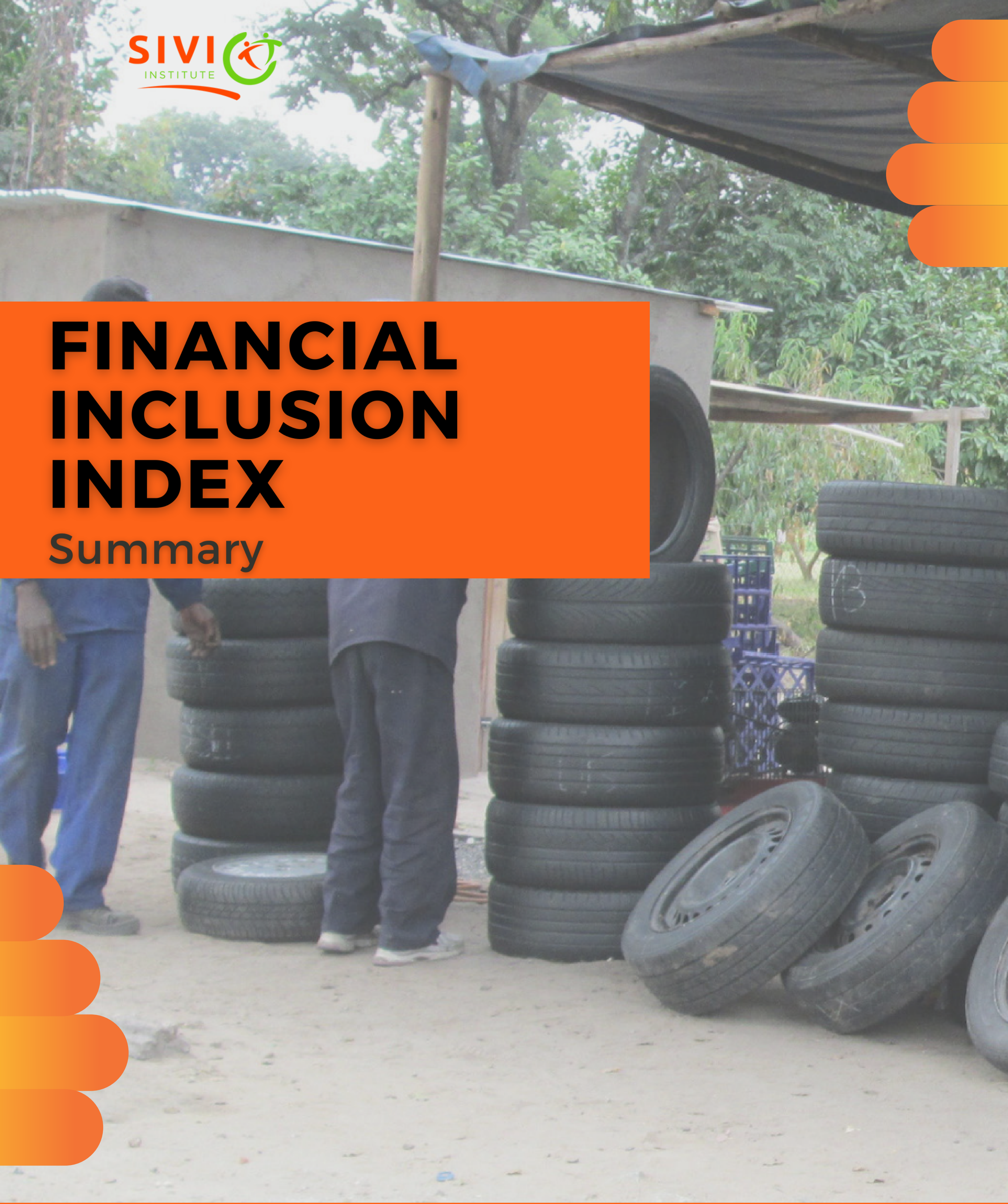

FINANCIAL INCLUSION INDEX

Summary

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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)
NGOs	Non-Governmental Organisations
NSSA	National Social Security Authority
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

Micro, small, and medium enterprises (MSMEs) are the engine of growth in developing countries (Beck, Demirguc-Kunt, & Levine, 2005) as they create over 60% of all employment (Wang, 2016) and contribute significantly to Gross Domestic Product (GDP). In South Africa MSMEs contribute 60% to GDP and 60% to employment; while in Ghana they contribute 70% to GDP and 49% to employment and in Zimbabwe 40% to GDP and at least 15% to employment. (Muriithi, 2017)

An inclusive financial system is an important determinant of the economic growth and employment rate in a country and will influence both individuals' and businesses' access to useful and affordable financial products and services. (World Bank, 2018) This inclusion targets similar vulnerable groups that are involved with small enterprises. Financial services must be available, flexible, gender-sensitive and risk-tolerant. Amongst small firms, grants, equity, and other risk-tolerant capital structures drive more innovation than traditional loans. (Guttentag, 2019)

In Zimbabwe, Vision 2030 (GoZ, 2018) which is expanded in the National Development Strategy (NDS-1), aims to provide "for inclusive and sustainable livelihood opportunities for vulnerable groups" and targeted the growth of MSMEs through promotion of value chains, provision of inputs to vulnerable groups, scaling up of youth and women empowerment programs. The NDS-1 also emphasises the importance of financial inclusion for vulnerable groups to allow them to participate in various economic activities in different sectors of the Zimbabwean economy. Between 2016 and 2020, Zimbabwe developed and implemented the NFIS to increase access to formal financial products and services for targeted groups (RBZ, 2016).

Financial Inclusion in Zimbabwe

Financial Inclusion is defined by the Reserve Bank of Zimbabwe (RBZ) as:

"The effective use of a wide range of quality, affordable and accessible financial services, provided in a fair and transparent manner through formal/regulated entities, by all Zimbabweans."

The level of financial inclusion is an important measure of enterprise health. It determines the sustainability, potential viability, and profit-making potential of an enterprise. In Zimbabwe, 38% of MSMEs identified access to finance as a pressing problem for their enterprise demonstrating the importance of liquidity to their business health (Chaora, 2022)The first step to financial inclusion is the individual and business ownership of accounts, but true inclusion goes beyond just the ownership of an account (with a bank or a mobile money platform), those accounts and partnerships must serve the needs of the business. Products and services that radiate out of this ownership such as access to credit, insurance, investment, and savings all have a bearing on sustainability. However, access and use of these products are availed differentially making the inclusion of MSMEs uneven. For an enterprise to have a financial presence and history is only meaningful if that presence grants greater potential for growth through loans, foreign exchange auction participation and access to insurance or investment options.

Dimensions

Barriers: Any hurdle or obstruction that will affect the availability or frequency of use of financial service products.	**Compliance**: Status of registration with formal bodies
1. Restriction in use of bank accounts 2. Restrictions faced in the use of mobile money (MM) account 3. Reasons for not having financial products: • Lack of Finances/ affordability • Inflation • Lack of knowledge • Lack of adequate documentation • Trust of system • Bureaucracy • Level of understanding of laws and procedures • Products do not cater for needs	1. Registration at the deeds office 2. Registration with ZIMRA
Availability: The ability to acquire financial service products	**Usage**: The frequency of use of financial service products available to an MSME
1. Having a bank account 2. Time to open bank account 3. Having a MM account 4. Time to open a MM account 5. Having business insurance products 6. Having a pensions policy 7. Access to a savings facility 8. Registration on SME auction when needing foreign currency 9. Using formal sources for business information	1. Frequency of use of a bank account 2. Frequency of use of a MM account 3. Past application for loans 4. Aware of access to loans through MM 5. Aware of insurance products offered through MM account 6. Types of insurance accessed (staff, product and comprehensive) 7. Investments made on behalf of the business Access to formal funds for starting 8. Access to funds for ongoing-going business operations 9. Successful bids at the MSME auction

National Index Score [44% of MSME’s Included /56% exclusion]

The SI-Findex compares the level of financial inclusion across the ten (10) provinces of Zimbabwe measured across thirty-four (34) criteria divided into four (4) dimensions. These values are averaged to give the average national financial inclusion score. Fifty-six percent (56%) of MSMEs are financially excluded in Zimbabwe which implies that only 44% are included. The four dimensions of Barriers, Compliance, Availability and Usage are explored further throughout this

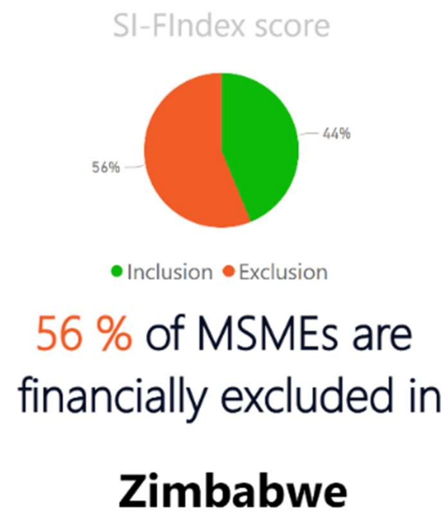

Figure 1: Overview of Financial Inclusion in Zimbabwe

National Index Dimension Scores

Barriers [56% of MSME’s Included /44% exclusion]

As indicated in Table 2 barriers demonstrate hindrances to ease of use, or hindrances to access. They can include faulty or bureaucratic processes, missing documentation, or insufficient finance on the part of the enterprise. Barriers additionally include economic factors such as the costs of the product or service or inflation-related costs. In this index, we noticed that the level of confidence (or lack thereof) that small enterprises have in the financial sector becomes a barrier to the adoption of certain practices, which may be inherently beneficial to small enterprises. We also noted that the design of a product or service may deter its use /adoption if it is not user oriented. Within Zimbabwe, the most common barrier that MSMEs encounter is challenges when using MM platforms. Collectively, an average of 52% experienced barriers when using mobile money; 31% experience barriers when trying to access banking products and 49% experience restrictions when associated with bureaucracy, cost of products and services, improper knowledge on the services or a general lack of trust in the system. Twenty-five per cent (25%) of MSMEs identified finance as a barrier whilst another 18% identified inflation as the reason they do not have the suggested financial products and services.

Compliance [42% MSMEs Included /58% exclusion]

Compliance is important because the definition of financial inclusion we have adopted infers the provision of products and services to entities that are legally registered. The option for registration includes the (i) Department of Deeds, Companies and Registration, (ii) Local Council/Municipality or the (iii) Zimbabwe Revenue Authority (ZIMRA). In Zimbabwe, 42% of MSMEs are compliant in that they register as a business and then with ZIMRA. Of the 48% of registered businesses, 11% of them did not register with ZIMRA. Another form of registration is the MSME exchange where only 9% of MSMEs who need foreign currency are registered on the foreign exchange auction system for Small and Medium Enterprises (SMEs).

Availability [39% MSME’s Included /61% exclusion]

Availability refers to the accessibility of a product or service. As we determined this dimension, our challenge was always the nexus between the provision of those services to MSMEs (a choice made by an institution) and the product's availability in the portfolio of products and services an enterprise uses (a choice made by an entrepreneur). We chose a combination of the two, determined by whether those products or services are available to MSMEs and whether a small enterprise has chosen to take advantage of the existence of that product/ service. Fifty-seven per cent (57%) of MSMEs have a mobile money account for their business, whereas only 36% have a bank account. One influence is that mobile money accounts take less time to set up than bank accounts. Of those who access banking services most MSMEs have a saving facility (50%). Access to insurance was determined to be available to 19% of MSMEs whilst pensions were accessed by 7% of MSMEs

Usage [38% of MSMEs Included /62% exclusion]

We determined Usage as the ***frequency*** of use of a particular financial product or service. This refers to the frequency of use in, mobile money transactions, accessing loans, accessing insurance, accessing investments and the use of the SME exchange. In this dimension, we wanted to differentiate between what an enterprise has and what they find useful i.e., of benefit to their day-to-day operations. This will inform the ‘product fit’ and inform conversations related to product marketing and placement for them to be used successfully by MSMEs. Of those who have specified financial products as being available to them, only 38% of the MSMEs are able to effectively use them to their needs. Thirty-one per cent (31%) of MSMEs use formal funds for on-going business operations and 25% used formal funds to start their business. Therefore, most individuals are using money from family, friends (local and in the diaspora) and sometimes loan sharks to finance their businesses. Fourteen per cent (14%) of the MSMEs had applied for a commercial loan in the past which is about half of those who do have a bank account.

Conclusion

Micro, small, and medium enterprises (MSMEs) are a key part of Zimbabwe's economy and yet less than half of the enterprises are financially included. SI will continue to track the level of financial inclusion of MSMEs across the ten provinces with the hopes that the financial sector may adapt, and intentionally cater for these businesses. There will also be follow up surveys with the enterprises captured in the 2021 survey, which will provide an insight into how time (and assumingly formality) will impact an enterprise's financial inclusion status.

Our findings suggest that attention needs to be paid to three (3) things:

(i) Initiatives to make registration easier and more 'enterprise friendly'

(ii) Initiatives to spread information effectively to all types of entities with tailor-made information for different genders and

(iii) A relook at policies that surround Know Your Customer schemes to ensure they also make product engagement easy and fruitful for a new business. Currently, the tax requirements of ZIMRA may seem like they benefit the state in the short term, but they curtail business in the long term as a lack of trust develops in the system.

The MSME sector is very fluid and newer businesses will tend to be excluded but as they grow and become stable, they should benefit from greater financial incentives. A business should have access to and be informed about suitable financial products and services which can be leveraged to support the business and employees. As a business grows and becomes more formal, then the business is more likely to score higher on the financial inclusion index. Our attention therefore should be on the micro-enterprise, which has poor support systems from the financial services sector. The NFIS of 2016 to 2020 rightly focused on youth and women, however, more effort needs to be made to deliberately incorporate enterprises lead by these groups or to make their registration easier i.e., give tax concessions for longer periods and make financing arrangements more flexible.

This is an evolving project and SI will use the 2021 experience to refine the financial inclusion survey. The revisions will inform future longitudinal studies in Zimbabwe and the region.

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