SIVI INSTITUTE

FINANCIAL INCLUSION INDEX

Equality Measures

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Contents

List of Figures

Acronyms

GoZ	Government of Zimbabwe
MM	Mobile Money
MSMEs	Micro, Small and Medium Enterprises
MWSMED	Ministry of Women's Affairs, Community, Small & Medium Enterprise Development
NDS1	National Development Strategy 1
NFIS	National Financial Inclusion Strategy (Zimbabwe)
SI	SIVIO Institute
SI-FINDEX	SIVIO Institute Financial Inclusion Index
US$	United States Dollars
ZIMRA	Zimbabwe Revenue Authority
GDP	Gross Domestic Product
SME	Small and Medium Enterprises

Introduction

The National Financial Inclusion Strategy (NFIS) was implemented between 2016 and 2021 to increase the level of financial inclusion of the population to 90%. The key target groups that the strategy named were women, youth, small holder farmers and rural individuals. The SIVIO Institute - Financial Inclusion Index (SI-Findex) measures the access that micro, small and medium enterprises (MSMEs) had to formal financial products and services across the ten provinces in Zimbabwe. The same measure of financial inclusion compares how equal this level of financial inclusion is between different equality measures. SIVIO Institute chose to focus this report on the comparison of enterprises by the following criteria

1. Gender of Owner (Women-owned vs men-owned enterprises)
2. Age of Owner (Youth (18 – 35-year-olds) vs adult-owned enterprises)
3. Enterprise Size (Micro vs small enterprises)
4. Location of Enterprise (Rural-based vs urban-based)
5. Sector (Agriculture vs mining vs vending vs retail)

Respondents Distribution

Figure 1: Overview of Respondents

Source: SI-FINDEX

Of the full sample, 44% of enterprises were owned by a woman and 37% were owned by youth. The majority (71%) of the sample were micro enterprises using the classifications provided in the National Micro, Small and Medium Enterprises Policy 2020-2024 and 26% were small enterprises. The sample included over a hundred enterprises from each of the ten provinces with an even distribution in the rural and urban areas (48% were based in a rural area).

The enterprises consisted of many sub-sectors, but this paper focuses on those who engaged in agriculture, mining, vending and retail. Agriculture and Mining were identified as key sectors in the Vision 2030 and small-holder farmers were targeted in the NFIS. Vending and Retail were the largest sectors in the sample with 19% and 21% of respondents, respectively.

Index Scores

Compared Across Provinces

We sought to determine the difference in inclusion across the country. We determined that inclusion is different, and changes based on other influencing factors such as poverty, vulnerability, livelihood options and culture. The areas with the highest rate of inclusion across the country are Mashonaland East (48.7%), Matabeleland South (48.1%), and Bulawayo (45.4%) as shown in Figure 2 below. The bottom three provinces in terms of inclusion are Masvingo (39.8%), Matabeleland North (41.3%) and Mashonaland Central (41.8%). The biggest contributor to these inclusion rates is the status or registration i.e., compliance. Enterprises in the top three areas were more likely to comply whilst those in the bottom three areas were less compliant. The national average for Zimbabwe is 44%. This figure is too far below the satisfactory inclusion score of 70%.

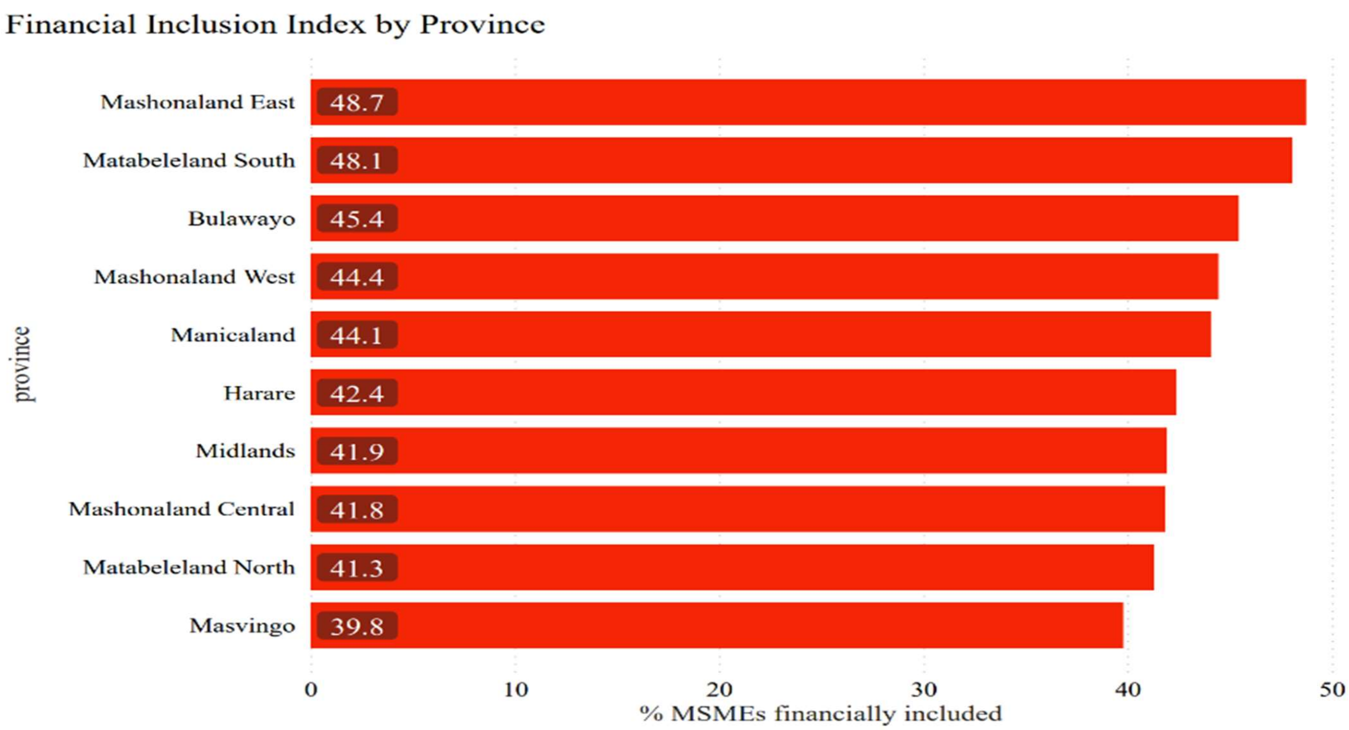

Figure 2: Financial Inclusion Compared Across Provinces in Zimbabwe

Source: SI-FINDEX

Compared by Size

Characteristics used by the MWSMED to classify enterprises are the number of full-time employees, gross assets, and annual turnover. In our sample we found that more micro-enterprises are informal i.e., have not registered yet. They are newer start-up ventures and so they are less financially included compared to small enterprises. Our final assessment is that thirty-eight per cent (38%) of micro-enterprises are financially included (**62% excluded**) and 56% of small enterprises are included (**44% excluded**) across Zimbabwe. We also discovered that small enterprises were 2.5 times more likely to be compliant with company registration compared to micro-enterprises. Figure 3 below shows the difference between micro and small enterprises in all the provinces.

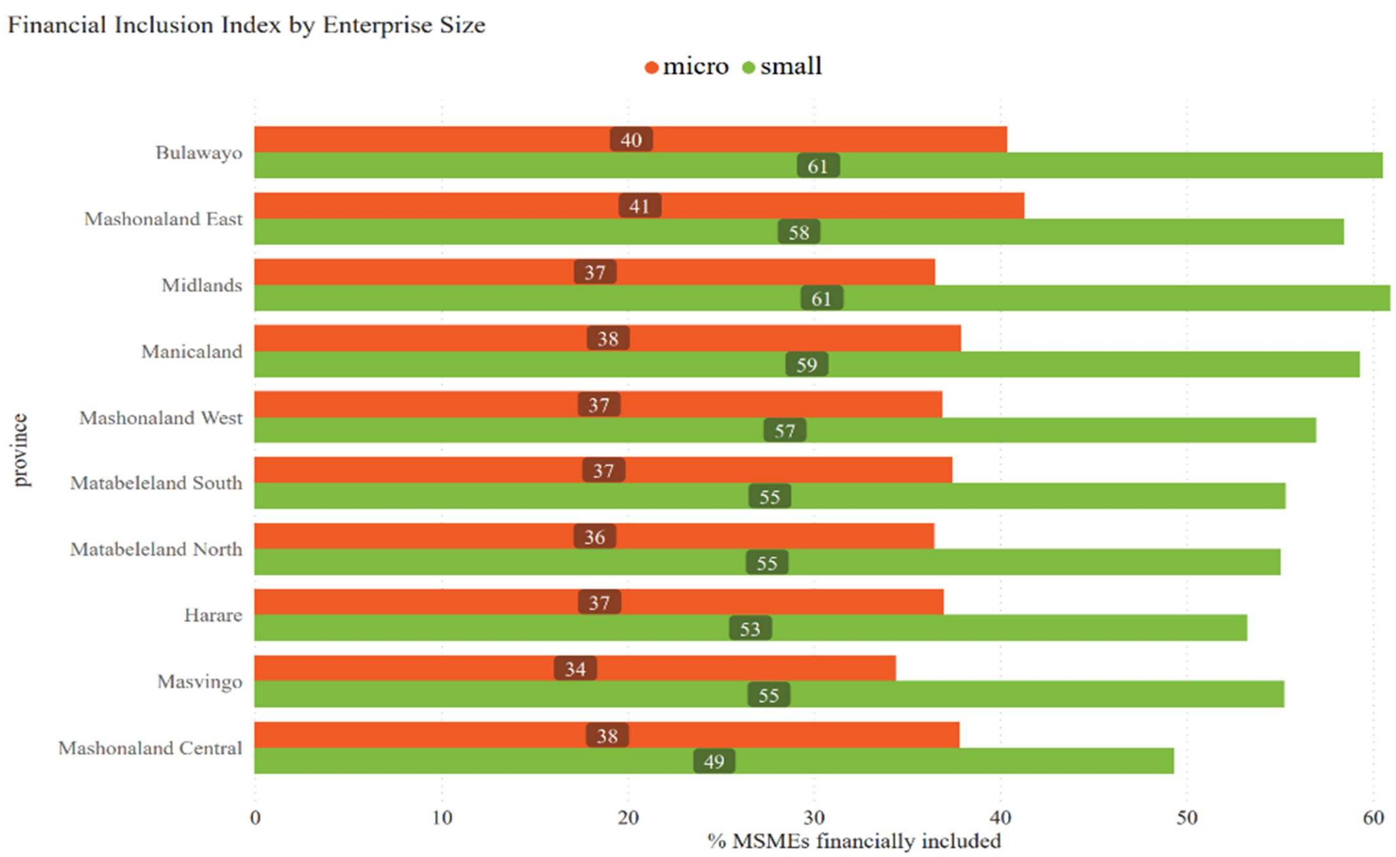

Figure 3: Financial Inclusion Compared by Size of Enterprise (Micro vs Small)

Source: SI-FINDEX

Compared by Location

Urban areas often are the hubs of entrepreneurial energy and activity but in the national strategy for financial inclusion, one of the target populations was the rural community because of the larger population size of Zimbabwe's rural communities. In Zimbabwe, the national census projections (based on 2012 data) suggest that much of the population (55%) lives in the rural areas of Zimbabwe.

We noted that 58% of enterprises located in the rural areas are financially **excluded** whereas 51% of urban enterprises are **excluded**. The Rural vs. Urban comparison is the characteristic that gives the smallest difference between financial inclusion scores indicating that the variations between rural and urban in any specific province are not as diverse. Midlands has the greatest difference with 55% of urban-based enterprises being included compared to 33% of rural-based enterprises in that province, and Mashonaland West has the smallest difference with 49% of urban enterprises included and 44% of rural enterprises being included in that province as shown in Figure 4 below.

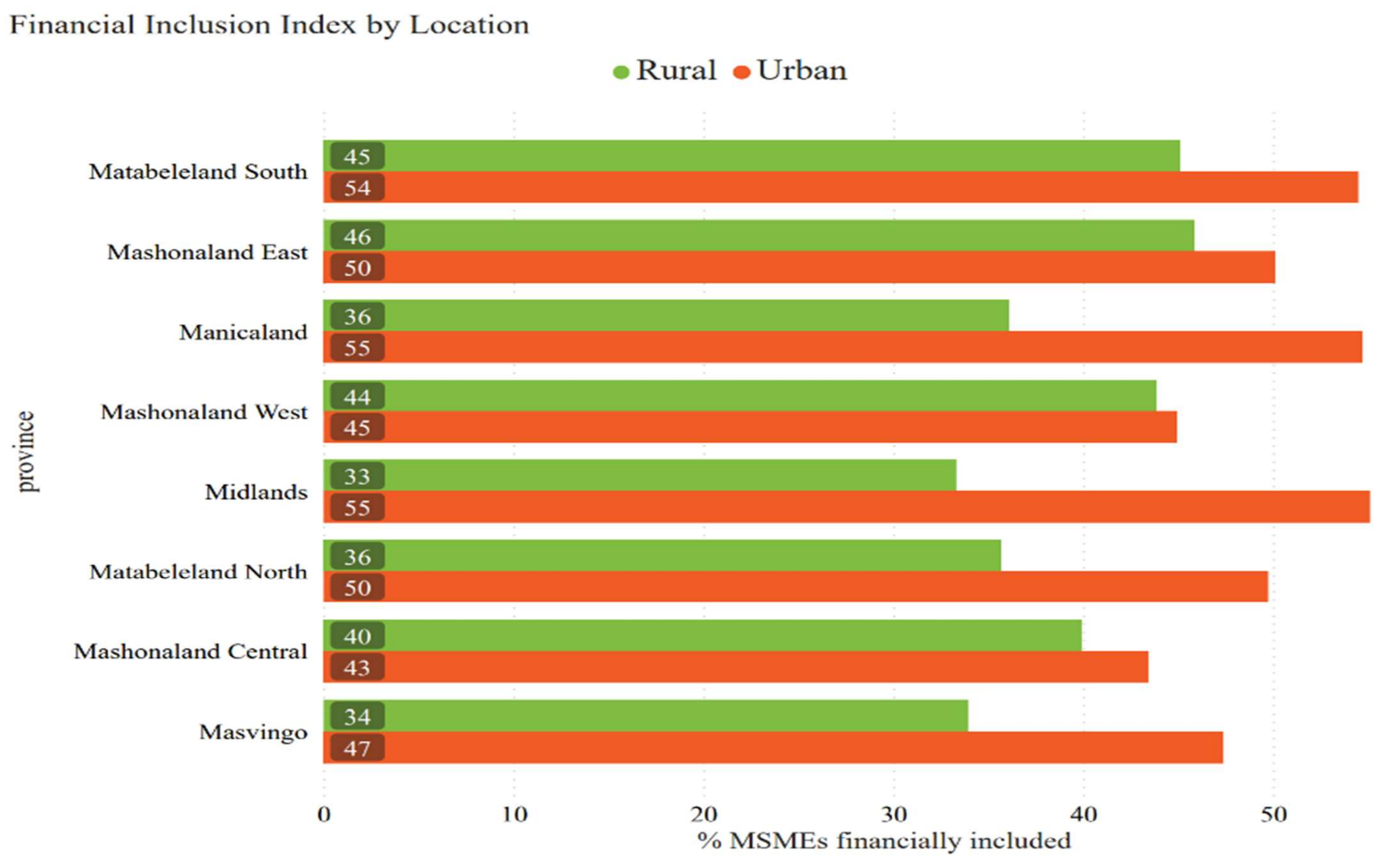

Figure 4: Financial Inclusion of Rural-based compared to Urban-based Enterprises

Source: SI-FINDEX

Compared by Gender of Enterprise Owner

The NFIS identified women as a vulnerable group and took steps to include them through initiatives like the establishment of the Women's Bank in Zimbabwe[1]. We found that 47% of enterprises owned by men were financially **included,** compared to only 39% of women-owned enterprises. A big contributor to this difference is that women-owned enterprises are less likely to be compliant. Thirty-one (31%) of enterprises owned by women were compliant, whereas 51% of male-owned enterprises were compliant. Midlands has the lowest rate of inclusion based on compliance with trivial differences between men and women as shown in Figure 5 below.

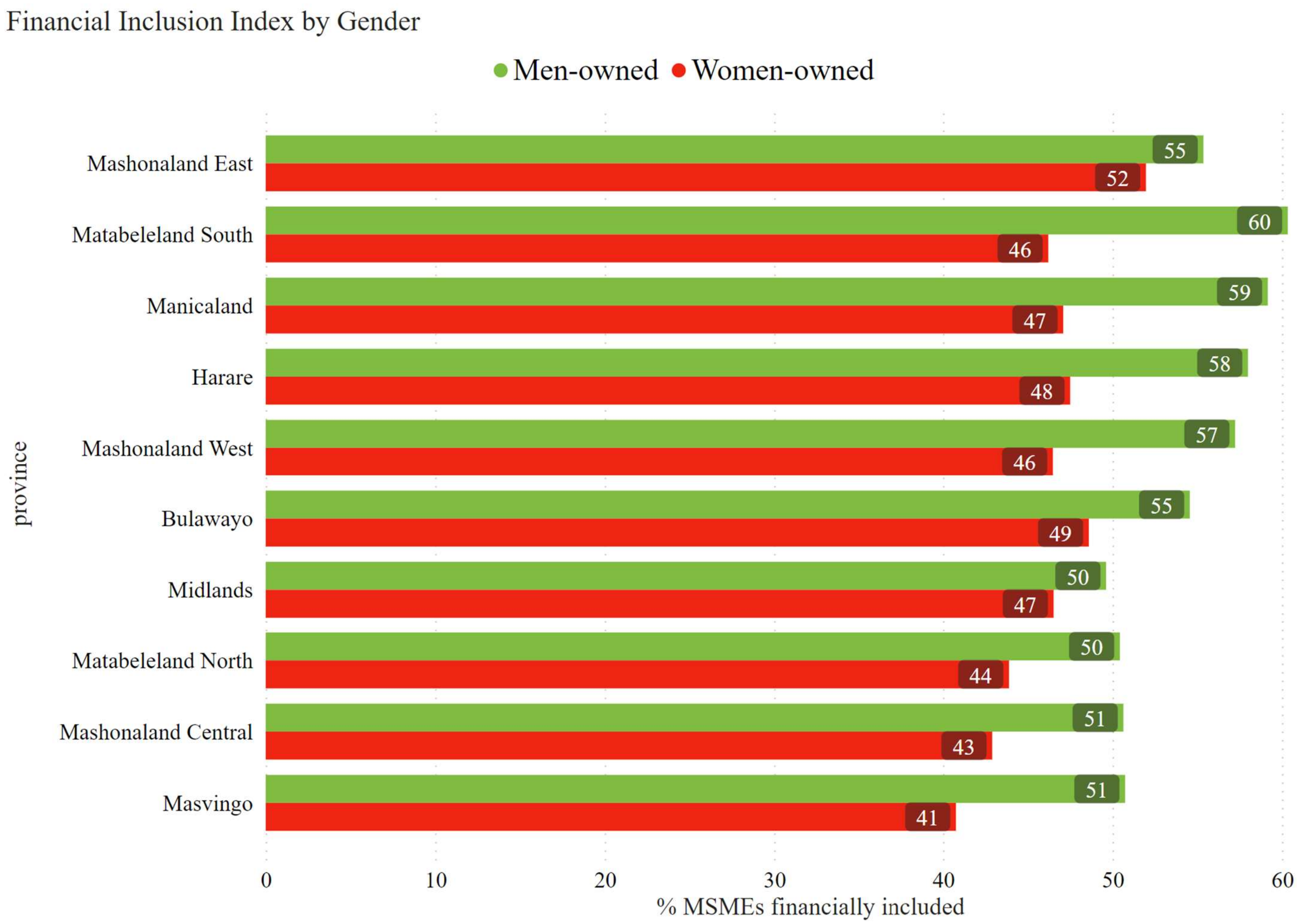

Figure 5: Financial Inclusion of Women-owned compared to Men-owned Enterprises

Source: SI-FINDEX

[1] Zimbabwe Women's Microfinance Bank

Compared by Age of Enterprise Owner

An individual was classified as a youth if they were aged 18 to 35 years old. In Zimbabwe, 39% of the MSMEs owned by youth were financially **included**; compared to 47% of those owned by older individuals. This gap is largely because a smaller percentage of enterprises are compliant when owned by youth (33% of youth-owned enterprises are compliant) whereas 48% of enterprises owned by individuals older than 35 years are compliant.

Harare has the greatest difference, with youth-owned enterprises being 1.7 times more likely to be **excluded** and Manicaland has the smallest difference as shown in Figure 6 below. Older business owners tend to score higher as they have stronger business experience, whilst the business owners classified as a youth might still be young entrepreneurs with little experience.

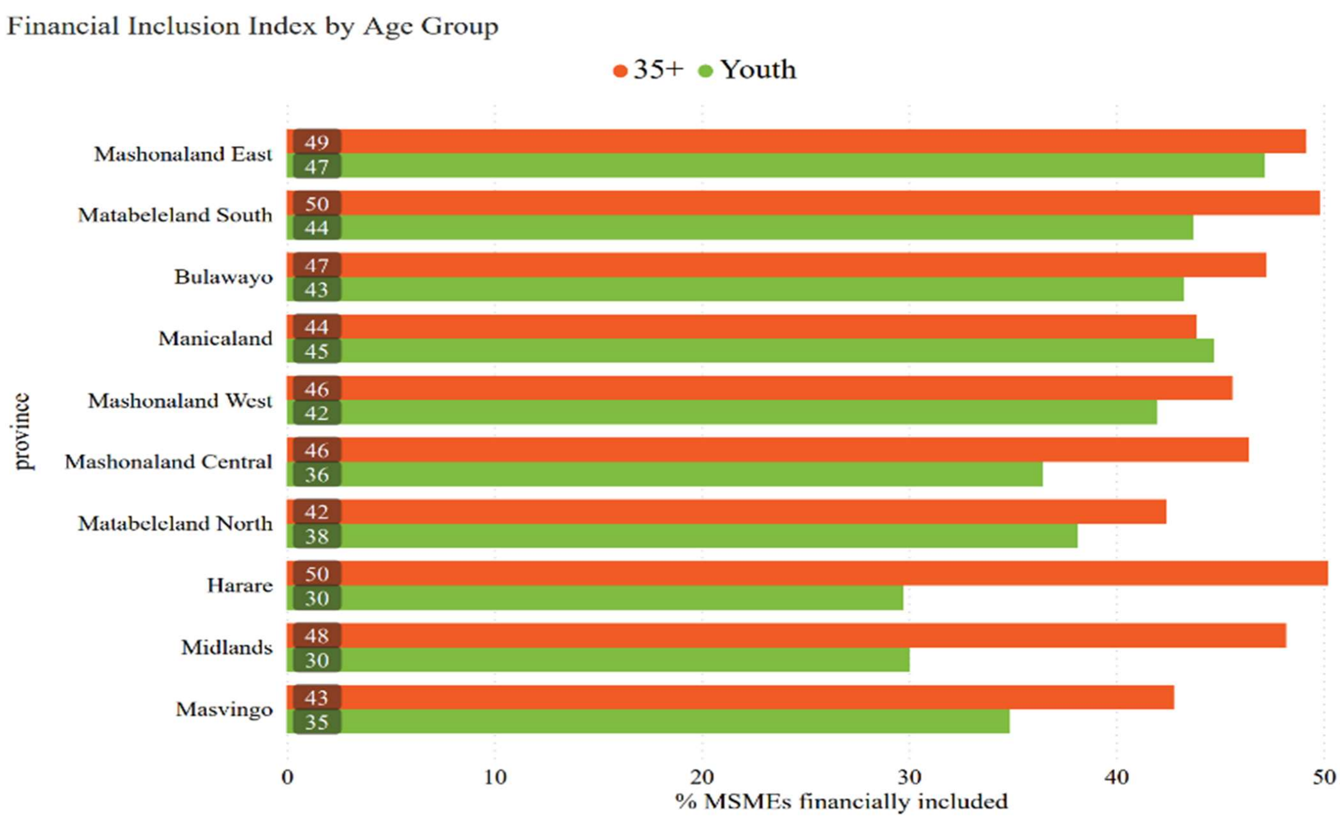

Figure 6: Financial Inclusion of Youth-owned compared to adult-owned Enterprises

Source: SI-FINDEX

Compared Across Business Sector

The NFIS targeted small-holder farmers. The index then compared the level of financial inclusion between enterprises involved in agriculture with those involved in mining, retail, or vending. Those in the vending subsector experienced the greatest level of **exclusion** (68% exclusion) and mining had the least level of **exclusion** (53% exclusion). Forty-three (43%) of MSMEs who were involved with agriculture are financially **included** with 39% of them being compliant and 40% of them able to use the financial products and services. Figure 7 shows the scores of the enterprises and the changes that follow across provinces. Once again Masvingo and Midlands have the lowest rates of inclusion.

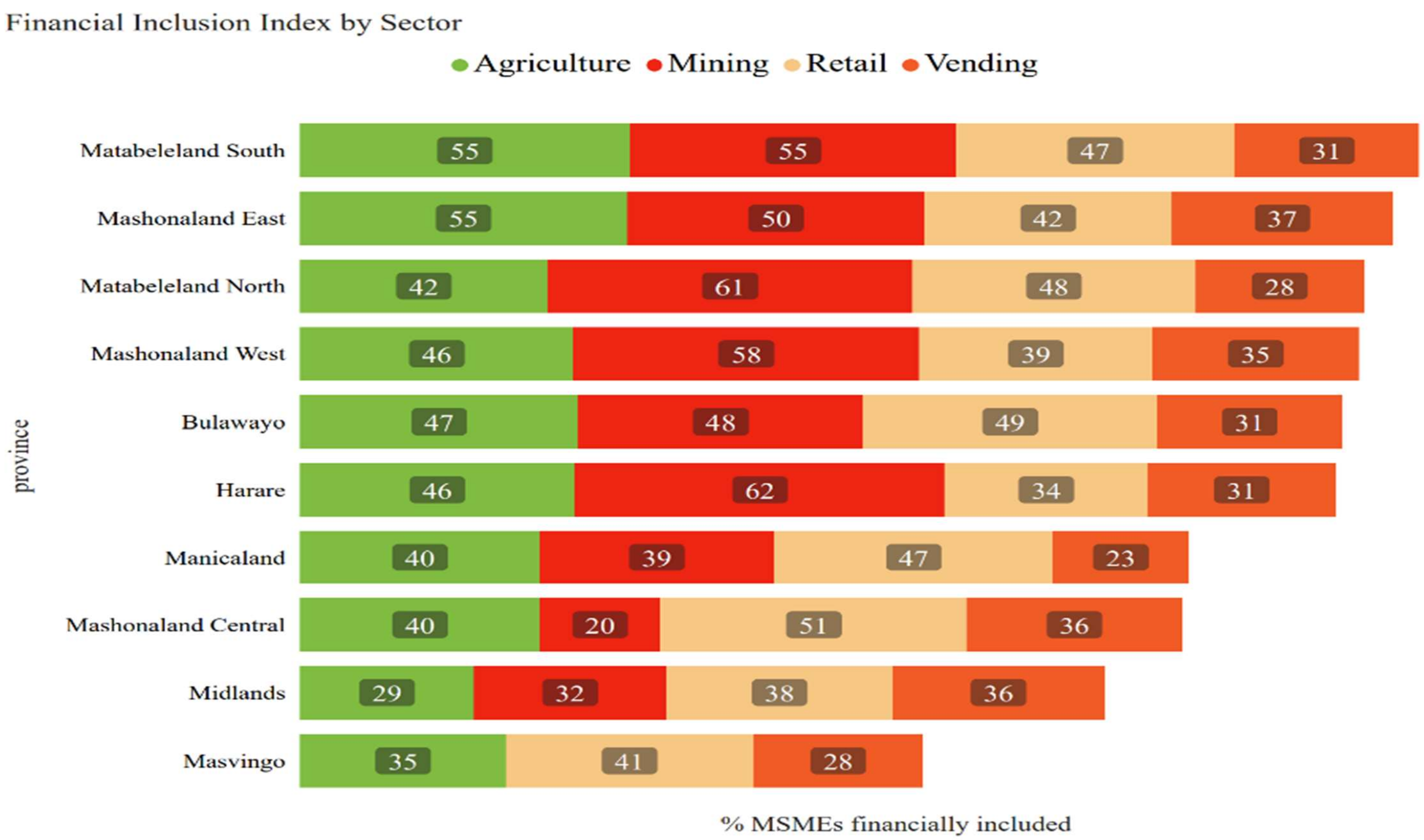

Figure 7: Financial Inclusion Compared across Sector (Agriculture, Mining, Retail and Vending)

Source: SI-FINDEX

Compared by Compliance (Registration Status) of Enterprise

To understand how compliance impacts an enterprise's financial inclusion, enterprises were divided into formal and informal and then the financial inclusion score was calculated across the two dimensions of availability and usage. For the index, a business is formal if they are both registered as a business and with ZIMRA. In every province, formal enterprises have a higher inclusion score than informal enterprises.

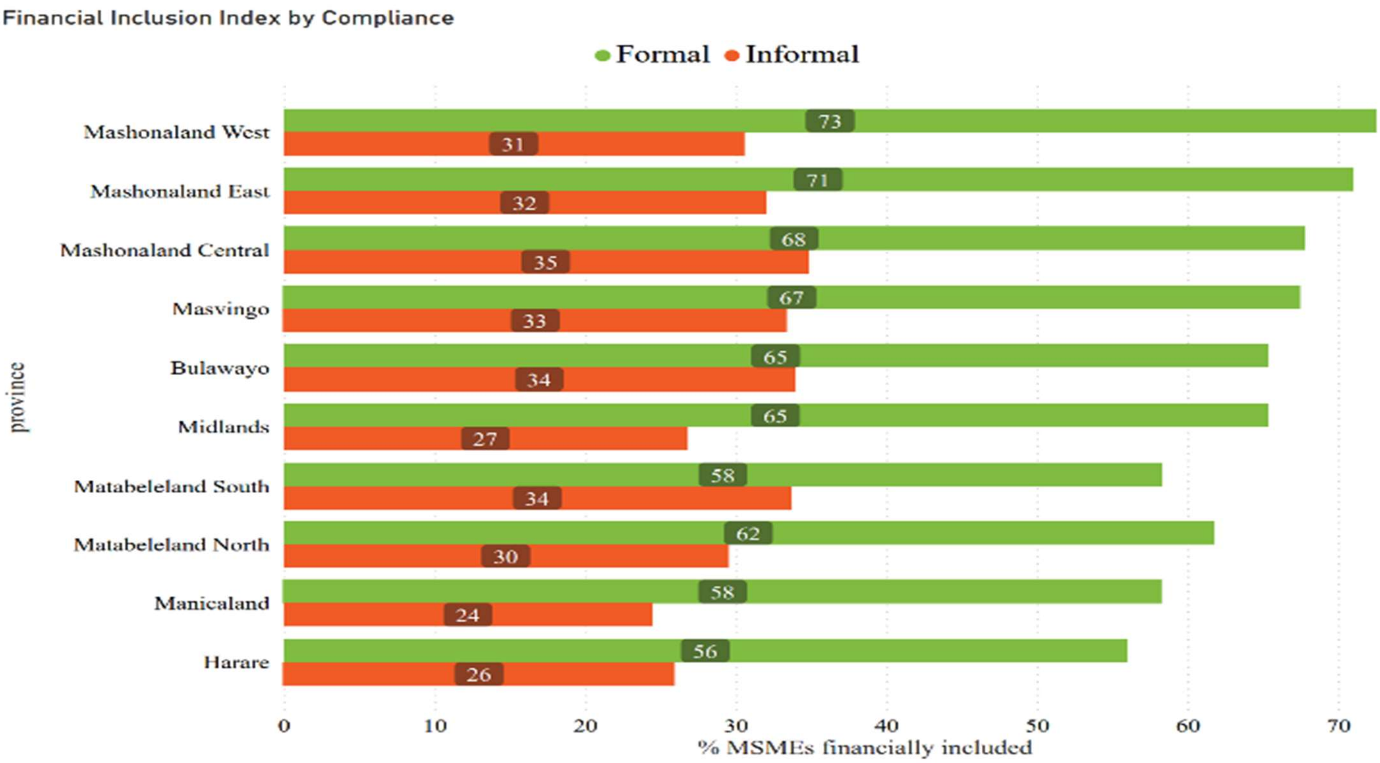

Figure 8: Financial Inclusion of Formal compared to Informal Enterprises

Source: SI-FINDEX

When asked why enterprises do not register as a formal business, only 11% stated that they did not want to register which indicates that 89% faced barriers when registering with up to 40% of the enterprises indicating that it costs too much to register. When asked why registered businesses did not register with ZIMRA, 17% indicated that they did not know how to register and 12% selected a 'lack of simplicity and accuracy of tax legislation' as their hurdle.

These responses show that the registration processes and policies are not adept for the micro, small and medium enterprises. There are enterprises in this sector that are newly established (20% of enterprises were established in the last 2 years) and registration requires a stable and sustainable business model. Figure 9 below shows that despite being the capital city, Harare has the low rates of inclusion when considering formality at 26% inclusion for formal entities followed by Masvingo with 27%. Even formal entities in Harare still have low rates of inclusion showing that the issue is not about proximity to government systems but the perceptions of small enterprises towards those systems and the benefits (or lack thereof) that they offer.

Conclusion

The new financial inclusion strategy should target micro enterprises and incentivise the financial sector to tailor financial products and services for these businesses. Micro Enterprises are relatively new business and need capital and investment to further establish the business. One way of increasing the level of financial inclusion is to encourage enterprises to be registered which would include providing a registration process that is favourable to their situation.

To increase the level of financial inclusion within a province, the financial sector needs to address the differences between the different criteria studied in this paper. Some key differences are listed below:

- **Formality**: Enterprises are more included when they are fully registered, both with a formal entity (for example the deeds office) and with ZIMRA.
- **Sub-sector**: Vending is the largest sub-sector but are more excluded than the other sectors across all ten provinces in Zimbabwe
- **Age**: In Harare and Midlands, the youth are more excluded.
- **Gender**: In Matabeleland South, Harare, Manicaland and Mashonaland West have the greatest difference with men-owned enterprises being more included.
- **Location**: Urban-based enterprises are more likely to be financially included than their rural-counterparts. Midlands and Manicaland have the greatest difference between rural-based enterprises compared to those in the urban area.
- **Enterprise Size**: Micro enterprises are consistently more excluded from financial products and services. As they grow and set up themselves as small enterprises, they will have a greater ability to access and use the products.
- **Provincial**: In every province, over half of all enterprises are excluded with Masvingo and Matabeleland North performing the worst.

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