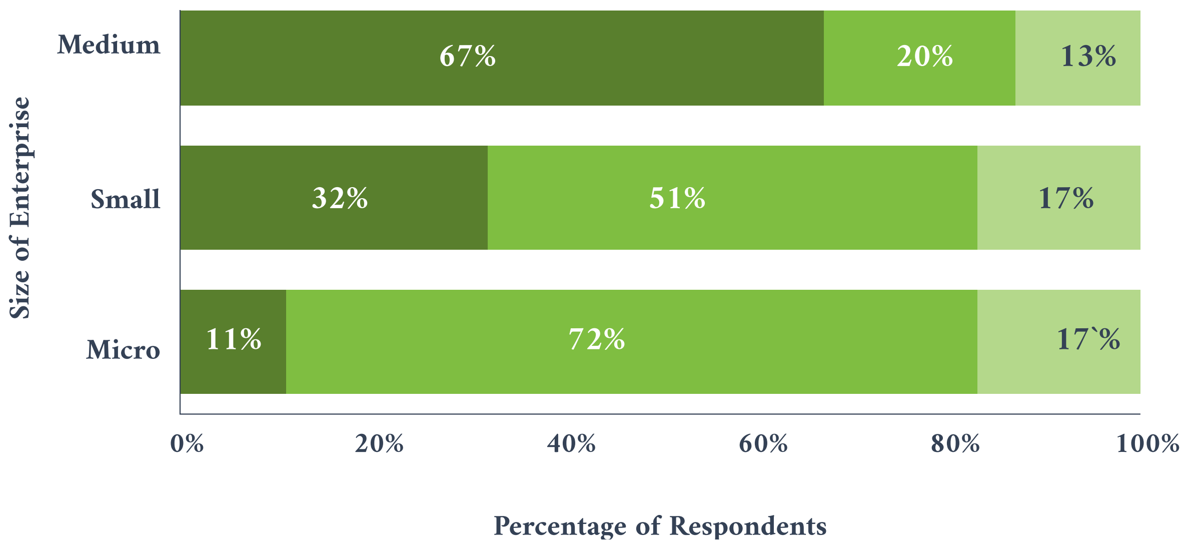
Figure 62 Key Sources of Financial Information for MSMEs



Difference in Information Access Based on Enterprise Size

Figure 63 below shows that medium enterprise founders are more likely to use formal sources of information (67%) as compared to 32% of small enterprise founders and just 11% of micro enterprise founders. Conversely, up to 72% of micro enterprise founders use informal sources of information compared to 51% of small and only 20% of medium enterprises. The propensity to use both sources of information is similar in micro and small enterprises (17%), with only 13% of medium enterprises using both sources.

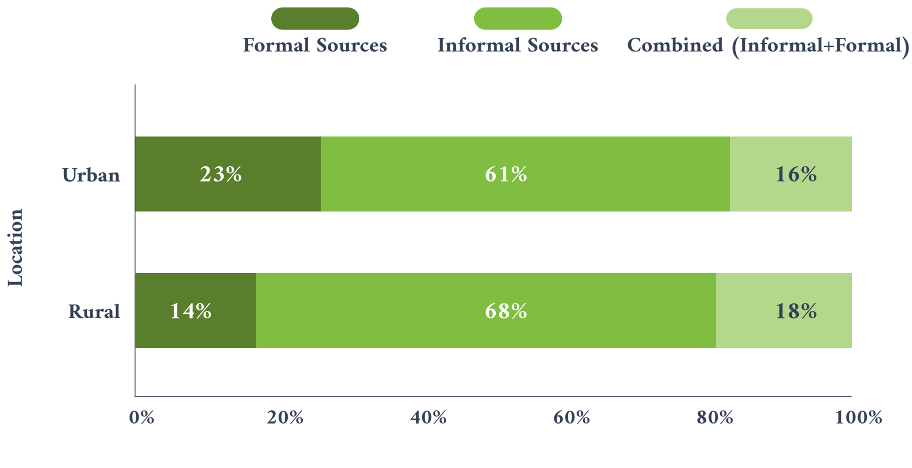
Figure 63 Differences In Information Access Based on Size of Enterprise



Changes in Information Access Based on Rural and Urban Location

There are slightly more (23%) urban based entrepreneurs who are likely to use formal sources compared to their rural counterparts (14%). The largest proportion of rural entrepreneurs (68%) is more likely to use informal sources compared to 61% of urban enterprises (see Figure 64).

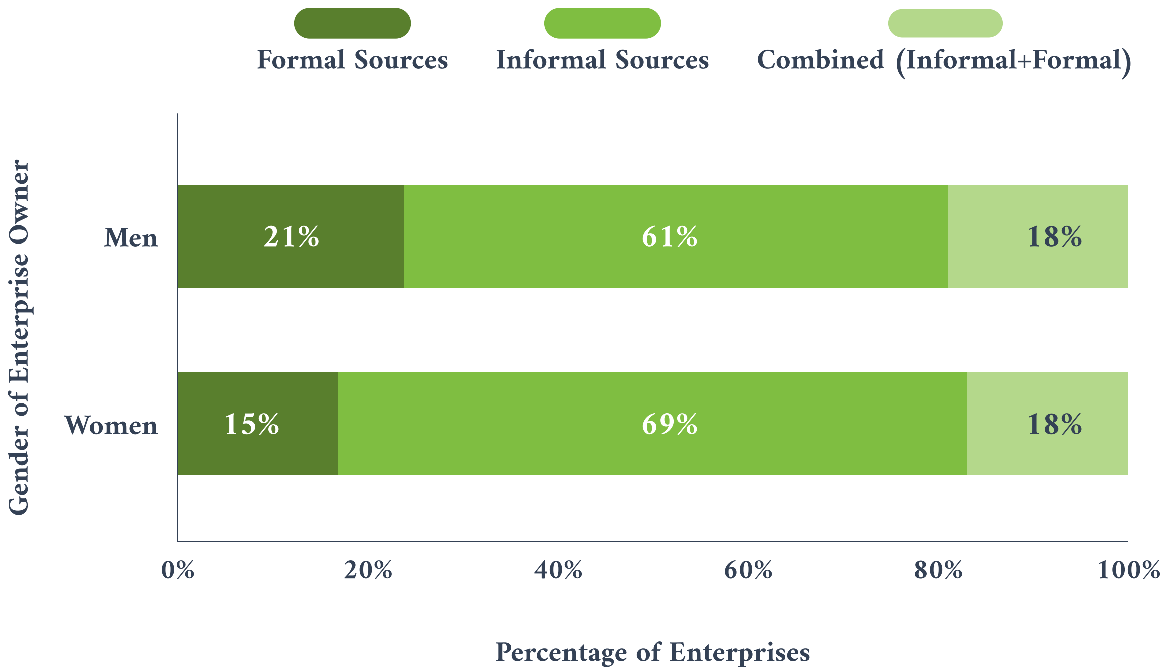
Figure 64 Changes in Information Access Based on Location of MSMEs



Changes in Information Access Based on Gender of the Enterprise Owner

Men in our survey have a slightly stronger (21%) propensity to use formal sources of information whilst only 15% of women use formal channels. Conversely, 69% of women business owners used informal sources compared to 61% of men. The combined use of formal and informal sources was almost equal with 18% of men and 16% of women business owners making that contribution (see Figure 65 below).

Figure 65 Changes in Information Access Based on Gender



Changes in Access to Information Based on Level of Education

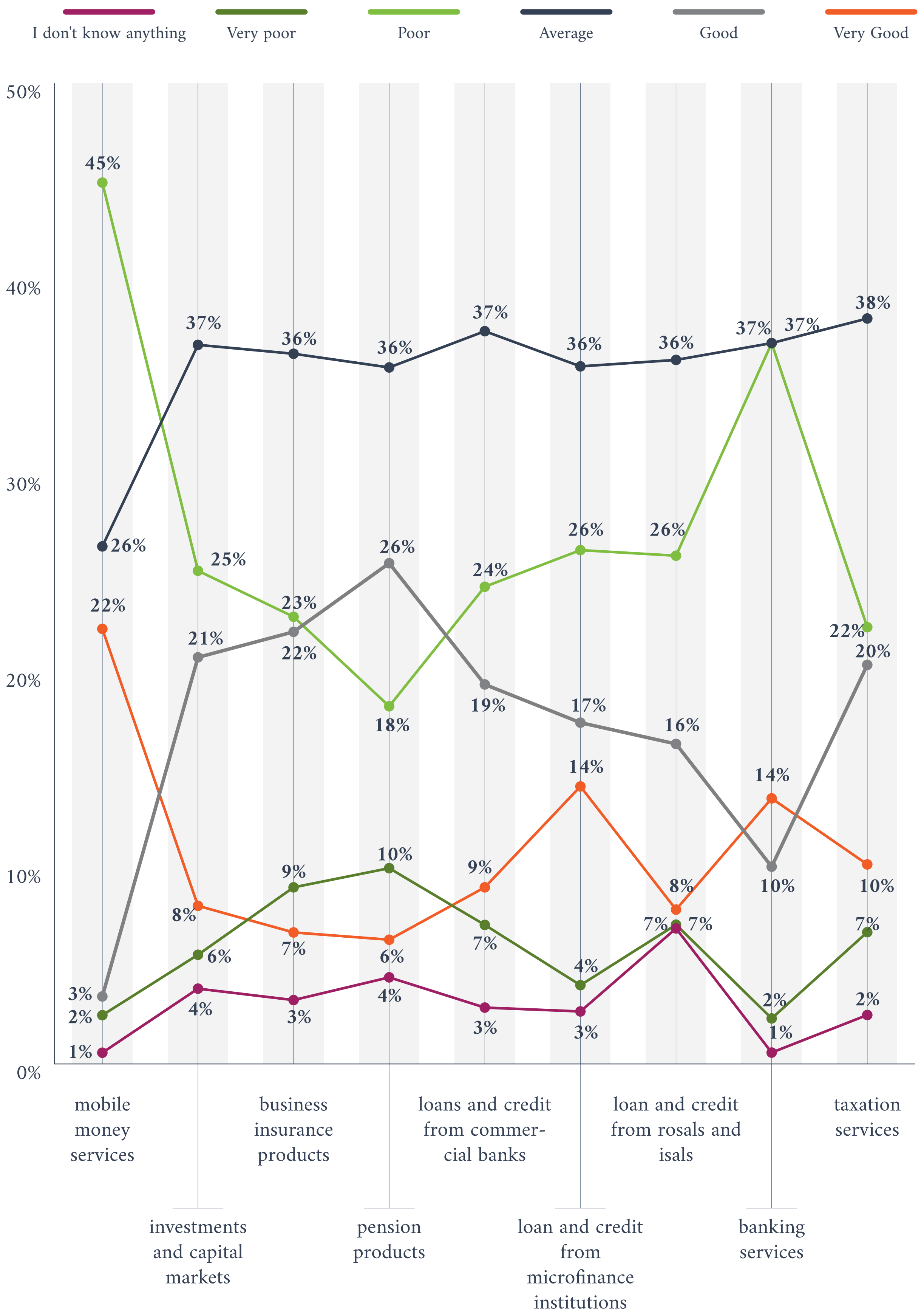
Figure 66 shows, the use of formal sources of information was more prominent amongst founders who have master's degrees (43%), followed by those with PhDs (26%) and diplomas (23%). Informal sources were mostly noted in business owners with secondary school qualifications at Ordinary Level (78%), at Advanced Level (75%) and at Primary School Level (74%). Only, 39% of master's degree holders used informal sources whilst 55% of PhD holders use informal sources of information.

Figure 66 Changes in Information Access Based on Level of Education

MSME Knowledge on Financial Products and Services

Figure 67 below shows that the areas where knowledge is 'non-existent', 'poor', or 'very poor' include pensions; loans from commercial banks and ISALs; investments and capital markets; and business insurance products. Knowledge on banking and mobile money services is widespread with most enterprises having 'average' to 'very good' knowledge on those products. When promoting training information on business, creating knowledge products on the areas that are not well known would go a long way in improving practice amongst enterprises regarding those aspects.

Figure 67 Level of Knowledge on Financial Products and Services

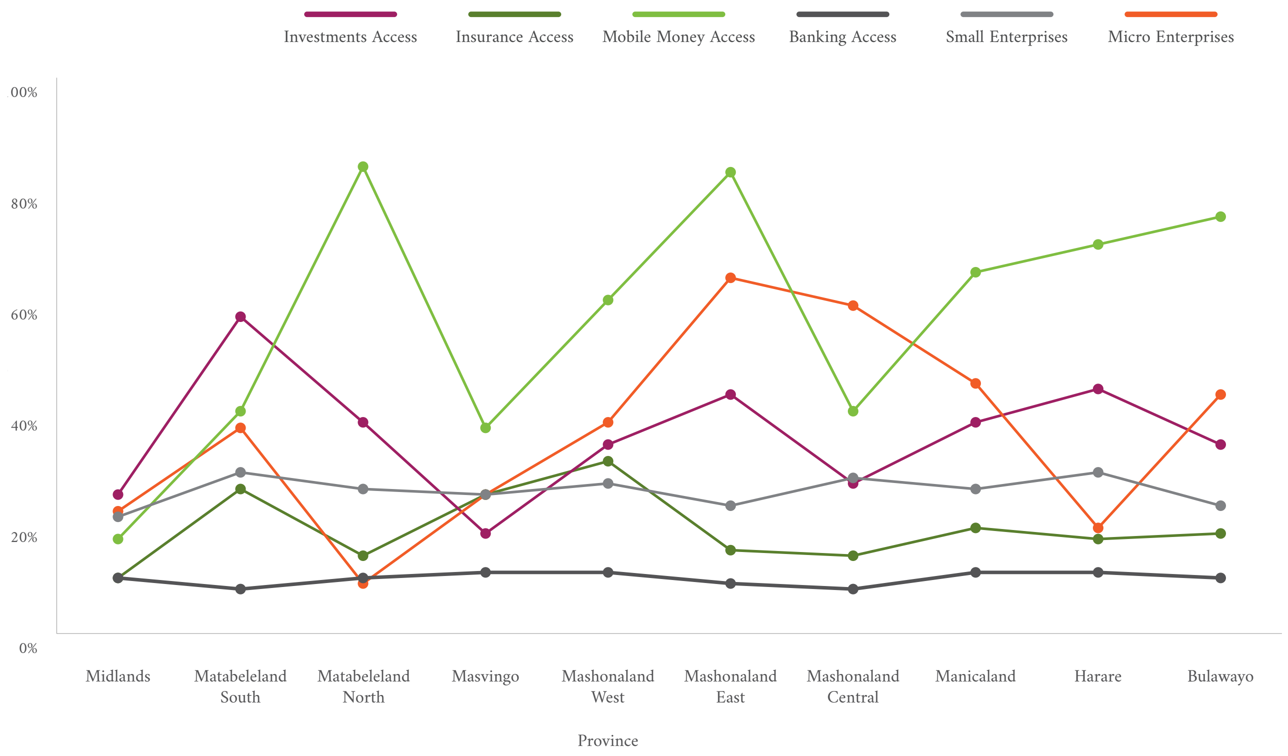



CD

Discussion

Our survey on MSMEs revealed that although progress has been made in Zimbabwe with regards to financial inclusion, there are some sectors that remain underserved or in need of more attention for to us to truly claim to have promoted financial inclusion. A key concern is that financial access should be as inclusive as possible taking into consideration age, race, gender, and physical ability while also cutting across provincial regions in Zimbabwe.

Figure 68 Comparison of Selected Inclusion Indicators Across Zimbabwe



We observed that mobile money has significantly improved inclusion in all provinces as shown in Figure 68 above, followed distantly by investment access and banking. The lowest performing indicator is insurance access as shown by the low percentages of insurance even in the capital, Harare, with 17% and the second largest city, Bulawayo, with 18%. There is need to make banking simpler for MSMEs. Improving their banking access will have a ripple effect on insurance, access to loans and other forms of short-term financing.

We noted that enterprise formation among young people is lower but increases with age. Therefore, our data demonstrates that young people are not fully included in the financial inclusion discourse. Enterprises formed by the youth tend to be starved of start-up financing. Our findings demonstrate that the establishment of an enterprise is based on one's capacity to mobilise support from family and other informal networks. There is limited evidence to demonstrate the impact of government and NGO-led efforts in catalysing entrepreneurship. Adiitionally, existing financial products are rigid. There is need to include flexibility in the design of financial products. The banking infrastructure is ill equipped to respond to the changes that have taken place within the economy. The strict compliance regulations have only served to alienate would-be clients.

Furthermore, interventions aimed at small enterprises in rural and urban areas and women-led entities need more careful thought. At the moment they have not made a significant dent on poverty. There is need for a more unified framework which connects funding entities, business training organisations, government, and compliance departments such as ZIMRA (Zimbabwe Revenue Authority) into a coherent and robust strategy. Gender dynamics are especially important for enterprises as they grow. The dearth of women as founders in larger entities points to a lack of support for growth possibly because of cultural, marital and community expectations which limit women business owners from

> **"There is need for a more unified framework which connects funding entities, business training organisations, government, and compliance departments such as ZIMRA into a coherent and robust strategy."**

growing. The training needs of women need to be tailored in such a way as to ensure that they can build their capacity as enterprise founders whilst navigating cultural or community dynamics.

According to our findings, financial inclusion (bank access, mobile money access, compliance and use of financial products and services) is at its lowest in Masvingo and Midlands provinces. The exclusion of these areas may point to low levels of education on available financial products and services; or the fact that current products and services are not a good fit for these communities. Generally, financial services firms do not have adequate presence in rural areas, and this could potentially explain the reasons why many rural entrepreneurs use informal channels of banking. Barriers to registration for women and young people should especially be considered. These barriers may include the types of documentation and the collateral required for MSME founders in these groups to make acceptable applications for new accounts, insurance, loan approval and even ownership of a sim card to gain access mobile money services.

Access is influenced by availability. However, for products to be used, the knowledge regarding depositing, withdrawing, and interest rates must be understood and captured to impact the desire of individuals to use those products. Promoting financial literacy allows people to develop knowledge on financial products and services, which promotes opportunity recognition and positive risk taking. Limited financial knowledge makes individuals more prone to financial error and losses. Financial literacy for women is an important driver of positive behaviour. Here, the role of education has been determined by showing that lower levels of financial literacy or financial capability were an important driver of exclusion. The key groups affected by these knowledge gaps include youth and women, where young women are more likely to face double discrimination because of age and gender.

Financial literacy should be a valuable component in any microfinance program to promote economic empowerment, with a focus not just on desired behaviour but also highlighting past negative behaviours and how they should be avoided. Financial literacy combined with Internet use and/or digital technology creates a powerful combination of financial education, communication, and access at affordable rates. In addition, financing for all groups across gender, age and geographical barriers should be coupled with education initiatives to promote financial literacy and business acumen. To a great extent, education determines the propensity to save, invest and the types of savings and investment vehicles used. However, this information should be flexible and tailor-made to suit the present situation of the target groups.

Conclusion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The study investigated the level of financial inclusion of Micro, Small and Medium enterprises in Zimbabwe. We determined that the key factors that affect access to 'formal financial products and services" are not evenly distributed in Zimbabwe's ten provinces. We noted that the barriers to inclusion for small enterprises can be summed up as lack of flexible and affordable financing, harsh compliance laws and lack of information on the best fit for using and sourcing financial products and services. Addressing these three concerns for targeted groups such as youth, women and founders in marginalised areas will create more inclusive systems that promote access amongst MSME's.

Our study also indicated that in Zimbabwe there are provinces that require urgent government and development partners' action to promote financial inclusion. These areas include Midlands, Masvingo, Mashonaland Central and in some cases Matabeleland South. The role of gender in promoting exclusion was apparent as women business owners struggle to grow their enterprises from micro to medium entities. The exclusion of women will have a cumulative negative impact on households and communities and should be considered as especially important as financial inclusion efforts continue.

Promoting products and services alone is not sufficient to promote inclusion. The products and services must be innovative in form and function to address the needs of key groups. Alongside innovative financial services, information access for all groups will widen the options available for MSME's and promote innovation and risk taking by local enterprise founders.

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About SIVIO Institute

SIVIO Institute (SI) is an independent organisation focused on ensuring that citizens are at the centre of processes of socioeconomic and policy change. It aims to contribute towards Africa's inclusive socio-economic transformation. It is borne out of a desire to enhance agency as a stimulus/catalyst for inclusive political and socio-economic transformation. SIVIO's work entails multi-disciplinary, cutting edge policy research, nurturing citizens' agency to be part of the change that they want to see, working with communities to mobilize their assets to resolve some of the immediate problems they face.

SIVIO institute has three centres/programs of work focused on; (i) civic engagement (ii) philanthropy and communities (ii) entrepreneurship and financial inclusion. In the process SI addresses the following problems:

- Inadequate performance of existing political and economic system
- Increasing poverty and inequality
- Limited coherence of policies across sectors
- Ineffectual participation in public processes by non-state actors
- Increased dependence on external resources and limited leveraging of local resources

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