FINANCIAL INCLUSION STRATEGIES IN A DOLLARIZED ILLIQUID ENVIRONMENT: ANALYSIS OF CONDUCT AND BEHAVIOUR OF BANKS IN ZIMBABWE (2009-2013)

BY

TAKURANASHE MUPEDZISI

AUGUST 2013

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE

REQUIREMENTS OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE

GRADUATE SCHOOL OF MANAGEMENT

UNIVERSITY OF ZIMBABWE

SUPERVISOR: Mr. R. MUDALA

DEDICATION

I dedicate this dissertation to the person of the Holy Spirit who is the reason for the purpose and hope I have. Finally yet importantly, I would also want to recognize the contribution of my mother Mrs Chipo Mupedzisi for the pain and scarify which paid in bringing me up.

DECLARATION

I...TAKURANASHE...MUPEDZISI, do hereby declare that this dissertation is a result of my own investigation and research, except to the extent indicated in Acknowledgements, Reference and comments included in the body of the report and that it has not been submitted in part or in full for any other degree to any other University.

STUDENTS SIGNATURE.. DATE.........................

SUPERVISORS' SIGNATURE... DATE.........................

ACKNOWLEDGEMENTS

First and foremost I would like to give thanks to the Lord Almighty for giving me a life full of purpose. A purpose not to be a tail but the head, to live a life what he said I should be. To our God be all the honour and the Glory. For with his mercy and grace I have reach Ebenezer. I would also want to express my sincere gratitude and appreciation to my supervisor Mr Mudala, you have been a light in my darkness and indeed you proved that you are a true light. Your patience, support, guidance and effort will forever be greatly appreciated. I would also want to appreciate the valuable service I have received from Dr Madzikanda. I really appreciate your valuable effort and immerse contribution towards the goal of achieving good quality. The GSM Director's effort and that of the supporting team, Mrs. Tsikirai, Mr Kuhudzai, Mr Makoni was greatly appreciated. I would also want to acknowledge the company and support of my friends who have been with me in this long journey, particularly my sincere gratitude goes to Magure K, Dzirutwe F, Deshe J, Nyambuya L, Tazvivinga T.

ABSTRACT

Financial inclusion has proved to be a strong weapon against poverty. At least two billion of the world's population is estimated to be financially excluded and in Zimbabwe at least 65 percent of the rural population was estimate to have no access to basic financial services. Access to financial services affords the poor the opportunity to actively participate in the growth of their economy. Banks play a vital role in ensuring financial inclusion. However banks alone are unable or not willing to serve low income market citing, high costs and infrastructural problems. Government support was also cited as being of paramount importance to ensure that banks became financially inclusive.

The main objective of this study was to analyze and investigate the models adopted by banks for financial inclusion. Primary data was used for this study and semi-structured interviews were used. Sixteen middle level managers (marketing, retail banking, operations, branch and microfinance) from various banks who were involved in the distribution of low-level financial products and services and four IT managers responsible for systems administration and mobile banking were interviewed. The research used judgmental sampling method to select the interviewees. The study revealed that banks adopted branch expansion, microfinance and very few banks were still using conventional mobile banking. The models were however said not to be financially inclusive as they lacked products suitable for the poor. The findings also revealed that almost all banks have introduced mobile phone based products but the products were rather additive than transformative and benefitted the already banked at the expense of the unbanked. Banks cited high costs; low uptake of products meant for the unbanked, policy restriction especially the MOU on bank charges and interest rate caps as the main challenges to financial inclusion. Based on the research findings, the researcher recommended the adoption and use of innovative means to bank the rural poor. The researcher recommended the creation of partnerships between mobile network operators (MNOs) to usher a mobile phone based bank account, creation of a joint promotional drive and consumer education to create awareness and the reduction of bank charges to a level that leaves banks in a viable position but yet affordable to the poor.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ACRONYMS

AFI	Alliance for Financial Inclusion
ATSG	Access through Innovation Sub-Group
ATM	Automatic teller machine
BCG	Boston Consulting Group
CGAP	Consultative Group to Assist the Poor
EFInA	Enhancing Financial Inclusion and Access
CFSI	Center for Financial Services Innovation
FATF	Financial Action Task Force
FRBD	Federal Reserve Bank of Dallas
G2P	Government to person
IMF	International Monetary Fund
IFC	International Finance Corporation
KYC	Know Your Customer
OECD	Organization for Economic Development and Cooperation
POS	Point of sale
RBZ	Reserve Bank of Zimbabwe

LIST OF APPENDICES

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Financial inclusion is viewed as a tool of contending poverty. Several countries across the globe now look at financial inclusion as a means to more a comprehensive growth, wherein each citizen of the country is able to use earnings as financial resources that can be put to work to improve future status and adding to the nation's progress. Banks play a leading role in promoting access to financial products and services by all. Chikoko and Mangwendeza (2012, p. 252) argued that as banking services are in the nature of public goods, financial inclusion should therefore be viewed as the availability of banking and payment services to the entire population. Banks must open up traditional banking services – deposits and credit facilities to the poor (Schoombee, 2000, P. 2). Banks in Zimbabwe however have been reluctant to provide financial products and services that suit the needs and preferences of the poor citing high cost and poor infrastructure. Financial sector development strategies have focused on strengthening financial stability and increasing the availability of products and services earmarked for consumption by major economic players like government, large corporates and affluent households leaving out the rural poor and small enterprises. As a consequence of this, financial exclusion has been predominant in rural areas resulting in people relying on their own sources or informal sources of finance. Rural people have also been denied the opportunity to be active participants in the development of their economy and communities. Ensuring that the financial sector is inclusive is a global problem with devastating effects mostly in developing countries like Zimbabwe. This search therefore sought to investigate and evaluate the methods currently employed by banks to ensure inclusivity in an illiquid environment. The study also considered methods that were also employed by other countries at regional and international level.

The introduction section to the study outlines the background to the research problem. The background to the banking sector in Zimbabwe follows the introduction, problem statement, objectives, research questions, research proposition, and justification of the research, the scope of the research and limitations.

1.1 BACKGROUND TO THE STUDY

Low-income Zimbabwean households, especially those in rural areas have little access to financial products and services. As a result they often have to borrow from friends, family or usurious moneylenders. They also have little awareness and practically no access to insurance products that could protect their financial resources in the case of unexpected circumstances such as death of primary breadwinner, illness or damage to property. The Reserve Bank of Zimbabwe in 2010 noted with concern that as the liquidity crunch worsened banks continued to cut back on their rural outreach leaving the rural people without access to banking services (Gono, 2010). Accordingly, 70 percent of the country's rural population was served by only 11.7 percent of the bank's total branch network (Gono, 2011). The situation was not improving and there was a serious need for coordination between the government and the banks and other stakeholders to expand financial inclusion. Previous policy makers came up with some initiatives but these initiatives seem not to be commensurate with the magnitude of the problem. Gono (2007b, p. 5) states that financial exclusion is detrimental to the social-economic development, especially to developing states such as Zimbabwe, which rely heavily on the banking sector finance. Financial inclusion enables economically and socially excluded people to integrate better into the economy and actively contribute to development and protects themselves against economic shocks. Hence, the importance of this study is justified.

1.1.1 THE BANKING SECTOR IN ZIMBABWE

The history of the Zimbabwe financial system dates back to the 19th century, when the first bank was established in 1872 under a free banking system, which was later replaced by a currency board in 1940 and later superseded by the central banking system. The Ministry of Finance regulates the system through the RBZ, with other ministries such as the Ministry of Economic Planning and Development and the Ministry of Industry and International Trade. The history of financial sector development in Zimbabwe can be divided into four parts, post-independence developments (1980-1989), financial liberalization era (1990- 1999), banking crisis era (2000 – 2008) and the dollarization period (2009-2013).

1.1.1.1 POST INDEPENDENCE DEVELOPMENTS

In 1980 when Zimbabwe obtained its independence, the country had the most complicated and most sophisticated financial sector in Africa outside that of South Africa. Throughout the 1980s the operating environment was highly regulated and the banking sector was highly oligopolistic in nature. The financial sector was dominated mainly by multinationals like Standard Chartered Bank and Barclays Bank. Market entry was highly restricted and competition within the banking sector was minimal. The operating environment was characterized by ceilings imposed on deposit and lending rates, portfolio restrictions; government directed lending programmes and exchange rate controls, which distorted the operations of the market. Pension funds and insurance companies were the main source of government borrowing. The marginalized poor especially the rural folk and small-scale farmers had little access to credit because there were no banks to serve them. Those with little savings especially those in rural areas could only invest with the Post Office Savings Bank (POSB), which later channels the funds to government as soft loans. Prior to financial sector liberalization, the Zimbabwean financial sector was composed of the RBZ, five commercial banks, POSB, four merchant Banks, two discount houses, three building societies, six finance houses. The financial sector was highly specialized with institutions whose purposes were to direct funds to specific sectors like agriculture, mining and manufacturing. For example, Barclays Bank mainly specialized in financing the agricultural sector while First Merchant Bank concentrated on financing mining, building societies concentrated on mortgages and discount houses in commercial and Reserve Bank of Zimbabwe intermediation. The banks were not aggressive in their marketing approach and neither were they innovative since they were cushioned from competition and the government almost guaranteed them their core business segments. There was no incentive for banks to go out in the market soliciting for clients and neither their products nor services earmarked for the poor.

1.1.1.2 FINANCIAL LIBERALIZATION PERIOD (1990-1999)

In the 1990s the government was convinced by creditors, like the International Monetary Fund (IMF) and the World Bank to adopt an Economic Structural Adjustment Programme (ESAP), with one of the aims being to liberalize the financial markets in order to enhance the scope of its services. As a result of the reforms, the sector experienced phenomenal growth of about three percent in contrast to other sectors like manufacturing which were shrinking (Makina, 2009). Although the sector experienced phenomenal growth after the liberalization, the growth did not spillover to the poor. It had been successful in the mobilization of savings. New entrants were recorded, for example, finance houses, leasing firms, exchange bureaux, venture capital companies, new commercial and merchant banks as well as informal and formal microfinance institutions emerged and these new entrants created some competition. However, the reforms failed to make the financial sector more inclusive as was the intended goal. The reforms failed to rectify the structural defects that hindered financial inclusiveness. The formal banking continued to serve the top end of the market as was the usual norm and thereby leaving the poor and the marginalized unbanked. Most banks continued to operate in urban areas where returns were relatively higher than in the rural areas because of the modernization of the infrastructure in urban areas as compared to that of the rural areas.

The new entrants preferred to venture into merchant and discount banking rather than into commercial banking so that they could specialize in trading risk free government securities. Empirical evidence has shown that the financial sector reforms were not adequate to ensure financial inclusion because of the unstable macro-economic environment. Makina (2009) noted that inflation rose above 32 percent in the 1990s (double the critical threshold of 15 percent) and the high levels of inflation impacted negatively on the productive sector of the economy. Because of the instability, it was not surprising that neither existing banks nor new banks were in a position to serve the poor and the marginalized. The operating environment was so uncertain that banks had to compete for government business and established corporate customers in order to minimize risk. Chipika (as cited by Makina, 2009) reported that financial reforms actually had a negative impact on agricultural credit. In the 4 districts surveyed it was observed that access to credit decreased while cost of credit increased at the same time, with personal sources of finance accounting for 86 percent of total household finance (Makina,2009). Government viewed these market failures as evidence of the banks' unwillingness to serve the poor and the small business sector and instead of creating an enabling environment, the government responded by creating many credit institutions like the Small Enterprise Development Corporation, initiatives that clashed with market orientation of the reforms. These schemes were not sustainable and sooner collapsed because of failure to secure funding. Few banks were innovating to come up with products, which were suitable to small borrowers. Although many banks had set up Small Business Units (SBUs), the lending terms tended to discriminate against the poor borrowers.

1.1.1.3 BANKING CRISIS ERA (2000- 2008)

The Banking Act (24:01) was introduced and came into effect in September 1999. It came as a result of the RBZ's desire to liberalize and deregulate the financial sector. The Act was introduced to regulate the activities of commercial, merchant and discount houses. The deregulation allowed some latitude for banks to operate in non-core services. It allowed banks especially indigenous to enter the industry. Many indigenous players entered the industry and new products like e- banking were introduced. These innovative activities resulted in the "deepening and sophistication of the financial sector" (Gono, 2000, p. 5). The war veterans invaded white owned farms in early 2000. The farmers who borrowed from banks could not service their loans and the government, which took over the land, refused to honour the responsibility for the loans. Banks were left exposed to bad loans. As a result of the upheavals on the farms, agricultural output fell dramatically from level of 18 percent of gross domestic product (GDP) in 2000 to 14 percent of GDP in 2002 (World Bank, 2008). Exports from tobacco which was the counttry’s top foreign currency earner declined from USD 612 million in 1999 to USD 321 million in 2003 (Kairiza, 2010). The ultimate result was that the government could not service its multilateral debts obligations and as result in October 2000, the World Bank suspended any extra lending to Zimbabwe due to non-payment of its loans (World Bank, 2000). The decline in foreign currency made it difficult for Zimbabwe to import to import her essential raw materials like fuel which further fed into falling production with the result that by 2004, total foreign currency from the export of goods and services had declined to less than half the 1996 peak of USD 3,169 million (World Bank, 2008). The International Monetary Fund (IMF) suspended its technical assistance to the country in June 2002 over the country’s overdue obligations totaling USD 132 million effectively severing zimbabwe’s relations with the West (IMF,2002). The situation was further compounded by the drought, which was experienced from the year 2001 to 2002 farming season. The inflation level skyrocketed, unemployment increased, foreign currency and foodstuffs became scarce. Banking activities declined dramatically and the banking sector was driven into the parallel market.

With the country experiencing donor community isolation, the crisis caused by forex shortages reached a climax in 2003. An acute shortage of Zimbabwe dollar banknotes developed during the first nine months of 2003 and threatening public order in August as the Central Bank could not print local currency due to shortages of hard currency to import ink and paper (Kairiza,2010). The shortages of bank notes triggered a system wide bank run which mirrored the one that epitomized the Argentine crisis of 2002 as depositors tried frantically to access their funds. Police had to be deployed around banks to maintain law and order as clients were denied access to their savings.

On 1 December 2003, a new Reserve Bank Governor was appointed and he immediately ushered a new monetary policy (Makina, 2009). Inflation stood at 263 percent when the new Governor took office (Kairiza,2010). A money-targeting framework was adopted as the monetary policy strategy. A framework for liquidity management was set up to contain money supply growth to levels consistent with inflation targets. Interest rates were raised acutely in the first quarter of 2004 reaching 5 242 percent annually in March 2004 and inflation which had soared to 623 percent in January 2004 decelerated sharply from March to around 130 percent at the end of 2004

(Gono,2007). All banks that had ventured in non-core activities were instructed to unwind positions overnight and return to their core-banking activities. At the same time, overnight accommodation by the RBZ was immediately withdrawn precipitating a crisis, which led to a significant asset-liability mismatch followed by a liquidity crunch for most banks. Commercial bank lending rates rose sharply from 100 percent in November 2003 to 700 percent by January 2004. Much of the borrowings from commercial banks were for speculative purposes for example investments in soaring stock market, and hence the rise in interest rates coupled with the bursting in the country's asset bubble meant that many borrowers were unable to repay their loans. The borrowers defaulted on their loans and banks were exposed to credit risk.

The property market crashed and the stock exchange collapsed as banks dashed to sell. On 3 January 2004, Century collapsed. Century Discount House was a subsidiary of ENG Asset Management Company. The Discount House failed to raise the depositors' funds totaling ZWD 61billion. The fall of Century Discount house precipitated a contagion because of the exposure of many financial institutions to ENG, thus triggering a liquidity crisis which affected mostly indigenously owned banks (Makoni,2006). Seven banks were excluded from inter-bank clearing market as they lacked cash to pay other banks. Retailers and industries refused to accept cheques drawn on banks barred from clearing house. Most indigenous banks collapsed and some were amalgamated into ZABG. In an effort to contain the economic decline the RBZ was involved in money printing or quasi-fiscal activities. Quasi-fiscal activities fuelled a hyperinflationary environment and by February 2007, inflation had spiraled to 1729 percent. Zimbabwe entered the hyperinflationary era in March 2007 and by 2008 inflation reached two hundred and thirty-eight million percent (FRBD, 2011). Eventually people lost confidence in the banking sector, began to abandon banks in masses, and as a result deposits fell to their bottom low. The country's currency became valueless and bank balances were rendered valueless (Makina, 2009).

1.1.1.4 DOLLARISATION PERIOD (2009-2013)

The period of hyperinflation was brought to an end with the adoption of multi-currencies. Dollarization was formally accepted in February 2009, the United States dollar became the medium of exchange alongside other currencies such as the Rand, Pound, Pula, and the Euro for transactions in a system called the multi-currency. Under dollarization, hyperinflation was completely wiped out and stability and confidence in the banking sector was restored. Zimbabwe's financial sector experienced a rapid growth since the adoption of the multi-currency system in 2009, albeit from a low base. Banking sector total revenue (turnover) was $ 870 million as at 2011 in which 34 percent was accounted for by foreign banks and 66 percent by domestic banks. The aggregate cost to income ratio declined from a high of 94 percent in 2009, 80 percent in 2010 and 69 percent in 2011, which represent a tremendous improvement. The main revenue drivers for banks included interest income (55%), ledger and handling fees (12%), management and establishment fees (10%) and foreign exchange fees and commission accounting for (7%) (Gono,2012).

Financial sector assets grew by 16 percent from a low of 36 percent to 52 percent of Gross Domestic Product by the end of June 2012 (IMF, 2012). Bank deposits rose from US $ 298 million in January 2009 to US $ 1.386 billion by December 2010, while loans were US $ 700 million in December 2010. In 2012 deposits increased by 30.7 percent from US $ 3.376 billion in 2011 to US $ 4.411 billion in 2012. At the same time, loans and advances increased by 27.5 percent from US $ 2.761 billion to US $ 3.519 billion in 2012. The deposit market share was distributed as 94% for commercial banks, 1% for merchant banks, 4% for building societies and 1% for the POSB (Makina, 2012). The increase in deposits however must be treated with caution since the RBZ report only month end balance without corresponding monthly volatility of deposits. The loans to deposits ratio, marginally decreased from 81.79 percent to 79.79 percent during the comparative period (Gono, 2013). The upward trend in both deposits and credits demonstrated clear evidence of the growing confidence in the country's financial sector in the post-dollarized era.

However even though confidence of the public on the banks had been on the upward trend from 2009 to 2012 as reflected by an upward trend in terms of deposits and credit the nature of the deposits tended to be short term in nature and the loans were mainly channeled towards the financing of working capital with limited funding going towards capital investment. The short-term nature of deposits made it difficult for banks to generate their revenue from their core-source, which was, interest income and as a result banks made more profits from non-interest income that is bank charges and other fees. The high costs of bank products and services contributed negatively to financial inclusion because the costs deterred people from using the banking facilities and forced them to transact in the informal market.

Figure 1 below depicts the upward trend in terms of deposits and credit from 2009 when the country was dollarized up to the end of December 2012. The upward trend in terms of deposits and credit were a clear testimony of the peoples' confidence in the banking sector.

FIGURE 1: BANK DEPOSITS, LOANS AND ADVANCES (US$M)

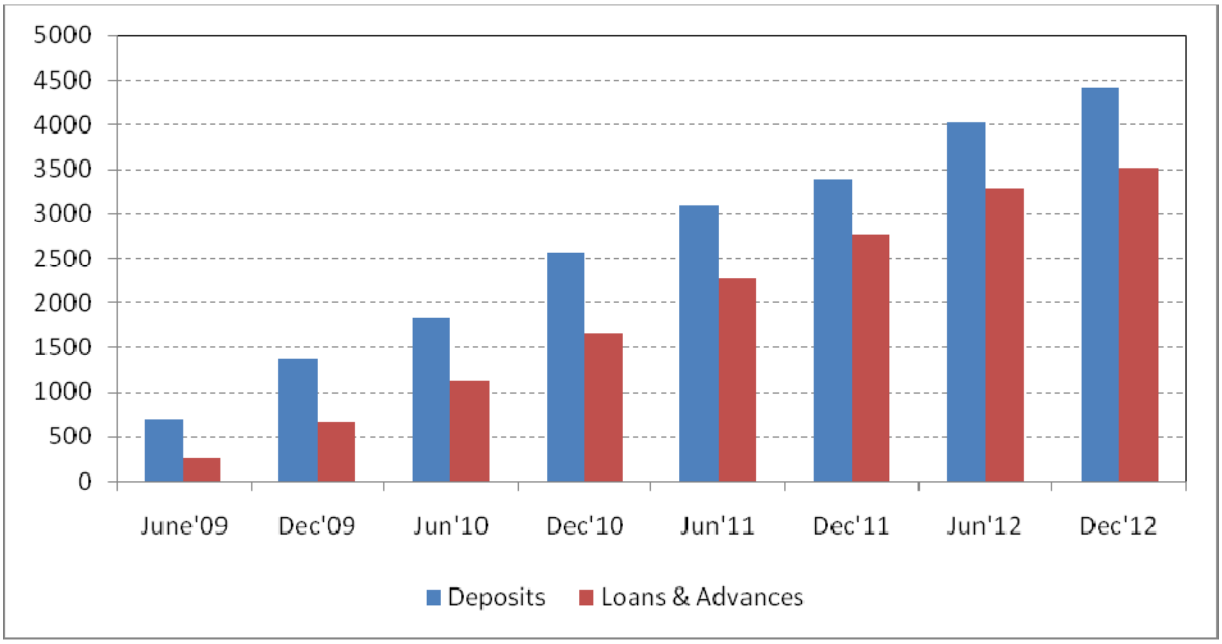


FIGURE 1-1: BANK DEPOSITS

Source: RBZ Monetary Policy Statement (2013)

Although dollarization restored stability in the banking system, banks were exposed to liquidity risk under the dollarized era. Liquidity in the system remained relatively low with unequal distribution across banks. The adoption of the United States dollar was not backed by any international reserves as is the norm and as a result, domestic money balances in the banking system were not converted into foreign currency. The people's savings and capital balances were rendered worthless overnight. This created a relationship of mistrust between the banks and banking public and people resorted to the use of informal channels of transacting rather than transact through banks. According to Bankers Association of Zimbabwe (BAZ), more than US $2 billion was circulating outside the formal banking channels (Kachembere, 2012).

The Reserve Bank of Zimbabwe (RBZ) in anticipation of the possibility of dollarization recalled all Treasury bills held by banks and redeemed them in Zimbabwe dollars even before maturity, leaving the recovery of banks dependent on foreign currency capitalization and attraction of foreign currency deposits from the public. Banks had either to raise funds from their operations locally or borrow from offshore. Black Economic Empowerment Act that required all foreign banks to cede 51 percent of their controlling stake to the indigenous people placed constraints on the recapitalization of banks from external sources as it minimize participation in the local economy by foreigners (Makina, 2009, p.17). On the other hand, domestic investors were hard pressed to raise capital in foreign currency. Furthermore, banks found it difficult to raise meaningful and considerable deposits in foreign currency due to loss of confidence in the banking sector.

Under dollarization, the Central bank's ability to intervene in the operations of the financial markets was curtailed because of its inability to print money in order to maintain liquidity in the case of liquidity shortages. The government failed to capitalize the Central Bank. The RBZ could not provide securities such as treasury bills (TBs) because of its undercapitalization. TBs are highly regarded as risk free instruments for collateral purposes (Gono, 2011, p15). In the absence of TBs only short-term bankers' acceptances which were priced at exorbitant interest rates of between 16 and 36 percent dominated the market. The absence of quality collateral impeded the re-emergence of a formal inter-bank market, which made it impossible or expensive for banks to cover their short-term positions. This development resulted in the exclusion of the poor and the marginalized as well as small entrepreneurs as limited resources were channeled optimistically to low risk borrowers like established businesses and large corporates.

The country's sources of liquidity and broad money supply in the economy namely, exports, foreign direct investments, diaspora remittances, offshore lines of credit and portfolio investments remained subdued in the dollarized era due to a number of factors. Remittances from abroad were affected by the global economic slowdown, which was characterized by job losses and bank deleveraging across the globe. Zimbabwe was not spared either as it experienced reduced inflows. Foreign direct investments (FDIs) have also been sluggish as investors became very cautious in the face of uncertainty. The indigenization policy only worked to compound the problem. Imports had been growing at an unprecedented proportion since the year 2000 and exports grew sluggishly at the same time. As a result the country's balance of payments disequilibrium continued to widen. The suspension of budgetary and balance of payments by international creditors because of the country's inability to service its huge debt further complicated the liquidity challenges.

Huge government transactions triggered a liquidity crunch between December 2011 and February 2012, prompting the introduction of temporary limits on cash withdrawals. The banking public failed to obtain their money from banks. Instead of people to withdraw their money, they spent much of their time standing in long and winding queues in banking halls. This was reminiscent of the period before dollarization. Without a lender of last resort, banks almost collapsed. This negative development resulted in a further dent on financial inclusion and financial intermediation, as it served to remind the banking public about the pre-dollarization withdrawal limits when the banking public spent much of their time queuing rather than pursuing their business interests.

A number of banks remained undercapitalized as they struggled to raise the required capital in a market characterized by illiquidity and limited investment opportunities. A number of banks, particularly the small ones were undercapitalized and showed low liquidity buffers. The asset quality of many of the banks deteriorated reflecting unsound lending practices and inadequate risk management and several of them were overstretched (IMF, 2012). Loan origination from weaker banks continued to increase and unstable short-term deposits funded these loans. Non-performing loans (NPS) increased from 6 percent by the end of December 2011 to 10 percent at the end of December 2012 (IMF, 2012). The high increased NPS threatened the profitability of these banks and thereby making them less able to pursue financial inclusion strategies.

Against the background of undercapitalization, on august 1, 2012, the RBZ announced sharp increases in the minimum capital requirements for banking institutions to be phased over a two year period. The five largest banks were not expected to have trouble in meeting these requirements but for the domestic banks with the majority of them small, meeting the new requirements would present a significant challenge, and some merging activity mighty appear necessary. As long as banks continue to struggle to get capitalized, the poor and the marginalized would remain unbanked as banks shun the products suitable for the poor because of viability problems.

On 31 January 2013, the Central Bank and the representatives of banks signed a memorandum of understanding with the intention of reducing bank charges and interest, which banks were charging to their customers. The high bank charges discouraged the use of formal banking channels by the banking public. The operating environment in the dollarized era forced many banks to rely on non- recurring income as their main source of revenue as compared to interest income. A large disparity between deposits and lending rates existed, as banks failed to award positive incentives that promote savings deposit mobilization, while at the same time lending at sustainable rates. The low return on deposits resulted in the disappearance completely of savings accounts in the Zimbabwe banking system (Kairiza, 2010). Biti (2013) referred to this type of banking where bank charges eat up any deposits held in an account as “voodoo banking”. As such, the government came up with a statutory instrument informed by a Memorandum of Understanding between financial institutions (MOU) and the Central Bank, which put a cap on interest rates and discourage charges on positive bank account balances as well as saving accounts.

Instead of promoting financial inclusion the control on interest rates and bank charges would result in increased financial exclusion as the majority of banks would snub smaller depositors. Banks were also expected to limit credit at interest rates below their risk levels, as they consider their risk exposure. The profitability of small banks would also be threatened. Kachembere (2012) quoted Wadi, the chief economist of BancABC, as saying the removal of bank charges would hurt small banks and he actually said prescribing a strait jacket approach on scrapping bank charges for all deposits of $800 or less would disadvantage banks that chose to serve the lower end of the market.' In the pre-dollarized era core income for banks used to be obtained from the interest rate spread, which is the difference between interest rate paid to depositors and that, which is paid to borrowers. This scenario changed with the introduction of the multicurrency system. The nature of deposits tended to be dominated by demand and short term deposits. By June 2012, short-term deposits comprised 89.2 percent of the total deposits, meaning that banks had access to 10.8 percent of long-term deposits (Taruvinga, 2012). This impacted negatively on the ability for banks to create credit and hence the mismatch between real sector funding requirements and banks' capacity to meet the demand.

Market force operations pushed up interest rates to ration the available resources, but again defaults had also increased thereby pushing risk premiums up. Non-performing loans were only 7.55 percent in 2011 but increased to 9.9 percent by June 2012 against the internationally accepted threshold of 5 percent (Taruvinga, 2012). This actually forced local banks to continue being dependent on fees and commissions as sources of revenue.

Figure 2 depicts the disparities between the interest rates on loans and the interest rates on deposits that led to the MOU between the government and the banking sector.

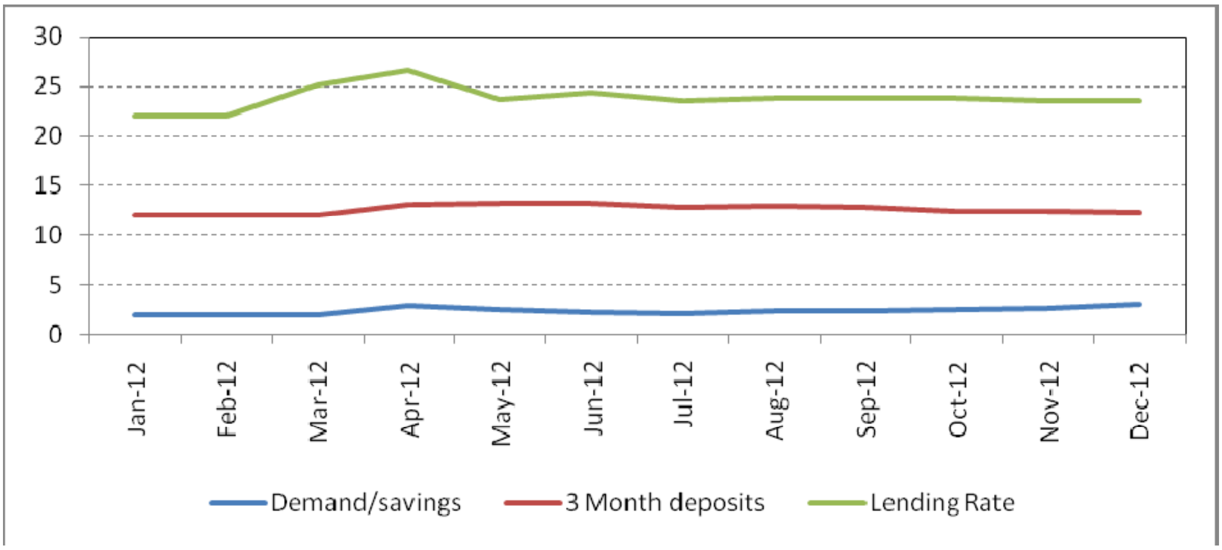


FIGURE 1-2: AVERAGE DEPOSIT AND LENDING RATES (%)

Source: RBZ Monetary policy statement (2013)

Lending rates charged by banks averaged as high as over 22 percent per annum as depicted by Figure 3 above. This compares unfavourably when deposit rates are taken into account, which merely averaged below 4 percent per annum in 2012.

Furthermore, the asset-liability mismatch whereby high lending rates co-exist with very low deposit rates creating a high interest rate spread is another factor that might have a contributing effect in the decline depositor confidence. There is a negative relationship between the interest rate spread and banking sector development (Makina 2012). High spreads especially those with double digits as the case with Zimbabwe are indicative of an inefficient banking system whose costs are passed on to customers. This explains why bank charges that were being levied by banks were excessive to the extent of being the second largest source of revenue of banks. For the ordinary depositor, it ceases to make sense to keep money in the bank as it loses value rather than gain it. Infact Makina (2012) suggested that the increase in deposits that were being experienced was due to force because employers pay directly into the bank accounts of people rather than giving out cash.

In the dollarized era, the country also experienced acceleration in market penetration by mobile phones since the inception of dollarization. Zimbabwe is estimated to have a mobile penetration of 72 percent as compared to 37 percent of bank account penetration (Fin Mark Trust, 2012). The high level of penetration presented an opportunity for banks to access the poor and the marginalized in rural areas. Many indigenous banks have already taken innovative banking seriously but the traditional banks like foreign banks had been slow to embrace mobile banking. Financial inclusion can be enhanced by the adoption of mobile banking, but since the adoption of dollarization, the banks have not been profitable especially those that adopted innovative banking and the most profitable were those banks that focused on traditional banking rather than innovative banking. It remains doubtful however that banks would be able to continue promoting innovative banking considering that they have not been profitable in the dollarized era.

1.1.1.5 THE CURRENT STATUS OF THE FINANCIAL SECTOR

Currently the Zimbabwe financial sector, consisting of the Reserve Bank of Zimbabwe (RBZ), commercial banks, merchant banks, asset management companies, microfinance institutions, building societies, finance houses, the post and savings bank, stock exchange, numerous insurance and pension fund. As at 31 December, 22 banks were operational (excluding Interfin which was still under curatorship and Royal Bank which was liquidated), down from 27 at the end of December 2009, 16 Asset Management companies and 150 Microfinance institutions which were under the supervision of the Central Bank (Gono, 2013). What is clear from table 1 is that financial inclusion instruments namely commercial banks have suffered the brunt of market illiquidity, but the number of microfinance have increased tremendously, a clear indication of the high demand of microfinance in Zimbabwe. They are meeting the demand for credit for the majority of the small-scale sector unable to obtain credit from the banking sector (Makina 2012, p.9).

TABLE 1-1: NUMBER OF BANKING INSTITUTIONS

Year	December 2012	December 2009
Type of Institution	Number	Number
Commercial Banks	16	17
Building Societies	3	4
Merchant Banks	2	4
Savings Banks	1	1
Discount houses	0	1
Total Banking Institutions	22	27
Assets Management Companies	16	16
Microfinance Institutions	150	95

Source: Adopted from the RBZ Monetary Statement (2013)

The government continued to maintain its presents in the financial sector by having some shareholding in three of the commercial banks, namely ZB Bank, CBZ and Allied Bank. Five banks are majority foreign owned, namely Ecobank, British owned Standard Chartered Bank and Barclays Bank, and South African owned Stanbic Bank and the Merchant Bank of Central Africa (MBCA) (Makina, 2012). The banking sector concentration remained high with the five largest banks mainly commercial accounting for 63 percent bank deposits, and 54 percent of the total banking sector deposits (IMF, 2012, p. 44). The foreign banks faced a bleak future since they risk losing their investment through the indigenization program, which requires them to cede 51 percent of their shareholding to indigenous Zimbabweans. Most of the banks have high branch concentration in cities and towns except for Post office and Savings Bank (POSB) and the Central Africa Building Society (CABS), which have a good network of branches throughout the provinces of the country including the rural areas. The absence of appropriate infrastructure such as power, telecommunications, and road network hindered rural penetration by banks and other financial institutions.

1.2 RESEARCH PROBLEM

The Finscope survey of 2011 revealed that, only 22 percent of adults in rural areas have access to financial products, both bank and non-bank, against a 38 percent in urban areas despite the fact that 65 percent of Zimbabwe's population resides in rural areas. The survey also revealed that 69 percent of adult Zimbabweans do not have any form of financial cover. The African Development Bank (ADB) (2012) observed that the disparities between the urban and the rural areas revealed that banking products seem to focus on adults who have a regular source of income. From the observation of African Development Bank, it can be concluded that financial services in Zimbabwe were meant to serve the rich and the working class since they are the only ones with a regular source of income. This astonishing level of financial exclusion motivated this researcher to carry this research to reveal the strategies that are being employed by banks to ensure that the poor, especially in rural areas, have access to banking products and services. The research also intended to expose weaknesses in current strategies and challenges banks in Zimbabwe are facing to ensure that everyone is financially included.

1.3 RESEARCH OBJECTIVES

I. To determine what models the banking sector in Zimbabwe was using to reach the poor and the marginalized.
II. To identify what kind of banking products and services rural people want.

III. To identify how the profitability of products and services earmarked for the poor can be improved.
IV. To assess how mobile banking can be used to increase financial inclusion.
V. To identify the role of government in promoting financial inclusion.

1.4 RESEARCH QUESTIONS

I. What kind of models is the banking sector in Zimbabwe using to reach the poor and the marginalized?
II. What kind of banking products and services do rural people want?
III. What can be done to improve the profitability of products and services earmarked for the poor?
IV. How can mobile banking be taken advantage of to ensure financial inclusion?
V. What is the role of government in financial inclusion?

1.5 RESEARCH PROPOSITION

a) Current banking models that are currently in use are heavily inclined towards meeting the needs and wants of salaried and wealthy individuals at the expense of the majority poor.
b) Mobile banking will replace conventional banking as the banking model of the future.
c) Current banking legislation promotes financial inclusion.

1.6 RESEARCH JUSTIFICATION

The importance of this study is four fold. It benefits the researcher, the nation as a whole, banks, and the poor.

1.6.1 RESEARCHER

The researcher is going to have a deeper understanding of this subject and hopefully become an expert in this field of financial inclusion.

1.6.2 NATION

The research will benefit the nation because it is going to reveal the strategies currently being employed by banks to ensure that the poor, especially the rural people have access to banking facilities. Literature has also shown that there is a close link between access to financial services and economic development, this research therefore is going to help policymakers to come up with appropriate policies, which will make it conducive for banks to develop and implement products and services for the poor and marginalized. This research will also come handy because it is going to reveal the challenges that banks are facing in developing, implementing products and services earmarked for the poor, and some recommendations are going to be provided. The policy makers are expected to consider the recommendations first before coming up with new policies or revising current policies.

1.6.3 BANKS

The main thrust of the study is to focus on the strategies currently being employed by banks to ensure financial inclusivity, so this research is going to be used by banks as it is going to expose weaknesses of current strategies. The exposure of weaknesses in current strategies is going to help banks to improve their strategies and an improvement on strategies will ensure improved profitability on the part of banks. The study is going to focus also, on how banks can take advantage of technological innovation like mobile banking to provide financial products to the poor. This again will help banks as it is going to provide some answers on whether branchless banking has over-taken branch banking as a viable model of reaching the poor and the marginalized.

1.6.4 THE POOR

The study will also help the poor themselves including the rural populace because the study will provide recommendations on how access to financial products and services offered to the poor can be improved and also on how the quality of the products and services offered to the poor can be improved. Access to financial products will help to alleviate poverty surrounding the poor as empirical evidence from literature has revealed.

1.7 THE SCOPE OF THE STUDY

Delimitations: The study analyzed current strategies being employed by banks to ensure financial inclusion of the poor especially the rural people.

Limitations: data for this study was collected through interviews. This method of study has its own weaknesses, which can have a negative impact on the objectivity of the study by bringing in some inaccuracies and biases. Another limitation was the fact that the researcher works outside the financial institutions and this may affect the researcher's ability to get hold of some private and confidential information that might be crucial to the objectivity of the study. Time also affected the researcher since he is a full time employee.

1.8 DISSERTATION OUTLINE

The study will be divided into five chapters as follows:

Chapter 1: this chapter introduced the study by providing background information to the study, general overview of the financial sector in Zimbabwe and the history of the financial sector development, problem statement, research questions, and objectives of the study, proposition and the scope of the study.

Chapter 2 reviews the relevant literature on the research questions and theories relevant to the study. **Chapter 3** gives the research methodology adopted for the study and the justifications for choosing that particular methodology. **Chapter 4** presents the research findings and data analysis. **Chapter 5** presents research conclusions and the recommendations.

1.9 CHAPTER SUMMARY

The chapter gave highlights of the level of financial inclusion and exclusion in Zimbabwe. The history, overview, functions and challenges of the financial sector were highlighted. The statement of the problem, questions and objectives of the study, significance of the study, limitations and chapter summary were outlined. The next chapter provides the theoretical background to the study by reviewing relevant literature

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The chapter looked at several studies that have been done on financial inclusion strategies in Zimbabwe and beyond. In reviewing theliterature, an attempt was made to include literature only relevant to the objectives of the study. The chapter looked on general overview of financial inclusion, dollarization, financial inclusion strategies, appropriate financial inclusion models, financial products for rural people, mobile banking, and profitability of products earmarked for the poor, and the role of government in financial inclusion.

2.1 DOLLARISATION

Menon (2007,P.1) defined dollarization as the widespread use of the US dollar as a medium of exchange and a store of value in the presence of the national currency.However, the European Central Bank (2004) defined dollarization as the adoption of the US dollar by authorities of a country outside the United States as a legal tender and official currency. Sikwila (2013,p.398) on the other hand defined dollarization as a generic term meaning the use of any foreign currency as a legal tender instead of the domestic currency. The first two definition corroborated with each other that dollarization involves the use of the US dollar whilst the third definition suggest that it can take place with any foreign currency adopted. Official dollarization of the Zimbabwean economy was completed in January 2009 when the Minister of Finance gave legal tender status to the South African Rand and the US dollar (Sikwila, 2013, p.398).

2.1.1 MULTIPLE CURRENCY PHENOMENON (MCP)

Bruno (1993); Calvo and Vegh (1995) distinguished the use of multiple currencies in a domestic economy between two concepts: currency substitution and dollarization. Menon (2007, p.2) defined currency substitution as the use of a foreign currency as a medium of exchange in the domestic economy. Dollarization was defined as the use of foreign currency as a medium of exchange and a store of value in the presence of a domestically issued currency. Considering the above Zimbabwe therefore falls under the currency substitution because of the use of foreign currency only in the absence of the domestic currency.

2.1.2 FINANCE AND GROWTH

The question of whether there is an association between economic growth and financial development has been the focus of an immense theoretical and empirical research studies (Mukhopadya, Pradhan and Feridun 2011). The World Bank (2007) postulates that there is an overwhelming body of empirical evidence that financial sector development is vital for economic growth and that through the mobilization of savings the financial sector plays a critical role of providing resources required for investment. The financial sector mobilises financial resources (savings) from surplus units and channels them to deficits units to enable investment and production to take place. Makina (2009) suggested that a positive relationship exists between financial development and economic growth that runs bi-directionally together with a mutually reinforcing effect. The relationship between financial development and economic growth operates as follows: (1) financial sector deepening promotes economic growth; (2) economic growth stimulates financial development; and (3) financial development and economic growth influence each other. Empirical studies by Fung (2009) revealed that the mutual reinforcing relationship between financial development and economic growth is stronger in the early stages of economic development, and the relationship diminishes, as sustained economic growth gets under way. Some prominent studies (Levine, 2003; King and Levine, 1993; Lucas, 1988; Buffie, 1984; Wijnbergen, 1983; Goldsmith, 1969 and Schumpter, 1911) supported the view that financial development is positively correlated with economic development.

However othersstudies by (e.g. Robinson, 1952 andLucas, 1988) regards finance as unimportant.Lucas (1988) argued that finance is an ‘over-stressed’ determinant of economic growth. Therefore, any strategy aimed at promoting financial system development would be a waste of resources, as it diverts attention from more relevant policies such as labour and productivity improvement programs, implementation of pro-investment tax reforms, encouragement of exports; amoungst others.

On the extreme end are those that focus on the negative relationship between financial development and economic growth (Levine, 2004;Buffie,1984 and VanWijnberg, 1983). Levine(2004) suggested that development in financial system facilitates risk amelioration and efficient resource allocation, this may reduce the rate of savings and risk, consequently leading to lower economic growth. This follows, from the basic assertion that, where there is high risk there is high return.

The other school of thought suggested that, financial system develops in response to improved economic growth. According to Robinson (1952) where enterprise leads, finance follows. Whilst some authors (Miller, 1988; Demetriades and Hussein, 1996) suggested that, the relationship is too obvious to warrant serious discussion. Demetriades and Hussein (1996) even postulate a bi-directional causality between the two.

2.1.3 FINANCIAL INCLUSION

According to FATF (2011)inspite of the growing consensus regarding the importance of financial inclusion, the same consensus does not exist around its definition, which can vary depending on the national context and on the stakeholders involved. From “banking the unbanked” to “branchless banking,” varieties of catch phrases are sometimes used as near synonyms for financial inclusion, when in fact they describe specific aspects of a broader concept. Ambarkhane and Sahasrabunde (2013, p. 3) definedfinancial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost. On the other hand FATF (2011) defined financial inclusion as the provision of access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector. Sahu (2012, p.11) noted that poverty anywhere is danger to prosperity everywhere and therefore it became imperative to develop the poor to develop an economy. Sahu (2012,p.12) pointed out that, in the absence of inclusive formal or organized financial system, poor individuals and small entrepreneurs have to rely on informal or unorganized sources because of its timely availability and easy accessibility, but at a much greater interest burden. Financial inclusion can therefore be of help in eradicating this complication through poverty reduction and reducing inequalities. According to Sahu (2012), financial inclusion assists people to invest in better nutrition, housing, health and education and empower.

2.1.3.1 COMPONENTS OF FINANCIAL INCLUSION

According to Kempson and Collard (2012) societies that are financially inclusive would be the ones, which everyone had the ability to:

- Manage day-to-day financial transactions (e.g., through appropriate bank accounts)
- Manage a loss of earned income (e.g. through savings, including pensions)
- Avoid/ reduce problem debt
- Meet one off expenses (both predictable expenses through savings and unpredictable expenses through savings and or appropriate credit and insurance products)

Swamy (2011, p.8) opined that a financiallyinclusive package includes the entire gamut of loans, insurance, credit and payments. Comprehensive financial inclusion demands that all the above-mentioned products have to be made available to ensure financial inclusion (Mehrotra, Puhazhendhi, Gopakuran and Sahoo, 2009).Furthermore, they argued that financial inclusion might be achieved in the narrow sense, if some of the financial services, to start with credit, can be offered.According to Mehrotra, Puhazhendhi, Gopakuran and Sahoo (2009, p.15) having a bank account may not be a good indicator of financial inclusion, nevertheless, it is a basic formal banking service, which confers a sense of identity, status and empowerment and provides access to the national payment system. Onaolapo and Odetayo(2012) seemed to depart from the above authors at that point and claimed that a comprehensive financial inclusion would only be achieved if a holistic set encompassing all the above is made available.

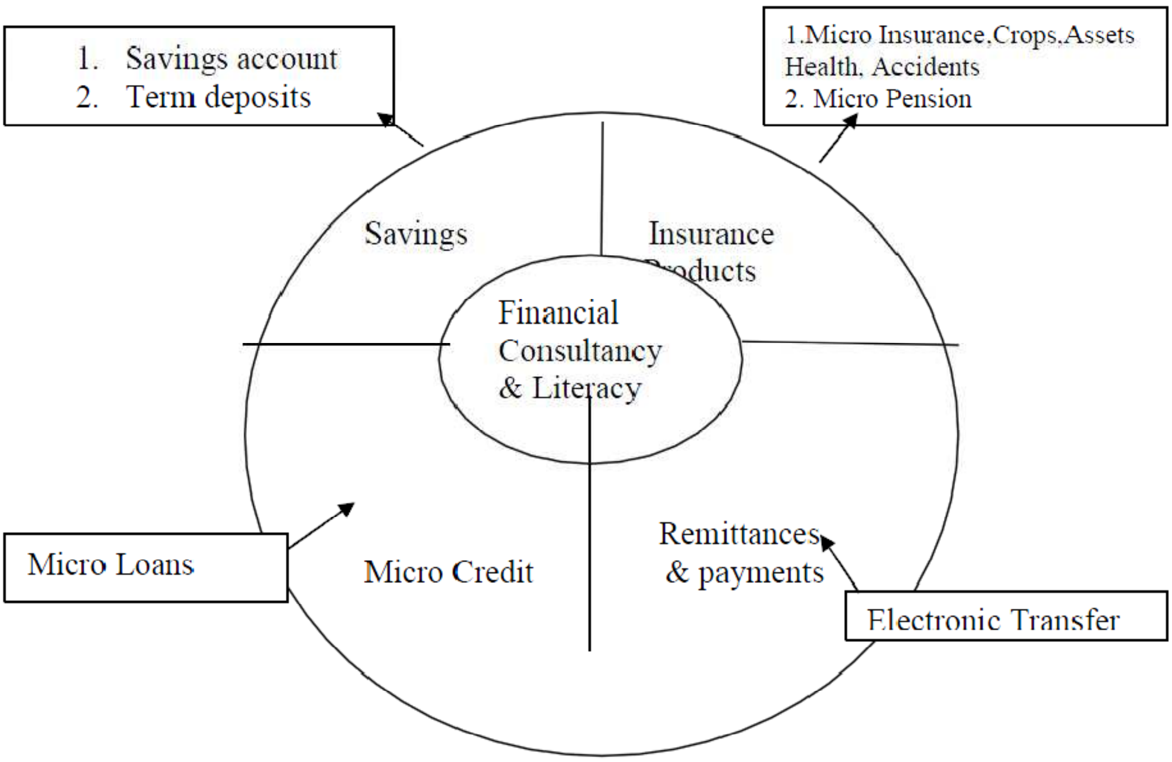


FIGURE 2.2: FINANCIAL INCLUSION COMPONENTS

SOURCE: Karmakar (2010)

2.1.4. UNBANKED AND UNDERBANKED

The Federal Reserve Bulletin (2012) defined an unbanked consumer as someone who does not have a checking, savings, or money market account and also the consumer's spouse or partner lacked such an account. On the other hand, an underbanked consumer was defined as someone who has a savings,checking account or money market account and used at least one alternative financial service in past twelve months, such as an auto title loan, check-cashing service, payday loan, or payroll card.

2.1.5FINANCIAL EXCLUSION

Carbó and López del Paso (as cited by Olit, 2012,p.9) define financial exclusion as the situation that some disadvantaged individuals or groups face as consequence of their geographical location, their economic or social condition, and their inability or difficulty to acquire or contract financial products and services, including difficulties to access to the different financial intermediaries and markets. The European Commission (2008) proposes the following definition:financial exclusion refers to a process whereby people encounterdifficulties accessing and/or using financial services and products in themainstream markets that are appropriate to their needs and enable them to lead a normal social life in the society to which they belong.Exclusion can be voluntary, where a person or business has access to services but no need to use them, or involuntary, where price barriers or discrimination, for example, bar access (World Bank 2007). This research however is going to focus mainly on involuntary exclusion.

According toATISG (2010, p. 9) financial inclusion cannot be discussed fully without mentioning the problem of financial exclusion. The importance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. ATISG (2010, p. 9) stated that, barriers by the poor to access appropriate financial services include socio-economic factors (e.g. education, gender and age, low and irregular income and geography), regulatory factors (e.g. provision of identity documentation) and product design factors (e.g. minimum account balances). Ibeachu (2010) on the other hand identified the causes of financial exclusion as insufficient income; discrimination; contractual/information framework; and price and product features. Although the two authors seem to agree on the causes of financial exclusion, the second author cited price, discrimination as a barrier, which the first author failed to mention. On the other hand, banks or service providers cited the high costs of providing financial products and services to the poor and finding regulatory space to innovate. As a general rule, transaction costs do not vary in direct proportion to a transaction’s size. Thus serving the poor with small value services is simply not viable using conventional retail banking or insurance approaches (ATISG, 2010, p. 9).

2.1.5.1 FORMS OF FINANCIAL EXCLUSION

Kempson and Whylef (as cited by Bhanot, Bapat and Bera, 2012, p.467) identified some major factors that deter certain segments of the population from being financially included as follows: (i) physical access exclusion—brought about by closure of local banks, building societies and transport constraints

(ii) Access exclusion—people are denied a product or a service as they are consider highly risk,

(iii) Condition exclusion—conditions attached to products makes them inaccessible

(iv)Price exclusion—products are prices out of reach of many

(v) Market exclusion—marketing and sales activities are heavily biased in favour of certain groups at the expense of other groups

(vi) Self-exclusion—individuals avoid financial products for various reasons including the following, fear of failure, or lack of awareness.

Ibeachu (2010) managed to identify same factors as the authors above with the only difference being that the latter identified two more factors, which had not been identified by the former. The latter identified (i) physical access exclusion—brought about by closure of local banks, building societies and transport constraints and (ii) self-exclusion—individuals avoid financial products for various reasons including the following, fear of failure, or lack of awareness.

2.1.6 FINANCIALEXCLUSION: GLOBAL SCENARIO

Mckensey (as cited by Makina, 2012, p.5)stated that research on global financial access, revealed the following finding: 2.5 billion adults or half of the world's population lacked access to formal financial services to save or borrow.About 2.2 billion adults (62 percent of the world's adult population) who lacked access to formal financial services live in Africa, Asia, Middle East and Latin America. Of the 1.2 billion who lacked access to formal financial services in Africa, Asia and Middle East, at least two-thirds, approximately 8000 million, live on less than $ 5 per day. Eighty percent of adult population in sub- Saharan Africa i.e. 325 million people, had no access to formal financial services compared to 8 percent in high income OECD countries.

The graph below depicted the variation in terms of access to bank products across regions of the world. The poorest regions have the lowest level of access to bank accounts. The highest rates of exclusion were found in non-G20 countries. However, there were significant variations even across G20 countries with financial exclusion rates ranging from around 55 percent for china, South Africa and Brazil, through to four percent for Canada

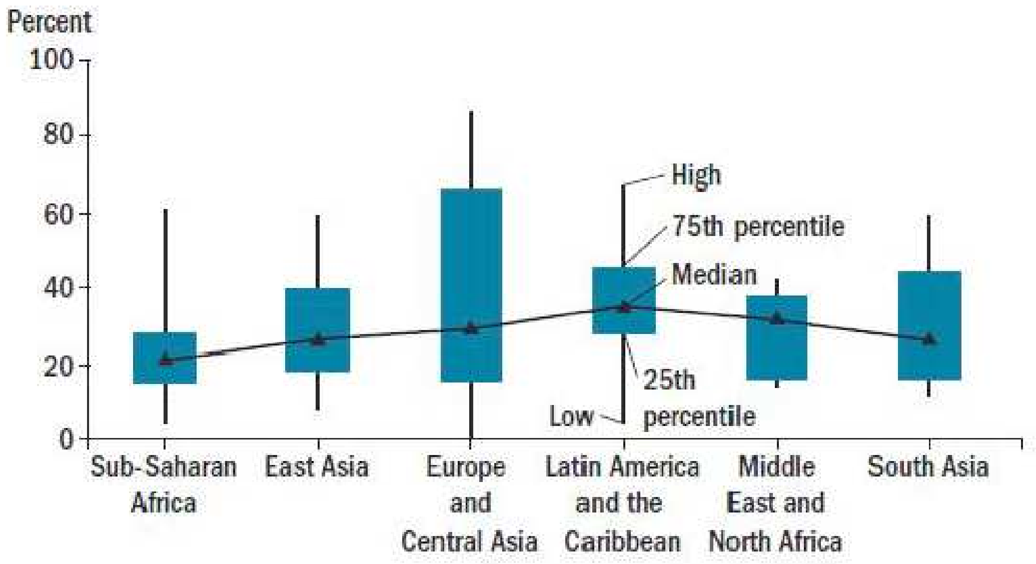


FIGURE 2.3: PERCENTAGE OF HOUSEHOLDS WITH AN ACCOUNT IN A FINANCIAL INCLUSION

Source: ATISG (2010)

The Finscope Survey of 2011 on financial inclusion in Zimbabwe revealed that 65 percent of Zimbabwe's adults live in rural areas while 35 percent live in urban areas. At most 80 percent of the adult population earn less than $ 200 per month and 17 percent of the adult population was without any income. The survey also revealed that 60 percent of the population was women and 40 percent were men and if numbers were anything to go by then women were expected to be the most affected by financial exclusion.Twenty four percent of the population was reported to have access to formal financial services and 12 percent of this was from rural areas. A large number of the population remained without access either formally or informally, 40 percent of the whole population and 51 percent in the case of the rural population.

2.1.7 FINANCIAL INCLUSION STRATEGIES

The World Bank (2012, p.6) defined financial inclusion strategies asroad maps of actions, agreed and defined at the national or subnational level that stakeholders follow to achieve financial inclusion objectives. Successful strategies coordinate efforts with the main stakeholders, define responsibilities among them, and state a clear planning of resources by, for example, prioritizing targets. The World Bank (2012, p.12) identified the following financial inclusion strategic components:i) stock-taking: data and diagnostics; ii) targets and objectives; iii) strategy building or revision; iv) public sector actions: policies, regulation, and financial infrastructure; v) private sector actions; and vi) progress monitoring.

2.1.7.1 STOCK-TAKING: DATA AND DIAGNOSTICS

The World Bank (2012) defined stock as the process that enable policy makers, regulators and other interested stakeholders to better understand the starting point in terms of access to and usage of financial products and services, enable them to identify barriers to financial inclusion and how to manage and contain them within limited institutional capacity and resources. Financial service providers including banks could design products and delivery mechanisms that are cost effective and tailored to the needs of the unbanked. Data and analysis could therefore underpin reforms and innovation.

2.1.7.2 TARGETS AND OBJECTIVES

Targets and broader objectives are determined at the country level. Data and diagnostics are used as measuring yardsticks or indicators on how well financial inclusion targets have been met. However not all financial inclusion–related objectives can yet be translated into measurable indicator targets – for example, financial capability measurement techniques are yet to be distilled into widely accepted headline indicators, and "proportionality" in regulation that tailors implementation to level of risk implies an approach rather than an exact measure – so broader objectives are also appropriate (World Bank, 2012,p.12). Targets and objectives must be set in collaboration with the private sector as they are the main players in their implementation, and normally targets and objectives set without input from the private sector may be unrealistic or may lead to suboptimal actions designed to meet targets rather than to sustainably scale up financial services (World Bank, 2012**)**.

2.1.7.3 STRATEGY-BUILDING OR REVISION

A strategy, or action plan, can be set out – or an existing strategy can be modified – to identify and align activities and roles for all actors concerned in meeting those targets and objectives, and providing or identifying a coordination mechanism or institutional structure to ensure that the strategy is implemented (World Bank, 2012,p.12). The private sector and civil society participation is of critical importance to ensure that the strategy is achievable and has wide acceptance. Banks and other financial institutions must take an active role in driving financial inclusion, spurred on by competition, the threat of regulation, and monitoring and in line with market opportunities. Voluntary private sector initiatives could be the most effective in achieving financial inclusion if available (World Bank, 2012).

2.1.7.4 PUBLIC SECTOR ACTIONS: POLICIES, REGULATION, AND FINANCIAL INFRASTRUCTURE

Financial infrastructure is essential to enable lower costs and risks for financial service providers serving new low-income customers, including credit information systems, secured transaction frameworks, and efficient and secure payments systems (World

Bank, 2012,p.13).While the public sector and the regulatory arm of government have a responsibility to implement a comprehensive package of reforms to encourage financial sector activities and also encourage innovation in line with the financial inclusion strategy. Regulators must work very hard to do away with bottlenecks, barriers that may hinder the actions or efforts of the private sector, and should be proportional and flexible enough to allow new business models and financial innovations that may extend financial inclusion while at the same time not compromise the stability and integrity.

2.1.7.5 PRIVATE SECTOR ACTIONS

The private sector is responsible to come up with new business models, delivery mechanisms and the introduction of financial services that can expand access and usage of financial services.The use of technology, financial infrastructure, and enabling policy and legal reforms can allow lower-income and more “difficult to reach” consumers to be viably served, and the introduction of a wider and more appropriate suite of financial products to fit household and enterprise needs (World Bank, 2012, p.13).

2.1.7.7 PROGRESS-MONITORING

Monitoring the progress in achieving objectives, effectiveness of the reforms, products, delivery mechanisms introduced, associated risks so that timeously ratification to deviations can be made. Feedback distinguishing successful actions from failed ones can be useful in revising the strategy and increase its success (World Bank, 2012).

2.2 APPROPRIATE FINANCIAL INCLUSION MODELS

2.2.1 BRANCHLESS BANKING

According to Kumar and Gupta (2009) branchless banking is the concept of providing banking services outside the conventional bank branches by either using information and communication technology services or third party organizations(commonly referred to as'Business Correspondents'). Branchless banking extends financial services to customers who would nototherwise be reached profitably with traditional branch-based financial services (Sahu, 2012, p.14).The model allows customers to conduct basic financial transactions such as deposits and withdrawals at everyday retail stores, using technology readily available to both customers and store clerks in the form of cards or mobile phones to properly secure and authorize the transactions. Kumar and Gupta (2009) commended thatbranchless banking could be the big step towards providing easy financial access to the poor people and achieving financial inclusion.

2.2.1.1 AGENT BANKING MODEL

According to EFInA (2011, p.1) agent banking refers to the provision of banking services by a third-party agent to customers on behalf of a licensed, prudentially-regulated financial institution, such as a bank or other deposit-taking institution. The former definition was corroborated by the World Bank (2006) which stated correspondent banking arrangements refer to bank partnerships with non-banks, typically retail commercial outlets, ranging from lottery kiosks, pharmacies, post offices, construction goods stores, and so forth, to provide distribution outlets for financial services. In this model, the customer has a direct contractual relationship with a bank. This is sometimes referred to as the bank-based model.Instead of requiring the client to travel to the bank, the correspondent bank model intends to bring the bank to the client EFInA (2011, p.1). According to the World Bank (2006, p.2) the model was adopted in Brazil to address crucial physical access barriers where many municipalities lacked even a single bank branch. Many financial products were offered through agents without the need for an account.While only43 percent of the adult urban population had a bank account, almost twice that proportionhad access to some bank services through the use of the correspondent outlets. Withthe use of correspondent bank outlets, the number of municipalities with no financial services shrunk to zero. Agent banking made financial services available in many geographically remote regions and to poor people, who had been chronically underserved.Correspondent banking outlets in Brazil focus primarily on transactions and payments services (invoice payments, collection services and payment orders, including government benefits and pension receipts, as well as newer payments services such as pre-paid cell phone cards and smart cards). Credit facilities were offered but to a limited extent. Correspondents which were allowed to offer banking services were able to take loan, credit cards applications, registrations and other financing requests. Correspondents too provided a channel for receipt and forwarding of banking instructions, such as proposals for opening demand, term and savings accounts.

2.2.1.2 MOBILE BANKING

Mobile banking is thus a subset of branchless banking that has the advantageof using people's own mobile phones, instead of having to distribute new cards to customers and point-of-sale terminals to stores (Porteous, 2006). However according to EFInA(2011, p.1) mobile banking refers to the provision of banking services via a mobile phone to bank customers.

2.2.3 SOUTH AFRICA: MZANSI ACCOUNT

According to AFI (2012), a Mzansi account was the key initiative for advancing financial inclusion in South Africa. It was given birth by a financial sector charter, which was negotiated in 2003 by the financial sector, government, labour and community representatives. In 2004 the Mzansi account was born.Named for the slang term for "from the South," a common reference for South Africans, the Mzansi was a standardized, debit card–based transactional and savings account intended as a universal basic account (CFSI,2008,p.9). AFI (2012, p.10) defines the Mzansi account as the basic entry-level bank account earmarked for the financially excluded and disadvantaged segments of the population.

According to CFSI(2009, p. 9) a Mzansi account was opened by anyone over the age of 16 with a South African identification and a minimum opening deposit of R10.00–20.00. There was no monthly charge, and the first 10 transactions incur lower fees than for the typical South African banking account. Fees for these transactions range from R1.00 for a balance inquiry at the bank's ATM to R2.45 for a VISA point-of-sale transaction to R8.00 for a cash withdrawal.Succeedingtransitions incurred an extra fee of R 8.00-12.50 per transaction and accountholders received interest on balances of between 0 and 1 percent.

According to AFI (2012) by 2009 approximately six million new accounts had been opened, 75 percent by those previously unbanked. By 2011, 63 percent of adults in

South Africa used a formal transactional bank account compared to 47 percent in 1947 (AFI, 2012, p.9).

TABLE 2.2: Banked profiles (as percentages all adults) compared at Mzansi initiation and year end 2008.

Category	2004	2008
Currently banked	13.2m (46%)	20.0m (63%)
Unbanked	15.8m (54%)	11.9m (37%)

Sources: Fin Mark Trust (2009).

According to CFSI (2008, p.10) the Mzansi account has succeeded in several ways. Firstly it induced large banks to invest in understanding and serving the poor. Secondly it has achieved its goal of bringing new people into the formal banking system. Fin Mark Trust (2009, p. 4) noted that the Mzansi Initiative reached the aggregate Charter target of 2,173,930 active accounts by December 2008. The targeted LSM 3-5 range opened majorities of these accounts and first-time banked people opened two-thirds. Of the four private banks to which individual targets applied, two hit their target, two did not. In broader terms, Mzansi was a success.

Although the Mzansi account was duly credited with helping shift access to finance in South Africa substantially, other organizations like CGAP (2011, p.5) argued that the Mzansi account had high levels of inactivity (42% of opened are dormant), and mostly used to withdraw cash (93%), which is indicative of a dump and pull use profile, where accounts are used mainly for the purpose of receiving incoming funds (e.g. from employer, remittance, or government). CFSI (2008, p. 10) argued that the Mzansi account has attracted several criticisms from many quarters. Firstly the industry consider the account as being unprofitable as a standalone business line, with relatively low use and high dormancy and abandonment rates as compared to other products and services. Secondly, the under banked and the unbanked considered the account as being unaffordable. Thirdly the market regarded the Mzansi account as a substandard product and hence its low uptake. According to the CGAP (2011, P.16)South African customers demanded more from products which were being offered and they were not content with products they viewed as substandard or second class (which was part of the perception of Mzansi accounts).

2.2.4NO-FRILLS ACCOUNT(NFA)

According to Sahu (2012, p14) a ‘No-Frills A/c’ is a basic bank account with zero or negligible minimum deposit and a given number of free transactions. The account helped to achieve the socioeconomic goal of basic financial inclusion in India. Banks in India were aggressively opening no-frills account to bring basic banking facilities to low-income customers. The account posted some promising results since its inception. However despite the positive resultsVeerakumar (2012) noted that other studies revealed that just like the Mzansi account it later experienced the problemof redundancy.

2.2.5MICROCREDIT MODEL

Microfinance has been perceived as a pseudo modern day panacea for global poverty, as it promises a glimmer of economic hope by directly providing financial services to those systematically excluded due to poverty, lack of collateral, and lack of creditworthiness (Senthe, 2012). Shukran and Rahman (2011) defined micro-credit as an extension of extremely tiny loan given to the rural poor villagers to assist them to be identical human beings, so that they can operate small-scale business and can afford shelter, food, education as well as treatment to their families. Micro credit is a financial innovation system that comes from Grameen banking or procedure, which is based on trust and collateral- free and opposite to conventional banking systems(Shukran and Rahman, 2011).

2.2.5.1 GRAMEEN BANKING MODEL

According to Bhuiyan, Siwar, Ismail and Hosain (2013) Grameen Bank is the name of miracle story in the state of traditional financial institutions for providing financial assistance to the helpless and hopeless hard-core poor people without physical collateral security.Grameen means rural in Bangladesh and the Grameen Banking model was started in 1976 (Wahid, 1994).Grameen Bank is owned by the poor borrowers of the bank who are mostly women and it works exclusively for them (Bhuiyan, Siwar, Ismail and Hossain, 2012, p.67).The lending is not collateral based, but is based on the credit worthiness of the group's co-borrowers. The banking model is based on the voluntary formation of small groups of five people to provide mutual, morally binding guarantees in lieu of the collateral required by conventional banks. The underlying principle behind Grameen Bank model is the concept of joint liability, which simply means that all members of the group are jointly liable for the loan advanced to any member within the group Johnson and Morduch (2008). The main idea being that members of a group would put peer pressure on each other so that they repay the debt as soon as possible, which would guarantee that the members have access to the next loan when needed. The Grameen bank is also premised on the idea of wanting to create self-employment for income generating activities and housing the poor, as opposed to consumption (Wahid, 1994, p.2). Loans are therefore advanced for starting up small businesses as opposed to consumption.According to Wahid (1999), the Bank also provided a set of investment counseling and closely monitor the operations of the borrower so that they can make the most productive use of their loans and therefore prosper in their initiatives. The banking model also encouraged its borrowers to generate savings so that they can buy shares in the bank and also become shareholders in the bank and also advise its customers to get rid of old- century social vices as well as to live in clean and better environment. The Grameen Bank's success story in the alleviation of poverty in Bangladesh has resulted in widespread attempts of its replication in many other countries including the United States and Canada.Thus, providing the poor with credit will generally help to solve the problem of the poor.

The idea behind the Grameen Bank originated from its founder Yunus.Yunus viewed the involuntary unbanked segment of the population as thwarted entrepreneurs. He opined that the poor's lack of financial access hindered their ability or attempts to exit poverty through investment and hard work (Johnston and Morduch, 2008).According to Yunus the main idea upon which the microcredit was premised was the idea that loans were designed to help the poor families to help themselves to overcome poverty (Johnston and Morduch, 2008).Bhuiyan, Siwar, Ismail and Hossain (2012, p.67) argued that due to lack of capital, the poor are tied to low productivity, usually self-employed economic activities. According to Yunus (1988, p.75) the conventional banking system is anti-poor, anti-women and anti-illiterate and therefore has contribute to maintaining the status quo between the rich and the poor. Hence micro credit issued to small groups, enabled them the opportunity to purchase equipment and other inputs and engage in micro enterprises of their choice, thus empowering them to escape from the vicious poverty cycle (Satgar, 2003).

The Grameen model totally rejected the conventional banking methodology in favour of its own. According to Johnston and Morduch (2008, p.518)in confronting conventional banking practices, Yunus argued that microcredit was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be not creditworthy. Yunus (1999) says "less you have, more attractive you are, if you have nothing you will get the highest priority". The Grameen Bank gives first priority to the poor, rootless, landless as well as vulnerable.However some critics opposed to the Grameen model argued that other methods of interventions were in a better position to have a bigger impact on the poor as opposed to microfinance. They argued that microfinance tend to have a minor impact. For them the poorest are better off with access to grants and social protection programmes as opposed to having access to loans (Hulme and Mosley 1996: Robinson 2001). Yunus however in respondent to his critics argued that credit remains a human right, which ought to be guaranteed for a broad swatch of the very poor (Johnston and Morduch, 2008). While the Grameen model is hailed as a success story other authors like Wahld (1994,p.1) argued that from the profit point of view the Grameen model was not a viable model of financial inclusion but empirical evidence rather suggests that the bank's credit program had been successful improving the socioeconomic conditions of its borrower. The bank's claim that it was making profits were correct in the sense that it borrowed funds in excess of the needs of its clients from both international and local sources at high concessional rates of interest. When the bank reinvests or arbitraged with the funds or money, the Grameen Bank earns handsomely in terms of the interest income. The interest income has enabled the bank to persistently show overall profits while in reality, the bank was losing. Table 2 below shows that when the bank was relatively small in size and operations until 1986, it was making moderate economic profit. Nevertheless, when it grew beyond the 1986 size the bank started to persistently lose. Wahld (1994, p.11) argued that the reasons for the loss lies on the fact that it provides intensive service to its borrowers on virtually door to door basis but charges only competitive rates of interest.According Yunus (199) we must remember that the purpose of microcredit is to eliminate poverty in the shortest possible period. Notwithstanding, its critical role in alleviating poverty, improving access to credit, promoting savings, supporting gender equality and enhancing livelihoods, microfinance alone cannot facilitate financial inclusion.Furthermore, Yunus (1999) says, micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for other. Combined with other innovative programs that unleash people's potential, micro-credit was an essential tool in the search for poverty free world."

2.3 FINANCIAL SERVICES FOR RURAL PEOPLE

Boston Consulting Group [BCG], (2007) observed that un-banked people have financial needs similar to those of their banked counterparts. They also wanted to invest and save for the future and their needs cut across the five categories that accounted for most of the demand for financial products and services in the formal sector: saving, transactions, borrowing, insurance, and to a smaller extent investing (BCG, 2007). According to the group un-banked rural poor do not expect to get the five star services that are accorded to premium customers but they hope to obtain courteous, responsive service and a basic understanding of their bankingneeds, for example borrowers were said to value convenience and good service, and also were willing to pay for the right products.

2.3.1 FLEXIBILITY

Many poor people lacked access to a steady income, and as a result are wary of committing to a fixed-savings or rigid-repayment schedules (Boston Consulting Group [BCG], 2007). Poor people often need flexible financial service providers of which the informal financial sector is very responsive to those needs. It is often easier for consumers to walk into a money lender's house at any time and get a loan than to walk into a bank and get a loan. Boston Consulting Group [BCG], (2007) noted that since money lenders are part of the community, they often respond to those needs and they tend to empathize with their neighbours during emergencies and contingencies that trigger the need for loans and often are willing to be flexible. For example, informal lenders are more likely to allow customers to defer or consolidate payments. Informal lenders also require less paper work or documentation and can provide a loan in a matter of minutes.

2.3.2 SIMPLICITY AND SPEED

According to Boston Consulting Group [BCG], (2007), poor people are often concerned more with having manageable monthly installments than they do about interest rates on the product. Simplicity to them also means faster processing and little cumbersome paperwork. A survey by the Boston Consulting Group in India in 2007 revealed that the poor felt that the combination of simplicity, speed and flexibility are important attributes of informal offerings.

2.3.3 SMALL PRODUCT SIZE

Boston Consulting Group [BCG], (2007) commended that the rural unbanked want appropriate products and services not watered down versions of mainstream offerings but are willing to pay a lower price or in smaller installments. Therural unbanked needed small personal loans the most, mainly to cover for medical expenses and other emergencies such as drought and to cover for social events such as weddings. Savings accounts that allow for low balances are also the most preferred.

2.3.4 INSTRUCTION

The Boston Consulting Group [BCG], (2007) in its study of the next billion in India also discovered that lack of understanding of financial concepts also made it daunting for the poor to leave the informal sector. They discovered that the poor often need some instructions to become more comfortable enough to make a transition to the formal sector.

2.4 PROFITABILITY OF FINANCIAL INCLUSION PRODUCTS

The Boston Consulting Group [BCG], (2007, p.21)noted that the problems/challenges of the poor are, mainly that they want suitable financial products and services but not watered down versions of mainstream offerings, but they can only afford them at a lower price or installments. The result of these challenges is that financial institutions found it unprofitable or not economical to do business with the poor. Some authors likeMas (2011) challenged the notion that the main problem with poor people's access to finance is that they are too costly to serve, in that they only need small and infrequent financial transactions, and collecting and returning small amounts of cash is too costly to do profitably.Financial institutions have to create new business models that address these unique and profound challenges that the poor face.

The Boston ConsultingGroup [BCG], (2007) opined that the only solution is for banks to deconstruct their value chains determining which activities they should keep in- house and which they should outsource or pursue partnerships. By so doing, the group observed that financial institutions could develop leaner, cost effective business models that can serve the poor profitably. Jan, Bohra and Mathur (2012, p.44) also argued that banks must break their services meant for the poor into smaller units. They stated that the provision of uncomplicated, small, affordable products couldhelp bring low-income families into the formal financial sector.Sahu (2012,p.13) also shared the same view as he recommended that for financial inclusion to be a viable business proposition for the banks, the delivery and distribution model needs to be strengthened to move from a cost centric model to a revenue generation model. According to Sahu (2012), this model should enable doorstep delivery of quality banking services to the poor and simultaneously generate business opportunities for the banks.

Moloi (2009) also agreed with the two authors but went further to argue that, profitability should not be a key strategy in serving the poor. The motivation should rather be about life potential. She argued that entry level products offer a platform to enter new markets.

The underlying common elements behind the success of these services have been:

2.4.1. PRODUCTS DESIGN AND DEVELOPMENT

Financial sector initiatives tend to be compliance driven (social add-ons), instead of being conceived as sustainable businesses (Micro save, 2011). This approach needs a complete revamp and become market led. Any new design of the products and services earmarked for the poor must be done after the assessment of the market need and ascertaining demand and its elasticity. Most financial products failed because no market research or pilot survey was carried out, and therefore becoming a drag on the institution and establishing bad precedence (Microsave, 2011). The target market must be identified first and products ought to be innovated according to consumer needs and expectations. Each segment has got its own needs that drive adoption that is unique to that geographic or demographic set up. It is important to align the institution's strategy to the target consumer needs and drive products and delivery to address those (for example, a pension product designed for a region with predominantly youth population might turn-out a complete misfit). The Boston Consulting Group [BCG], (2007) also suggested that banks must also structure their products around a pool of consumers in order to achieve a critical mass and prevent the sub-scale trap.

2.4.2. CUSTOMER ACQUISITION

Bank branches often lose money on small products, and their high transaction costs generally meant that most rural branches operate at a loss (Boston Consulting Group [BCG], 2007, p.23). Sometimes they simply could generate enough business to cover their fixed cost. The group suggested that apart from concentrating on banking services alone banks could incorporate other services such as public pay phone, fax machines, internet access in rural branches to help make the outlets economically viable. The Boston Consulting Group [BCG], (2007) however criticized the use of branch networks as an imperfect channel of reaching the poor. The group argued that the poor found branches not only difficult to reach but also intimidating**.** Microsave (2011) argued that the best method to reach the rural unbanked was through outsourcing. Outsourcing was meant to make costs variable. Variable cost structures enabled flexibility to scale up and down without considerable pain and costs. Microsave (2007) suggested that fixed cost could be made variable by:

- Sharing of resources across multiple providers distribute fixed costs across a wider base. This encompasses sharing mobile or POS banking platforms, sharing core banking or riding on the same distribution network.
- Leveraging third party distribution/ resellers for sales and marketing
- Exploring complementing alliances (for example, for better geographic coverage, diversity and so on)
- Outsourcing functions like technology, and support functions like finance, customer care, human resources, and agent network training.

The Boston Consulting Group [BCG], (2007) suggested that partnerships and alliances are also critical and often inevitable to make the business model work. Agent Network Managers and Agents play a vital role in the promotion of products and services. Low income clients are primarily influenced by word of mouth and physical evidence.

2.4.3. RISK MANAGEMENT

The poor often lacked credit history because of their dealing with the informal market, which makes it difficult for banks to verify their creditworthiness, a factor that increases risk (Microsave, 2011). The Boston Consulting Group [BCG], (2007) suggested thatbanks can mitigate against this risk by partnering with other organizations such as microfinance institutionsand empowerment groups whose connections with grassroots give them a clearer view of an individual’s credit history.Microsave (2011) observed that banks must work to achieve economies of density and scope in order to spread risk. Banks must make sure that they or their agents achieve economies of density by acquiring as many customers as possible and capture a large share of customer wallet by offering multiple goods and services and targeting large transaction volumes in order to achieve a critical mass. Moloi (2009) also noted further that apart from profitability the bundling of products for example funeral product, and transactional product, often promotes customers.

2.4.4 ADMINISTRATION AND COLLECTION

Maximizing administrative activities and developing innovative approaches to collection were cited as factors that can also help banks to serve the poor profitably (Microsave, 2011). The Boston Consulting Group [BCG], (2007) argued that administrative costs could be lowered by centralizing the back office or even banks could go an extra mile to develop a shared back office utility. The group also proposed that banks must consider outsourcing the collection functions. Correspondents were argued to be far better connected to communities than branches, and their use could prove to be more cost effective compared to branches.

2.4.5. LEVERAGING TECHNOLOGY

Kumar and Gupta (2009) noted that information technology isbecoming a key business enabler and is being positioned as a key differentiator.Methrotra, Puhazhendi, Gopakumaran and Sahoo(2009,p.52) argued that information technology (IT) play an important role in addressing the problem of long distances and poor transport linkages in rural areas and also play an important role by bridging the last mile between the customer and the provider and thus facilitating transactions. On the other hand Kumar and Gupta (2009) noted that the banking industry has achieved significant success in leveraging IT through the implementation of core banking solutions and it has helped them in streamlining, standardizing, and expanding their services portfolio. Information, communication, and technology (ICT) solutions will continue to help banks in providing seamless systems to capture customer data, ensure unique identification, and facilitate financial transaction services using remote connectivity through mobile devices.Moloi (2009) however opined that technological models can only be profitable at high volumes and therefore the main thrust of banks must be to capture a sufficient chunk of the market, in order to drive volume. She further advocated that banks must take cognissance of the Gini-coefficient, a measure of income inequality, so that they can better position themselves to assess the relative size of the lower-end market.

2.5 POTENTIAL FOR MOBILE BANKING TO MEET FINANCIAL NEEDS OF THE POOR

Metre (2012) noted that as the number of mobile phone subscribers increased in developing countries, the use of mobile phones to facilitate small-scale financial transactions around the world also increased. The International Telephone union (ITU) estimated that by the end of 2010 mobile phone coverage to be 90 percent of the world population, with 5.9 billion people using mobile phones worldwide (ITU,2010). Developing countries also haveexperienced significant growth in the use of mobile phones but the rapid advancement in technology, are not correspondent or linked with economic prosperity.Metre (2012) opined that the increase in mobile phone subscription was not synonymous with poverty reduction. He argued that the spread of technology was not an indicator for an increased and equitable distribution of wealth, and therefore significant opportunities were available for utilizing technological innovations to advance international development goals of reducing world poverty. These findings were corroborated byCollins (as cited by Metre, 2012, p.6) who asserted thatindeed, a growing percentage of the billions of individuals who had access to mobile phone coverage also lived in poverty. As of 2005, the World Bank calculated that 2.5 billion people, or about 40 percent of the world's population, lived on an income of two dollars per day or less.Metre (2012) however observed that the high number of people with access to mobile phones presented an opportunity to reduce poverty.

ITU (2010) observed that in many countries banks and mobile phone providers have begun to collaborate to make financial services accessible through mobile phones at local retail outlets in areas where bank branches did not exist before.According to Ndlovu and Ndlovu (2013) over the past 20 years 70 percent of consumer transactions used to pass through a bank office with brick and mortar structures in emerging nations throughout the world, but today less than 30 percent of those transaction pass through a branch office or post office. Mobile phones can be used to provide financial services at a lower cost than through branch banking. Jack, Suri and Townsend (2010, p.85) and (Jack and Suri, 2010, p.2) argued that mobile phone technology has reduced communication costs in many parts of the developing world from prohibitive levels to amounts that are, in comparison, virtually trivial.Mobile phone technological revolution was argued to have impacted positively in Africa than anywhere as in the world. This view was supported by Jack, Suri and Townsend (2010,p.85) and Metre (2012,p.7) and (Jack and Suri,2011,p.3 and 2010,p.2) who observed thatnowhere had this transformation been as acute as in sub-Saharan Africa, where networks of both fixed line communication and physical transportation infrastructure were often inadequate, unreliable, and dilapidated.

2.5.1 MOBILE MONEY OR BANKING

IFC (2012, P.7) defined mobile money or “M-money” as a subset of e-money that refers only to financial services and transactions made using technologies integrated into mobile phones. Saleem and Rashid (2011, p. 3539) gave a generalized definition of mobile banking as carrying out bank transactions and other related activities via mobile (hand-held) devices. While San Boeuf (as citedby Saleem and Rashid, 2011, p. 3539) regarded mobile banking as a bridge that brings traditional banking services to users of handheld GSM mobile devices.Mobile banking is also termed as Anywhere, Anytime Banking as most of the traditional banking services can be availed irrespective of place and time. It is a service that allows customers to do banking transactions on mobile phone and 24/7 access to bank account (Saleem and Rashid, 2011, p.3539).

According to Makina (2012, p.29) teledensity in Zimbabwe grew from 2.1 in 2000 to 31.98 mobile subscribers per 100 inhabitants and hence facilitating the growth of mobile banking.Projections are that mobile banking by 2015 will constitute 8 percent of Africa’s GDP;this mode of banking will increase financial inclusion and boost productivity. Increased mobile phone usage means, increased opportunities to bank the unbanked (CGAP, 2006).The CGAP (2006,p.1)opined thatwith m-banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. This view was also shared by Makina (2012,p.29) who states that, besides being cheaper, transacting on mobile phones preserves productive time that might have been spent travelling to banks. BAI and Booz Allen (as cited by CGAP,2006,p.1) argued that since m-banking transactions cost far less to process than transactions at an automated teller machine (ATM) or branch, banks can make a profit handling even small money transfers and payments.On the other hand Jack, Suri and Townsend (2010,p.85) observed thatmobile banking has the potential to effectively reduce the distances that separate individuals, both literally and figuratively, thereby lessening the frictions that characterize models of incomplete intermediation, relaxing liquidity constraints, and reducing the need for monetary interventions.

2.5.2 MOBILE BANKING PRODUCTS AND SERVICES

According to Tiwari and Buse (as cited by Saleem and Rashid, 2011, p.3539) the services offered are listed below:

- Account operation (bill payments, money transfers etc.)
- Account administration (access administration, cheque book requests etc.)
- Account information (balance inquiries, statements of account)
- Financial information (interest- and exchange rates etc.)
- Brokerage (sale/purchase of stocks)

2.5.3 ADVANTAGES OF MOBILE BANKING TO BANKS

Methrotra, Puhazhendi, Gopakumaran and Sahoo(2009, p.54) asserted that mobile banking is likely to benefit a bank through the following ways:

2.5.3.1 INCREASED MARKET PENETRATION

Mobile banking presents banks with a good opportunity to increase their clientele base. Mobile banking also can help banks in reducing costs associated with deploying customer touch points in to lower income or more remotely located population segments (also termed as “deployed base” view). In this view, mobile banking can act as:

- Mobile-as-internet machines can allow customers to transact remotely (sending remittances, paying bills) without having to physically access a service point.Sell more services to existing customers - Banks can develop new products that target unmet needs of existing customers (State Bank of India [SBI], 2012, p.18).
- Mobile-as-POS (Point of Sale) can serve to substitute cash and electronically capture transactions at the store/shop (Methrotra, Puhazhendi, Gopakumaran and Sahoo, 2009, p.54) .
- Mobile as-ATMs can enable traders and merchants to become cash-in/cash-out-point (Methrotra, Puhazhendi, Gopakumaran and Sahoo (2009, p.54)

2.5.3.2 SELL MORE SERVICES TO EXISTING CUSTOMERS

Banks can develop new products that can target unmet needs of existing customers. The new services could be used in conjunction with new functionality available through a mobile phone (e.g. location awareness, under the “new functionality” view) or its value as personal technology (the “new way to interact” view).

2.5.3.3 RETENTION OF MOST VALUABLE CUSTOMERS

Mobile banking allowed the banks to offer their customers quality and variety of services. With mobile banking, banks are in a position to offer the customers personalized individual services, a service which they cannot offer under normal traditional banking. Thus for banks adopting mobile banking can act as a customer retention strategy (Saleem and Rashid, 2011, p.3540).

2.5.4 MOBILE BANKING MODELS

According toFin Mark Trust (2012, p.18) there are three models of mobile which are, bank led, non-bank, and alliance model. The “bank-led” model is whereby a bank has taken the lead role in developingand promoting a new payment service product; and “non-bank-led”, where a non-bank institution has takenthelead role in the product promotion and development but they have collaborated with a bank to meet the prudential requirements. Porteous (as cited by Aker and Mbiti, (2010,p.221)also identified the same models, where he observed that some mobile banking systems are offered entirely by banks, others entirely by telecommunications providers, and still others involve a partnership between a bank and a telecommunications provider.According to Porteous (2006), mobile banking models can either be additive or transformative. Ndlovu and Ndlovu (2013, p7) identified the distinction between additive and transformative models of mobile banking:

Additive models are those in which the mobile phone is merely another channel to an existing bank account

Transformational models are those in which the financial product linked to the use of the phone is targeted at the unbanked, who are largely low income people

Ndlovu and Ndlovu (2013, p. 70-71) argued that mobile banking has the potential to be transformational because:

- It uses existing mobile communications infrastructure, which already reaches unbanked people. It may be driven by new players, such as telcos with different target markets from traditional banks
- It may harness the power of new distribution networks for cash transactions, such as airtime merchants, beyond the conventional merchant POS or ATM networks of banks
- It may be cheaper than conventional banking, if the offering is competitive

2.5.4.1NON-BANK LED MODEL

According to Enhancing Financial Innovation &Access [EFInA], (2011, p.1) mobile payments' means the provision of financial services via a mobile phone or other technology-enabled delivery mechanism (such as a Point of Sale device), and often using a third-party agent as well. Also in this model, the customer does not have a direct contractual relationship with a bank; rather, the contractual relationship may be with an MNO or other payment service provider. This is sometimes referred to as the 'nonbank-based model' or 'e-money model,' (Enhancing Financial Innovation & Access [EFInA],2011, p1).Arguably, the most successful example of how technology has helped expand financial access for the poor can be found in Kenya's M-PESA service.

2.5.4.1.1 M-PESA

According to IFC (2012,p.71) M-PESA (mobile money in Swahili) is a mobile phone based money transfer service launched in 2007 by mobile network operator (MNO) that was started by Vodafone. M-PESA is a short message service (SMS)-based money transfer system that allows individuals to deposit, send, and withdraw funds from a virtual account on their cell phones and that is separate from the banking system (Jack, Suri and Townsend, 2010, p.90). Users are able to deposit or withdraw cash with a local M-PESA agent. The transfer is sanctioned in real time by the M-PESA system, and then the agent and client's accounts are debited and credited instantaneously. M-PESA is highly successful as a way of reaching the un-banked and under-banked. It was enrolled in 2007 for person to person (P2P) transfers and by 2010 the customers' base was more than 9.4 million with more than 18 000 agents, and posted US$ 5.27 billion in P 2 P transfers (Jack, Suri and Townsend, 2010, p.90). There is hardly a household in Kenya that is not an M-PESA user. IFC (2012, p.71) noted thatbetween March 2009 and March 2010 more than 13 percent of the Kenyan GDP was transferred through M-PESA. As a money transfer service, M-PESA started by serving the needs of many families split between urban and rural areas.According to Cracknell, (2011, p.35) M-Pesa product has gradually extended to become an increasingly complete payments gateway. M-PESA users have also been able to withdraw money from their M-PESA account at ATMs operated by one of the commercial banks (Equity Bank) and other banks also begun to use M-PESA as their mobile platform.Since the launch of M-PESA, wary of regulation by the Central Bank of Kenya, Safaricom had been at pains to stress that M-PESA was not a bank(Jack, Suri and Townsend, 2010, p.90). However, the ubiquity of the cell phone across both urban and rural parts of the country, and the lack of penetration of regular banking services, led to hopes that M-PESA accounts could substitute for bank accounts and reach the unbanked population (Jack, Suri and Townsend, 2010,p.90).

Evidence from the data obtainable from Jack and Suri (2009) suggested that this assumption might be partially correct despite the fact that M-PESA had been adopted in equal proportion by both the unbanked and banked.(IFC, 2012, p.74) argued that despite the successes M-PESA faced challenges. The financial services sector, while partnering M-PESA, was also promoting credit, debit and prepaid cards. For example, Visa added 1 million cards in Kenya over the past three years, bringing the total number of cards issues to2million. This meant that M-PESA product had to compete for the market from almost similar products offered by its partner banks.At the same time, the volume of transactions flowingthrough M-PESA had become large enough to attract regulatory oversight,which could slow its growth.

2.5.4.1.2M-SHWARI ACCOUNT

Mwagi (as cited by Martz, 2012, Para5) argued that M-PESA was just a money transfer and possession of it does not translate to financial inclusion. According to his words,we are just rephrasing the old way of transporting money from urban centres to rural areas using buses.He went on to argue that mobile money transfer services cannot generate credit history and users would struggle to gain access to borrowings. Safaricom respondent to the critique by launching M-shwari, an interest bearing mobile phone based saving account. The account did not have ledger fees, no withdrawal limits, no minimum balance, no charges on deposits and no branch was needed to open an account, only one click on a mobile phone and one has an account (Martz, 2012). Furthermore a mini-loan was applicable through the mobile phone. According to Maritz (2012) Safaricom estimated users will save as little as one Kenyan shilling, and earn interest ashigh as 5 percent per year. According to Casterns (2013) M-shwari boasts of over 17 million users, posted 70000 account opening on its first day of registration, boasts of a growth rate of over 40000 new customers each day and by 2013 it posted over KSh onebillion (US$ 11.4 million) transactions per month with customer deposits of over KSh 3 billion.

2.5.5BANK-LED MODEL: CABS AND KINGDOM BANK

Central African Building Society (CABS) and Kingdom bank were the first to take a leading role in Zimbabwe in pursuing innovative payment solution. Kingdom was the first to integrate a mobile-based payment solution called Cellcard, into its range of products (Fin Mark Trust 2012, p.18).The bank also introduced card less ATM services which were meant for cash withdrawals, using the mobile phone platform. However FinMark Trust (2012,p.18) noted with concern that, while Kingdom was leapfrogging traditional distribution models for payment services, the mobile phone based products were largely additive and narrowly to Kingdom bank account holders. Kingdom bank's mobile banking platform was not connected to the ZIPIT platform, and by so doing excludedthem from an interconnected network to allow customers to send and receive payments from other institutions.

Fin Mark Trust (2012, p.18) stated that in 2010 CABS launched a mobile payment solution called Textacash. However, the Textacash product just like the Kingdom Cellcard was an additive service, which was meant for existing CABS customers. The only difference being that Textacash was fully connected to the ZIPIT platform.

2.6 ROLE OF GOVERNMENT IN FINANCIAL INCLUSION

CGAP (2012) identified three roles that the government has to play to ensure financial inclusion: (i) promoter of front- and back-end infrastructure (ii) rules maker with respect to that infrastructure and its contribution to responsible market development and (iii) driver of transaction volume.

2.6.1GOVERNMENT AS POLICY MAKER

CGAP (2012, p.6) observed that government's most obvious role—viewed by many as its primary role—is that of rule maker. As rule makers, governments determine not only what efforts may be undertaken to promote financial inclusion, but also by whom, how, and when. Thegovernment also enacts laws that protect the consumers; promote innovative financial inclusion business models, including entry of new actors into the financial sector.The World Bank (2012) also noted further that the government is also responsible for enacting laws that ensure fair market practices, equitable treatment of customers, disclosure, redress, financial education, credit counseling and privacy.

The Business dictionary defined policies as principles, rules, and guidelines formulated or adopted by an organization to reach its long-term goals and are typically published in a booklet or other form that is widely accessible. Regulations were defined as principles or rules employed in controlling, directing, or managing an activity, organization or system. They were designed to influence, and determine that all major decisions, actions and activities take place within the boundaries set.

According to the World Bank (2012) an enabling policy and regulatory environment is needed to promote the expansion of financial inclusion. A sound legal and regulatory environment that is effectively implemented promotes market development and competition, while subjecting financial institutions and agents to sound and appropriate prudential regulation and rules of conduct as a way to protect consumers and depositors as well as market stability.

2.6.2 PROMOTER OF FRONT-AND BACK-END INFRASTRUCTURE

CGAP (2012) stated that normally existing infrastructure is insufficient to reach the world's poor. Banks found opening new branches in low income areas costly and even when present, rarely offered affordable services. Automated teller machines (ATMs) and point-of-sale (POS) devices have wider penetration but have been of little use to unbanked customers without the cards and accounts typically needed to access such delivery channels (CGAP, 2012). Poor borrowers usually lacked the collateral needed or pledged in collateral registries. Even in circumstances where cost and distance are not barriers, access to formal financial services might be constrained by lack of an inclusive financial infrastructure-- a reliable means of customer identification (ID). According to CGAP (2012, p.5) government would try to bridge this financial infrastructure gap in numerous ways, focusing on both front-end infrastructure (the point of contact with customers, including ATMs, POS devices, and increasingly, local businesses serving as retail agents of financial services providers) and back-end infrastructure (the backbone needed for efficient financial services, including payment switches, credit bureaus, and collateral registries). This has promoted the development of agent networks, including the use of state owned entities, such as post offices, to act as the customer interface for financial service providers. The government must also ensure interoperability between various platforms that support the operation of the payment system.

The World Bank, (2012, p35) stated that financial infrastructure underpins safe and efficient transactions, and lowers the costs and risks to financial service providers. Critical components of financial infrastructure include the secured transactions framework, credit reporting system, and payments system.

2.6.3GOVERNMENT AS DRIVER OF TRANSACTION VOLUME

Driving transaction volume had the potential not only to bring more low-income individuals into the formal financial sector but also to lower the per-transaction cost of the retail/transaction infrastructure for various market actors (CGAP, 2012). The most powerful a tool government can use to drive transaction volume is government- to-person (G2P) payments. Pickens, Porteous and Rotman (as cited by CGAP, 2012) gave social transfers, wages and pension payments made by governments to 170 million poor people worldwide as one of the example of the G2P payments.

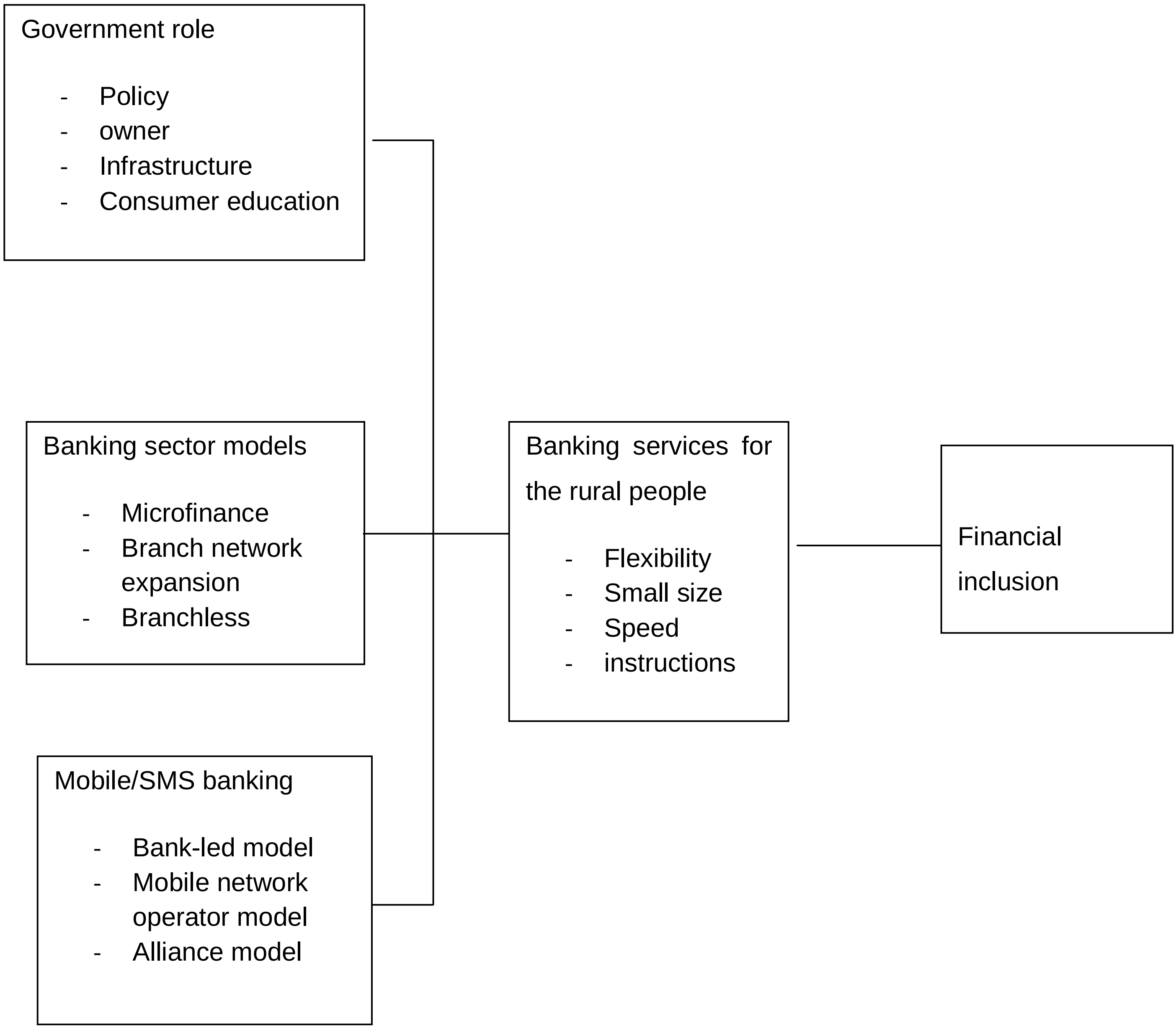
CGAP (2012,p.8) opined that G2P payments can promote financial inclusion when payments land in accounts that (i) enable recipients to store funds and use them for other transactions within the general purpose payments infrastructure (the “transactional account” requirement) and (ii) are accessible to customers in terms of cost and proximity (the “accessibility” requirement). However Pickens, Porteous and Rotman (as cited by CGAP, 2012, p.8) observed that less than a quarter of these payments met this requirement currently.

2.6.4 ROLE OF OWNER

Governments play a fourth role in promoting access to formal financial services: the role of owner (or subsidizer) of financialservice providers (CGAP, 2012). According to the World Bank (2012)policy and regulatory reforms and financial infrastructuredevelopment can have delayed impacts,and in the meantime market failures and rigiditiescan persist, including related to information andperceptions, slowing down financial inclusion improvements. The government therefore had an obligation also to intervene to stimulate financial inclusion growth, using for example government payments. This study therefore assessed the role the government is playing to ensure financial inclusion in Zimbabwe with a view also to understand the challenges being faced thereof.

2.7 CONCEPTUAL FRAMEWORK

Collins and Hussey (2003) defined the conceptual framework as a theoretical framework or a conceptual model that is used as a guide for a study or themes from literature that are conceptually mapped and used to set boundaries for the research. Below is the conceptual framework of the study:



2.8 CONCLUSION

The chapter looked at the overview of financial inclusion and the models which the banks around the world are using to solve the problem of financial exclusion. This was later followed by the review of literature related to financial inclusion, financial inclusion strategies, models of financial inclusion, mobile banking and its models, financial products for the rural people, profitability of products which are meant for the poor and the roles of government in financial inclusion. The secondary research was not exhaustive enough and therefore fell far too short to meet the desires and expectations of this researcher and therefore the researcher proceeded to gather primary data to augment the research and to help in further analysis.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Miller (1983) recognized that methodology is that body or pool of knowledge that makes it possible for the researchers to explain and analyze methods- indicating their limitations and resources, recognizing their presuppositions and consequences, and relating their potentialities to research advances. Furthermore Clarke, Lotto, and Astuto (1984) stated that, methodology also underpins the types of questions that can be addressed and the nature of the evidence that can be generated.

The core of any dissertation is premised or based on the selection of an appropriate research methodology. The methodology chosen in this research therefore seeks to provide appropriate answers to the research objective in line with the statement of the research. This research follows an exploratory/ deductive approach. The objective of this research is to find financial inclusion models which different Zimbabwean banks are using to reach the rural unbanked and also aims to establish which model was the most appropriate to the Zimbabwean environment.This research therefore is a qualitative research.The choice of qualitative methods emanated from the argument that qualitative methods are seen to yield no more than subjective, value-laden accounts,while quantitative methods are seen to produce objective, value-free knowledge (Seymour, 2001).Quantitatively oriented researchers however tend to treat qualitative research as a relatively minor methodology and as such they argued it must be considered at early or exploratory stages of a study (Silverman, 2000). This view was also expressed by Selltiz et al (as cited by Silverman, 2000, p.9) when the author refers to non-qualitative data implying that quantitative are the standard form:

The inspection of nonqualified data may be particularly helpful if it was done periodically throughout the study rather than postponed to the end of the statistical analysis. Frequently, a single incident noted by a perceptive observer contains the clue to an understanding of a phenomenon. If the social scientist became aware of this implication at a moment when he can still add to this material or exploit further the data he had already collected, he may considerably enrich the quality of his conclusion.

3.1 RESEARCH DESIGN

The main purpose of a research design is to continuously guide the researcher and ensure that he/she stays focused or otherwise he/she might get lost in the daunting task of the research process. Adams, Khan, Raeside and White (2007, p.81) defined a research design as the blueprint for fulfilling research objectives and answering research questions. In short, it is a master plan stipulating the methods and procedures for collecting and analyzing the needed information. Furthermore, the research design chosen must guarantee that the information collected is suitable for solving the research problem.Jackson (2009) identified three categories of research designs which are:

Descriptive: The research design is concerned with describing a population with respect to important variables. The descriptive research design was found the most appropriate for this study because of the need to describe different strategies which the banking sector is using to reach the poor without explain whether they are the most appropriate strategies or not.

Explanatory: exploratory research is concerned with establishing cause and effect relationships between variables of interest. The design was found no appropriate because the aim of the study was not to establish cause of exclusion and its effects.

Exploratory: The aim of an exploratory research is to discover ideas and insights. The design was also found appropriate in this sense because of the need to discover some insights into financial inclusion.

3.1.1 TYPES OF RESEARCH DESIGNS

Walliman (2006) identified two types of descriptive studies which are: cross sectional and longitudinal. The other two methods which were identified included experimental and case study but these two were found not appropriate for this study.

3.1.1.1 CROSS SECTIONAL DESIGN

According to Payne and Payne (2000) cross sectional studies collects data only once and in one short period to analyze action and social changes. Brayman (2004) summarized the characteristics of cross sectional design in the following way:

- It entails the collection of data on more than one case (usually many more than one), generally using a sampling method to select cases inorder to be representative of a population.
- The data is collected at a single point in time
- Quantitative or quantifiable data is sought in order to systematically gauge variations in the variables

Patterns of association between variables are examined inorder to detect associations.

The study therefore followed a cross sectional research design as it collects data from a sample chosen from the representative sample and variables were also measured at a single point in time.

3.1.1.2 LONGITUDINAL DESIGN

This type of design consists of repeated cross sectional surveys to ascertain how time influences the results (Walliman, 2006). The design traces what happens over time, so that it becomes possible to establish causation amoung variables if variables remain the same in successive surveys. The design was found not appropriate because of limited time needed to do repeated studies over time.

3.1.1.3 EXPERIMENTAL DESIGN

This design differs from the above two through its emphasis on placing controls over the objects of the study. According to Payne and Payne (2000) in this type of design the researcher strives to isolate and control every relevant condition which determines the events investigated, so as to observe the effects when the conditions are manipulated.

3.1.1.4 CASE STUDY DESIGN

According to Bhattacherjee (2012) a case study is an in depth investigation of a problem in or more real life settings (case sites) over an extended period of time. Collection of data can be done using a combination of interviews, personal observations, and internal or external documents.

3.2 RESEARCH PHILOSOPHY

Research philosophy is a term used to describe the development of knowledge and the nature of that knowledge (Saunders, Lewis and Thornhill, 2007). This study is premised upon the assumption postulated by three philosophies that are discussed below:epistemology, ontology, and axiology.

3.2.1 EPISTEMOLOGY

Epistemology defines the criteria by which knowledge is possible. In scientific research, epistemology defines and gives structures to what kind of scientific knowledge is available, what are the limits for that knowledge (Pierce, 2008). In addition, epistemology offers answers to the question of what constitutes scientific practice and process.

3.2.2 ONTOLOGY

While on the other hand ontology, is concerned with the nature of reality. In short,ontology describes the view (whether claims or assumptions) on the nature of reality, and specifically, is this an objective reality that really exists, or only a subjective reality, created in the mind of the researcher (Saunders, Lewis and Thornhill, 2007).

3.2.3 AXIOLOGY

Axiology is a branch of philosophy that studies judgments about value (Pierce, 2008). The researcher’s value system plays an important role in all stages of the research process to ensure that the research results are credible.Heron (1996) argues that our values are the guiding reason of all human action. He further argues that researchers demonstrate axiological skill by being able to articulate their values as a basis for making judgments about what research they are conducting and how they go about doing it.

3.2.4 RESEARCH PARADIGMS

Posivisist view: The view assumes that reality is relatively independent of the context, can be abstracted from their contexts, and studied in a decomposable functional manner using objective techniques such as standardized measures (Bhattacherjee, 2012).Positivist approach is normally associated with natural sciences and often involves empirical testing (Greener, 2008). It promotes the use of experimentation to approve and disapprove hypothesis and is rather objective than being subjective in nature. The study aimed to extract the knowledge and experience of people who are involve in issuing lower end financial products rather than carrying out experiments and therefore this view was found unsuitable.

Interpretivisit view: According to Bhattacherjee (2012) the interpretivist research paradigm is based on the assumption that social reality is not singular or objective, but is shaped rather by human experiences and social contexts (Ontology), and is therefore best studied within its socio historic context by reconciling the subjective interpretations of its various participants (epistemology). Interpretivists would aim to look at the world from the eyes of the people being studied allowing multiple perspectives of reality as compared toone reality of positivism(Greener, 2008). The study adopted an interpretivist approach because its main focus is to inquire into what individual perspectives exist across the banking sector with respect to the issue of financial inclusion. The study also does not set out to test pre-existing theory, but will rely instead upon qualitative data, with rich, open interviews with many different organizational actors and at all organizational levels to discover and understand the individual and shared sense of meaning regarding financial inclusion.

3.3 RESEARCH APPROACH

Saunders, Lewis and Thornhill (2007),identified two approaches available for research which are Inductive and deductive approaches.Inductive approach refers to the invention of theory while the latter refers to the application of theory. This research follows an inductive approachbecause the study seeks to obtain individual perspectives from respondents about financial inclusion and then develop themes and relationships.Saunders, Lewis and Thornhill (2007) and Collis and Hussey (2003) argued that inductive research is a study which involves theory being developed from the observation of empirical reality, and hence general inferences are induced from particular instances, which is much in contrast with deductive since it involves moving from individual observation to statements of general patterns or laws.

Fig 3.1 Below depicted graphically the research circle:

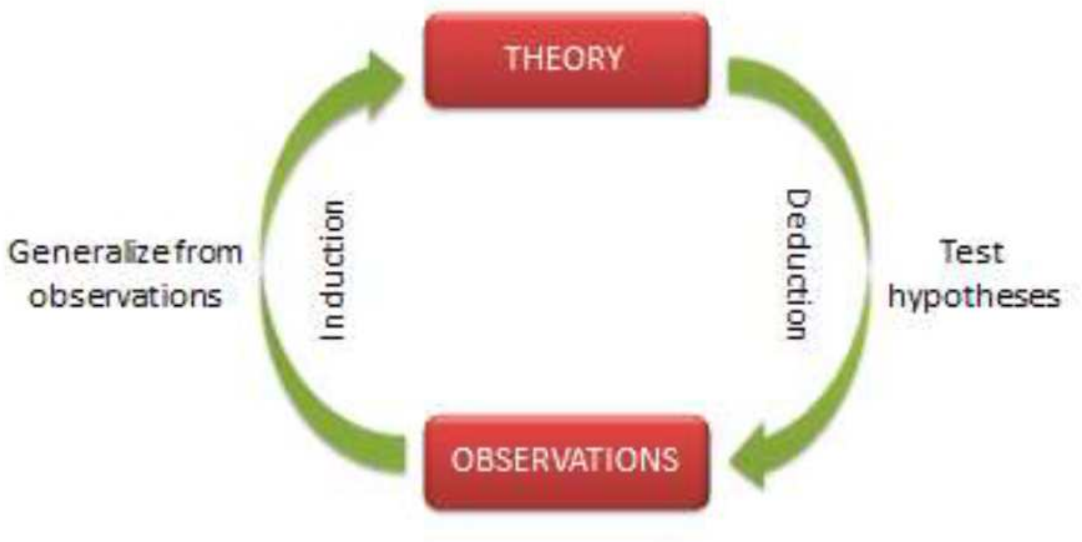


Figure 3.1.The Cycle of Research

Source: Bhattacherjee (2012)

3.4 RESEARCH STRATEGY

Vogt (2005, p.278) offered a simple and narrow definition of a research strategy as a general plan for conducting research. Experimental, longitudinal, and mixed method are examples of research strategies. Saunders, Lewis and Thornhill (2007,p.97) however offered a broad definition of a research strategy as a general plan on how to carry out the research in order to effectively answer research questions and meet the research objectives.A descriptive survey strategy was adopted for this study because of the following reason:

Acquire Accurate Information: A descriptive research method was chosen because its ability to provide accurate and factual data about the state of financial inclusion. The study aim to describe the financial inclusion strategies which are in use and as a result the choice of a descriptive method was rather deliberate.

Need to Replicate Effective Research Strategy: Other respectable scholars such as Chikoko and Mangwendeza (2012) and Moloi (2009) also used the descriptive survey method in order for them to understand financial inclusion. The use of the same method was deliberate as it is a tried and tested method.

3.4.1 DESCRIPTIVE SURVEY STUDY

This research adopted a descriptive survey method.Best and Khan (2007) defined descriptive survey method as a method which concerns itself with the present phenomena in terms of conditions, practices beliefs, processes, relationships or trends .

3.4.1.1 TYPES OF DESCRIPTIVE SURVEY METHODS

Jackson (2009) identified the following types of descriptive methods: survey method, case study and observational method.

3.4.1.1.1 SURVEY METHOD

The method involves participants answering questions administered through interviews or questionnaires. After the participants answered the questions the researcher describes the responses given. The survey method was adopted for this study in order to obtain an indepth understanding of financial inclusion from those who work directly in the provision of financial products meant for the poor. The interview method was used for the purpose of this study.

3.4.1.1.2 CASE STUDY METHOD

A case study is an indepth study of an individual or groups of individual. This method was found not suitable for this study because of the need to obtain views from across the banking sector as opposed to one bank.

3.4.1.1.3 OBSERVATIONAL METHOD

Observational method is also known as field observation method and involves and aims to observe human and animal behavior (Jackson, 2009). This method was also found not be suitable for this study because of its inapplicability as financial inclusion cannot be observed.

3.5 POPULATION AND SAMPLING TECHNIQUES

A group of persons (or institutions, events, or other subjects of study) that one wants to describe or about which one wants to generalize (Vogt, 2005). The population of study comprised of all banks in Zimbabwe which were responsible for serving the rural unbanked. The population comprised 23 banking institutions(16 commercial banks, 3 building societies, 2 merchant banks and the RBZ)including the Reserve Bank of Zimbabwe.

The researcher will use a non- probability sampling method in carrying out this research. Non –probability or non- random sampling occurs when the probability of each unit chosen from the population is not known. The researcher is going to use judgmental sampling technique in-order to gain information from knowledgeable bank personnel only.

3.5.1 SAMPLE

Saunders, Lewis and Thornhill (2007, p.97) describes a sample as a smaller group that is actually studied. They further argued that it is practically impossible to engage the population in a study unless it is small.Vogt,(2005) argued that in order to generalize about a population; one often studies a sample that is meant to be representative of the population. Also called target population and “universe.”

3.5.1.1 SAMPLING SIZE

The sample size in this research was twenty Banking Practitioners. The sample cut across the banking industry.

3.5.1.2 SAMPLING METHOD

Judgmental sampling method was used to select the sample because the researcher wanted to interview only relevant people with the appropriate knowledge only.

3.6 RESEARCH INSTRUMENTS

There are two types of data which are namely, primary and secondary data. Different collection methods will be used depending on the type of data. According to Zikmund (1997) primary data is collected for a particular purpose. This researcher will rely mainly on the data to be collected through interviews only. Semi-structured interviews were carried out with appropriate industry practitioners in order to solicit for their view pertaining to financial inclusion. Interviews were used in this research. According to Adams, Khan, Raeside and White (2007, p.145) these researches tend to last around one hour and probe behind the straightforward questions. These interviews yield a vast amount of rich information.

3.6.1UNIT OF ANALYSIS

This primary unit of analysis for the purpose of this research consisted of top bank managers responsible with entry level transactional banking products.

3.6.2 PILOT STUDY

According to Van Teijlingen and Hundley (2001) a pilot study is a mini version of a complete study or a detailed test of a particular research instrument before the main study. Furthermore, they argued that in qualitative research, contamination is less of a concern since qualitative data collection and analysis is often progressive in the sense that a subsequent interview in a series should be an improvement on the previous interview.

A pilot study was carried out with a view to address changes to the measuring instrument. All inconstancies which were found emanating from measuring instruments were then rectified.

3.6.3 SEMI- INTERVIEWS

Semi-structured interviews with key Bank Practitioners directly involved in the delivery of lower end financial products were carried out. These included microfinance managers, branch managers, IT managers and Product development managers. Robinson (2007) defined interviews as a conversation for a purpose. This method involves asking questions and receiving answers from respondents.

3.6.3.1 ADVANTAGES OF SEMI- STRUCTURED INTERVIEWS

- The interviewee has the opportunity to explain the subject matter in depth
- Data validity is enhanced as the interviewer has the opportunity to check accuracy with the interviewee before leaving the scene
- Allow the interviewer to probe further and deeper depending on the expertise and the wisdom posed by the interviewee.
- Interviews enable a mass of information to be collected

3.6.3.2 DISADVANTAGES OF SEMISTRUCTURED INTERVIEWS

- Time consuming if the questions are long
- Require careful preparation such as getting the necessary permission, reaching the interview venue which could prove to be a daunting task.
- The interviewer may bring his or her on biases or influence the interviewee’s responses which may compromise the reliability of the information collected
- Analyzing the data can be challenging as the data is non-standardized.
- although one obtains in-depth information, one may question the representativeness of the findings

3.6.4 DOCUMENTATION

The documents which were analyzed in this study included the Banking Act Chapter 24:20, The RBZ Act Chapter 22:15 and the National Payment Systems Act Chapter 24:23, Bank Use Promotion and Suppression of Money Laundering Act Chapter 24:24 (appendix 3, 4, 5 and 6 respectively). Appleton and Cowley (1997) defined a document as any material other than a record that was not prepared specifically in response to some request from the investigator.

3.6.4.1 ADVANTAGES OF DOCUMENTS

- Documents provide the following advantages:
- The researcher is able to gather evidence without being present during the collection of data
- The data is relatively inexpensive to collect
- Readily available documents minimize the time spent collecting data

3.6.4.2 DIS ADVANTAGES OF DOCUMENTS

Woods (2006) noted the following disadvantages of documents:

Sometimes they are not sources of objective truth as they can be contextualized in circumstances. In order to reduce the effects of this triangulation of methods was used. In this study both interviews and document evidence was used and the weaknesses of one method is counteracted by the strength of the other.

3.6.4VALIDITY AND RELIABILITY

McMillan and Schumacher (2006) stated that the concept of validity refers to the degree of congruence between the explanations of the phenomena and the realities of the world. In order to ensure that the results are valid three strategies were used which are:

- **Prolonged Engagement Strategy**

A prolonged engagement strategy was employed in order to guarantee a greater confidence in the truth of the findings and the context in which the study was undertaken. The process involved spending an extended period of time with interviewees during the interview checking perspectives and allowing interviewees to get settled and comfortable with the interviewer.

- **Low Inference Descriptors**

Every word which the intervieweessaid was captured through the use of a tape recorderand the words were later transcribed exactly or as raw as they were said. The finally analysis was therefore based on exactly what the interviewees said.

- **Member Checking**

The accuracy of the information collected was checked before the interviewer left the venue. The interviewees were often asked to clarify areas on areas which the interviewer felt were not clearly explained and in some instance the interviewer would recite back key issues or points raised to obtain confirmation of their correctness.

- **Multi Method Strategy**

Interviews and document evidence was used. This helped the interviewer to examine consistency between what the interviewees were saying and what the document evidence stated.

3.6.4.1 RELIABILITY

Stenbacka, (2001) defined reliability as purpose of explaining in quantitative approach and generating understanding in qualitative approach to research.Furthermore, Stenbacka, (2001) argued that the concept of reliability is misleading in qualitative research, if a qualitative study is discussed with reliability as a criterion; then the consequence is rather that the study is no good.

On the other hand Patton (2001) puts three questions that need to be asked to ensurevalidity and reliability or credibility of qualitative research as follows:

• What techniques and methods were used to ensure the integrity, validity and accuracy of the findings?

• The researcher brings what in terms of experience and qualification to the study?

• What assumptions undergird the study?

In order to ensure reliability semi structured interviewees and documentary evidence was used to obtain interviewee perspectives concerning the issue of financial inclusion and strategies that can be used thereof. Also a close liaison with people who work in banks was done in order to tape into their knowledge and experience.

3.7 DATA ANALYSIS AND PRESENTATION

Audio voice collected from the interviews was first transcribed in to written text. After that data familiarization followed. Data familiarization involves immersion in the data with an objective or a view to gain an overview of the depth and diversity of the material and identification of recurring themes and issues (Adams, Khan, Raeside and White, 2007). Data reductions involve the removal of irrelevant data and data duplications. Data reduction was followed by the identification of a unit of analysis. The process involves listing the interviewees according to their organizations. After the listing of unit of analysis, the next process was the creation of a thematic framework. Data familiarization was followed by data reduction. After data was reduced the process of coding the data followed. Data coding was done following Strauss and Corbin (1998) coding techniques for analyzing textual data:

- **Open Coding**

According to Bhattacherjee (2012) open coding involves the identification of concepts or key ideas that are hidden within textual data. Raw textual data was examined line by line to identify discrete events, ideas, perceptions and interactions of relevance that were coded as concepts. Concepts were then grouped into higher order categories which were more meaningful as compared to concepts.

- **Axial Coding**

Categories were then assembled into causal relationships that tentatively explain answers to research questions.

- **Selective Coding**

This process involved identification of a central category or a core variable and systematically and logically relating this central category to other categories (Strauss and Corbin, 1998). A discussion in relation to literature was also done, to reveal how far the findings deviate or correlate with literature.

3.8 RESEARCH LIMITATION

The researcher faced the following limitation during the course of this research:

- Some respondents expressed a degree of suspicion despite assurance regarding anonymity and confidentiality assurance and decline to take part.
- Knowledge of some of the respondents about the subject matter might have limited or distort their answers.
- Time was also a limiting factor as the researcher is also a full time employee of the University of Zimbabwe.
- The researcher works outside the financial sector and therefore might have lacked access to confidential information which if obtained might have completely changed the outlook of this research and its findings.

3.9 ETHICS AND VALUES

According to Payne and Payne (2004) ethical practice is a moral stance that involves conducting research to achieve not just high professional standards of technical procedures, but also respect and protection for the people actively consenting to be studied. This research therefore in order to comply with ethical standards followed the following guidelines:

- It was made clear before the administration of the interview that objectives of the research did not conflict with general values.
- Confidentiality and anonymity of all participants in order to encourage free participants and volunteering of honest answers was guaranteed.

- The researcher promised to keep the names of the interviewees and the identity of their organizations secret by the use of pseudo names.
- The research gave a careful statement of who the researcher was, and what the purpose of interviews was for.
- Permission was sought from each bank which was studied.
- Participants were made aware of the purpose of the research and participation was on free consent.
- No inducements were offered to participants for them to agree to participate

3.10 CONCLUSION

The purpose of this chapter was to stipulate clearly the methodology which was used in carrying out this research. The chapter begins by giving an introduction to the chapter, followed by research design, philosophy, approach, strategy, population and sampling techniques, research instruments, data analysis and presentation, limitations and ethics and values. A case study design was used in this study since the research was qualitative in nature. The research also followed an inductive approach as opposed to a deductive approach since it was a qualitative research as stipulated above.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.0 INTRODUCTION

The chapter analyzed the results of the semi-structured interviews that were conducted with bankers involved with various financial products, services and models that were designed for the lower end market or the rural unbanked market. The semi-structured interviews were carried out with middle managers of banks who were responsible for the handling and administering products and services meant for the lower end markets. The respondents were selected subjectively based on their knowledge and experience of products suitable for these markets. Data was presented first by giving answers that were given by the respondents, followed by the understanding of the researcher and the discussion of literature. The findings were derived through the use of a detailed interview guide.

4.1 APPROPRIATE FINANCIAL INCLUSION MODELS

Analysis

An appraisal of the models which banks in Zimbabwe were using to reach the rural unbanked was invoked by asking the interviewees the questions: “What models are currently in use by banks to reach the unbanked in rural areas?” The respondents identified the following models that were being used to promote financial inclusion:

- Mobile banking
- Targeted branch expansion
- Agent banking
- Mobile branches
- Stored value cards
- Microfinance

- Technological innovations (ATM,POS)

When the interviewer posed the question: “In your opinion which model do you think is the most appropriate to serve the rural unbanked?” The fifth respondent said rural people mostly prefer small loans to enable them to buy inputs for farming. The eighth respondent concurred with the fifth respondent that the rural unbanked prefer to get cheaper loans but went on to say that loans alone are not enough as rural people also would want to receive money from their children and relatives who work in the diaspora, towns and cities. The eleventh, fourteenth, fifteenth and twentieth interview concurred that rural people prefer to get three services, which include money transfer, savings accounts to keep their earnings from the sale of farm produce and to access affordable loans but they too concurred with the views of previous interviewees that small loans and transfer services were the most preferred ones.

From the interviewee responses, it would appear as if respondents were generally of the view that the appropriate models to bank the unbanked are microfinance model (fifth, eighth, eleventh, fourteenth, fifteenth and twentieth interviewee), mobile banking and savings account (eighth, eleventh, fourteenth, fifteenth and twentieth interviewee). Also from the interviewee responses, it appear as if the microfinance model is the most appealing model to the rural unbanked. The interviewees seem however to suggest that a one size fit all model might not be appropriate taking into account the divergent needs of rural people and as such a combination of models was appropriate to target the rural unbanked.

The results revealed that ninety five percent of the banks that participated in the interviews have incorporated mobile banking in their operations, ten percent branch banking, forty-five percent mobile branches, thirty-fiveagents banking and fifty percent have incorporated microfinance in their operations.

The results also established that all the twenty banks that participated in the interviews offer free balance enquiries, four have in store purchases, ten offer bill payment and none of the banks offered a basic entry savings account earmark to bank the rural unbanked.

Yunus (1999) stated that we must remember that the purpose of microcredit is to eliminate poverty in the shortest possible period. Notwithstanding, its critical role in alleviating poverty, improving access to credit, promoting savings, supporting gender equality and enhancing livelihoods, microfinance alone cannot facilitate financial inclusion. The views of Professor Yunus are in line with the findings of this research, which revealed that no one model on its own is enough to ensure financial inclusion. The respondents advocate for a package of products and not one product to ensure that everyone is financially included.

4.2 BANKING SERVICES NEEDED BY RURAL UNBANKED ANALYSIS

The respondents mentioned that rural people mostly needed three financial products, which are microfinance, basic savings account and remittances. They cited that rural people need small loans to cover such things as purchase of farming inputs, cover medical expenses, pay dowry, and meet burial costs, and also a savings account to keep their small savings and they also want to receive remittances from relatives and friends who work in town and cities or in the diaspora.

When the following question was put forward, "In your opinion what kindof bankingservices would the rural unbanked want?" Typical responses that were obtained from the fifth, tenth, sixteenth and twentieth interviewees were "Of course they would want low bank charges"; "Rural people would want services provided at their doorsteps or the bank needs to go to then and not the other way round"; "They would want instant services" and "They would want to be able to negotiate payment terms from time to time and not fixed ones".

Respondents noted that the unbanked were not happy with the current bank charges that are obtaining from banks; they mentioned that the unbanked felt that they were too high to be affordable. From the responses provided by the respondents, it seems there isa feeling of mistrust between the banks and the unbanked. For instance, the second respondent said, “They complain that our charges are very high, but what should we do the operating environment is tough and we need to recover costs, I think they need to understand that”.

The interviewees also mentioned that the distance that rural people have to travel to banks was very long and expensive, as banks do not have many branches in rural areas. The first interviewee mentioned that rural people normally travelled a long distance to reach the nearest bank and their savings were small to afford that. She smiled when she explained her point “The cost of travelling alone may be greater than the money they expect to get, so they would rather keep their savings under the pillow”.

From the discussion with interviewee, it also emerged that rural people expect to get financial product that come in the form of packages of smaller units. The third interviewee had this to say “You cannot expect to be do business by provide products that come in big packages in rural areas, you have to provide products in small packages like small loans for example to buy farm inputs, pay school fees”.

The rural unbanked were also said to be intimidated by completing forms and other papers which are a prerequisite in the banking sector. Respondent seven said that rural people loath paper work and would prefer to transact in the informal sector where there is no hassle of completing huge paper work unlike in banks. The interviewee posed for a moment before he produced an exhibit of the bank account opening form and a loan application form which he said asked to many question which needs patience and knowledge to complete.

The fourth interviewee explained that rural people want essential services to be available when they need it. Rural people were said to value consistency in the delivery of the financial products. She exclaimed, “It is imperative that essential services must always be available when they need it or else they would transact in the informal market where they could obtain what they are looking for”.

Evidence from the interviewees seem to suggest that rural people expect financial services that are affordable or low cost (fifth interviewee), which accessed at places nearer to them or convenient (tenth and seventh interviewees). The results of the research also provide the impression that rural people also want products that are provided instantly or speedily and with less paper (sixteenth interviewee).Terms also have to be flexible enough to enable renegotiation of terms, and products must come in smaller units for them to be affordable. In addition, evidence from interviewees suggested that products must always be available when needed or services must be reliable (third, fourth and sixteenthinterviewees).

The findings of this study that the rural unbanked prefer products that are flexible where they could negotiate for repayments terms and where less paper work is involved is corroborated by the literature of the Boston Consulting Group. According to the Boston Consulting Group [BCG], (2007) poor people often need flexible financial service providers of which the informal financial sector is very responsive to those needs. It is often easier for consumers to walk into a moneylender’s house at any time and get a loan than to walk into a bank and get a loan. The group noted that since moneylenders are part of the community, they often respond to those needs and they tend to empathize with their neighbours during emergencies and contingencies that trigger the need for loans and often are willing to be flexible. For example, informal lenders are more likely to allow customers to defer or consolidate payments. Informal lenders also require less paper work or documentation and can provide a loan in a matter of minutes.

The findings by the Boston Consulting Group that unbanked people would want products with appropriate instructions were not supported by the findings of this study. Instead, this study revealed that Infact the unbanked prefer products that are reliable.

4.3 PROFITABILITY OF FINANCIAL INCLUSION PRODUCTS

FINDINGS- DOCUMENTARY EVIDENCE

The Bank Use and Promotion Act and Suppression of Money Laundering Act [Chapter 24:24) is the Act responsible for money laundering and the know your customer principles. The Act is augmented by the Serious Offences (confiscation of profits) Act (2005) which lays the ground for the prosecution of offenders in a competent court of law. Circular Number 1 and 2 of theBank Use and Promotion Act and Suppression of Money Laundering Act highlights the reduced criteria for opening of accounts by low risk customers. Circular No. 1 of the Act for example broadens the documentation required to prove residence. It requires the following documentation: affidavits from land lords, third party home owner certificates, letters from employers, letters from school, letters from chiefs and headman. Circular No. 2 broadens the scope documents used for customer identification. It requires the following documentation for identification: a letter from a practicing accountant, practicing doctor, lawyer, an existing bank customer or a government arm. This research noted that the Act imposed a serious restriction on the ability of banks to recruit customers by requiring stringent measures to open an account. The majority of people in rural areas without bank accounts normally do not have proper identification paper.

ANALYSIS

When this question was put across by the interviewer, “Is it possible to provide banking services to the rural unbanked profitably?” The first interviewee said it was very much possible if the unbanked are consulted to obtain their views before products are made. The fourth respondent said the products for the poor need to be bundled together and technology like mobile phones should be used to distribute the products. The tenth interviewee said, “There must be collusion in marketing the products and banks must compete on pricing rather than distribution infrastructure”. The tenth respondent also advocate for the use of agents instead of branch expansion because agents were cheaper to use than to establish a branch. The third responded however came up with a different dimension arguing that for a bank to make profit it must reach a critical mass. He went on to argue that as long as policies like Bank Use and Promotion Act and Suppression of Money Laundering Act are not relaxed it will be difficult to attain the critical mass needed to make profit or breakeven. He argued that the majority of the unbanked in rural areas lack proper documentation making it difficult for banks to take as many customers as possible. He exclaimed, “The government has to relax the provision of this Act or otherwise profitability will be a mere thought”. He also noted that there is a need to enact laws that govern the use of agents if banks are to benefit from the use of agents. He said, “There must be a law governing the use of agents to optimize their use as opposed to the current scenario where each bank is using its own risk assessment criteria”.

From the interviews it emerged, that profitability should not be the main objectives when serving the lower end of the market but also sustainability. The respondents were of the view that once an in depth penetration has been achieved customers must continue to be educated about the use of financial services in order to maintain the market share. Respondents mentioned that profitabilitydepends on the approach used for example; if branch expansion is chosen then profitability will be recognized after some time than in the shortest period possible but when technology is involved then profitability can be achieved much earlier. Seventy percent of the interviewees noted that before product development and implementation a market research needs to be done to obtain the needs and expectation of the market as a prerequisite. They argued that no matter how well the product is, but as long as it fails to meet the target market’s expectations then profitability cannot be achieved.

Fifty percent of the respondents cited that the products developed must be targeted at large segments since a critical mass is the main thing when dealing with lower market products. Without moving large volumes, it would be impossible to achieve profitability.When asked the question whether it makes business sense to focus only on providing serves to lower markets instead of the mass market, there was consensus on the answers that were given. Interviewees mentioned that it was wise to target the mass market than to develop a model that serve entirely the lower end of the market. The respondents argued that once a model is labeled as serving the poor it becomes stigmatized and as such, the institution becomes a development ground for other markets. They argued that once the customers in those models labeled as for the poor thought that they have money, they would dump such markets for upper end markets because of the stigma. They were also of the view that profits from high products might also be used to offset losses from lower end markets at initial stages.

Sixty percent of the respondents mentioned that lower end markets must be targeted with a package not a single line of products, as an entry strategy but the range must not be too wide, as this would make other products redundant. From the interview it also emerged distribution was a critical cost driver component. The respondents mentioned that setting infrastructure in rural areas was very expensive and ninety percent of the interviewees suggested that banks could lower their costs if they share the infrastructure such as offices, systems such as software and share back office operation.

Eighty percent of the interviewees mentioned that banks must have a pooled budget for marketing and consumer education and competition should be on pricing and product differentiation rather than on infrastructure or distribution. They argued that a large chunk of the market captured would drive volume and hence profitability. The interviewees argued that Chiefs and Headmen should be used to educate their subordinates about financial products that are being offered. Interviewees were of the view that rural people were likely to trust more what their traditional leaders told them than anyone else because of the respect they have for in their authority.

In addition,sixty-five percent of the intervieweeswere of the view that banks could also leverage on the strength of other players in other industries by going into alliance with for example retailers, railways, filling stations. The interviewers mentioned that these other players already have a wide distribution network that banks could ride on at a cheaper cost. The interviewee mentioned that agent banking can provide a way for banks to lower their cost and reach the otherwise difficult to reach places. The interviewee however lamented the lack of legislation that governs the operation of agent banking as the main challenge.

Twenty percent of the respondents mentioned that distribution could also be outsourced from those players who have access already. These partnerships and alliances were cited as ways that financial institutions could use to hedge against risk. Other respondents mentioned that banks could go into alliance with local non-governmental organization. The organization would provide the banks with information concerning the credit worthinessof villagers before a loan could be provided. They also mentioned that banks could also lend to the villagers on group bases to reduce default risk. They argued that by lending to groups as opposed to individuals, banks could substantially reduce their risk. They said groups would encourage each individual member to honour his or her obligation. Collateral such as cattle as long as deep tank books could alsobe accepted when providing small loans in order to drive volume, and finally volume would drive profitability up.

All the interviewee agreed that technology play an integral part in lowering the costs of distribution. Interviewees mentioned that banks could take advantage of technology like mobile phones (mobile banking) and the use of ATMs to reduce costs.

Ninety five percent of the respondents said that the business of serving the lower end market was a high volume but lower returns business. They noted that it becomes imperative for banks to attract as many people as possible to become profitable. They argued that the current know your customer principles as stipulated by the Bank Use and Promotion Act and Suppression of Money Laundering Act [Chapter 24:24) makes it impossible to open new accounts as possible. The respondents noted that the majority of the unbanked lacked proper documentation and therefore hinders the ability of banks to open as many accounts as possible. They argued that if profitability is anything to go by then the know your customer principle needs to be relaxed. The lack of identification by many of the unbanked was also said to affect mobile banking, as one of the requirement to transact was the need to produce identification (ID).

The findings of this study that a market research has to be carried out to obtain the needs and preferences of the market if profitability is to be achieved has been corroborate with that of literature**.** According toMicrosave(2011),most financial products failed because no market research or pilot survey was carried out, and therefore becoming a drag on the institution and establishing bad precedence. The target market must be identified first and products ought to be innovated according to consumer needs and expectations. Each segment has its own needs that drive adoption that is unique to that geographic or demographic set up. It is important to align the institution's strategy to the target consumer needs and drive products and delivery to address those (for example, a pension product designed for a region with predominantly youth population might turn out a complete misfit).

4.4 USE OF MOBILE BANKING TO PROMOTE FINANCIAL INCLUSION FINDINGS - DOCUMENTARY EVIDENCE

While currently there is no legislation, which directly regulates mobile money in Zimbabwe, the Reserve Bank of Zimbabwe used the National Payment System Act (2001) and some internally developed policy guidelines to enable direct supervision of mobile money. The National Payment Systems Act (2001) is also collaborated by the Reserve Bank of Zimbabwe Act [Chapter 22:15], Banking Act Chapter [24:20] and the Post and Telecommunications Regulatory Authority of Zimbabwe Act (POTRAZ). These are represented by appendix 3, 4 , 5 and 6 respectively. The National Payments Act set rules and regulations that govern participation on the National Payment systems. The Act helps by clarifying rules for settlement obligations and clearing of payment instructions and provides a framework for the oversight of such rules. The National Payment Act is augmented by the RBZ Act [Chapter 22: 15], section 12 to this effect. The National Payment Act (2001), section 3(a) says that only financial institutions and the Reserve Bank are permitted to become participants in the National Payment System. The provisions of the Act above therefore infer thatall participation in the National Payment System to conduct retail payment services must involve a licensed bank.

The provisions of the Acts do not make any specific reference to the use of electronic money or mobile money. The National Payment Act also lacked a legal framework specifying rules around outsourcing services by banks to third party providers such as agents or mobile network operators to facilitate the respective components of retail payment service provision outside bank branches. The act requires individual banks to ensure proper risk management in an outsourcing scenario. The above scenario seem to suggest that outsourcing arrangements are to be managed through service level arrangements (SLA) which are approved in line with each individual bank's risk management framework. The Banking Act section 7(i)(1) states clearly that agents should be managed through SLAs and the risk lies with the bank that is answerable and not the mobile operator. It seems that nearly all mobile money products intend on using agents as part of their distribution network. The absence of a legal framework seem to suggest that the playing field is unevenly in favour of mobile network operator because in the event of the deal going wrong the loss lies with banks that are made answerable and not the agent or mobile network operators.

ANALYSIS

Interviewee responses the role that can be played by mobile banking to bank the unbanked were induced by asking the question "How would you describe the role of mobile banking to ensure that everyone is financially included". Some of the telling responses were that mobile networks have a wide coverage better than the coverage of all banks combined. Some mentioned that mobile banking could lower the cost of providing financial products, whilst some of the responses were that they are many challenges such as interoperability, the playing field was not evenly balanced and as things standard the law favour mobile operators at the expense of banks. The interviewer noticed the following body gestures as the interviewees expressed their points. The first respondent looked so excited when he articulated some of the benefits which banks and the unbanked stand to obtain using mobile banking, but suddenly the mood changed to that of emotional and hopelessness when explaining that the playing field was unevenly balanced in favour of mobile network operators. The second respondent talked with a loud voice when he was trying to put across that one network operator was denying them full use of its network, hesaid, "Tell me my brother how can you offer a mobile based product when one of the network operator is refusing to open up and share its network?" You could actually feel the anger in his voice. The third responded looked so dejected and simply said, “I think the regulatory authorities are letting us down, where is the regulator when all this is happening?”

From the interviews, the interviewees mentioned that mobile banking presented many opportunities to serve the lower end markets like rural areas. The respondents seemed to agree on the financial services and products that could be provided through mobile phones. They interviewee mentioned the following products and services that could be provided using mobile banking:

- Money transfers
- Bill payments
- Statement requests
- Balance enquiries
- Bulk payments
- Merchant payments
- Airtime top ups

Sixty percent of the respondents said mobile banking could be used to reach places that were ones inaccessible by banks at a lower cost. Forty-five percent argued that mobile banking could bring convenience since customers could transact in the comfort of their homes without the need to visit banks. All respondents agreed that mobile Banking would lower the cost of distribution and transacting thereby making financial products more affordable to the rural unbanked.

Eighty-five percent of the respondents admitted to have incorporated mobile products in their portfoliobut argued that mobile banking still has a long way before banks and its customers can realize its full benefits. The respondents cited that mobile banking was still constrained by issues of interoperability. They argued that in the absence of a legislation, whichgoverns the relationship between mobile network operators and banks, they are finding it difficult to operate the service. The interviewees claimed that one mobile network operator for example was refusing to open up its network for use by banks. There is only one mobile network operator that has opened up its network for use by banks by connecting to the Zimswitch platform. Connectivity to the Zimswitch platform benefit banks in the sense that interoperability would allow customers to transfer money using many platforms and they could easily do their merchandising without the need of a point of sale device using a Vplatform.

Fifty-five percent of the interviewees noted that mobile banking required the use of agents in several locations for it to be effective. The interviewees lamented the absence of such legislation by the regulatory authority. They argued that current legislation allowed individual banks to manage risk in the event of entering into an agent agreement at each individual bank's discretion. Interviewee argued that in the event of a loss the bank bears all the responsibility despite the fact that it was the agent who was negligent.

When the interviewer put across the following question"In your opinion do you see the current traditional banking model being completely replaced by mobile banking in the future?" Ninety percent of the respondents said that they did not see that way. Interviewee point out that technology was justan enabler but not a one size fit all model. They mentioned that human interface was a critical element needed when serving lower end markets and once completely removed it would be very difficult to serve those markets. Twenty five percent of the respondents point out mobile banking needs the involvement of a physical bank and without a bank involved, the services will only be payment services not banking services. They also argued that the current mobile payments services being offered by mobile network operators were more expensive as compared to the fees offered by banks. This study established that banks on average charge five dollars monthly for account maintenance, two dollars per each withdrawal and needs between ten dollars and twenty dollars to open a bank account while mobile operators charge five percent of the total amount send as service charges. Econet for example charge as high as seven percent of the total amount send to non-registered, mobile phones.

Ten percent of the interviewee however agreed that the current traditional banking model would be replaced unless it reforms. They argued that it is possible that mobile operators would replace banks in offering mobile payments. They noted that people might end up using mobile operators for the payment services instead of banks because mobile operators aim their products at the unbanked mostly. This study established that all mobile phone based products that were adopted by banks were bank based to comply with the RBZ Act that stipulates that mobile banking products must be backed by a registered bank.All the mobile products that were being offered focused on providing domestic remittances and basic payment services such as bill payment, mobile top up, merchant payments, largely targeted at existing customers.

All Mobile network operators (Econet, Telecel and Netone) support mobile money. Econet offer Ecocash, Telecel offer Telecash while Netone's product is called One wallet. Telecel opted to interconnect with Zimswtch and offer its network to a variety of financial institutions and the most prominent being CAB's Textacash and Kingdom Bank's Cell card.

The CGAP (2006,p.1)opined that with m-banking, low-income people no longer need to use scarce time and financial resources to travel to distant bank branches. This view was also shared by Makina (2012,p.29) who states that, besides being cheaper, transacting on mobile phones preserves productive time that might have been spent travelling to banks. The findings of this study were also in line with that of literature in this regard. This study found out that mobile banking brings with it convenience and lower costs as compared to conventional banking.

4.5 ROLE OF GOVERNMENT IN PROMOTING FINANCIAL INCLUSION

Analysis

Interviewee responses on the role played by government in promoting financial inclusion were induced by asking the following question "How would you describe the role of the government in promoting financial inclusion?" Some of the responses obtained were " There is no legislation governing agents, mobile banking and some of the laws like the KYC are stringent to promote financial inclusion"; "There are no proper infrastructure in the rural areas to support financial inclusion"; "Government must educate consumers about financial products”. The interviewer observed the following kinesics as interviewees expressed their opinions. The second interviewee looked in to the sky as he explained that facilities are nonexistent in many rural areas even if they would want to open a branch there. The fifth interviewee chuckled and the eighth interviewee laughed as she explained that the government was not in a capacity to subsidize banks for them to bank the poor unbanked in rural areas.

From the interviews ninety-eight percent of the interviewees expressed that government must provide infrastructure. The respondents mentioned that the infrastructure that is needed to provide financial services in rural areas is beyond the reach of any individual bank. In such a situation, the respondents argued that the government must intervene to provide the necessary infrastructure. The infrastructure cited by the respondents include, roads to reach remote areas, water, electricity, telecommunication and offices.

In addition, thirty-three interviewees mentioned that government must provide subsidies to banks in order for them to establish branches in rural areas. The respondents mentioned that products intended to serve the lower end of the market are normally not viable in the early stages and the only way they providers of such products could continue operating in those markets was through receiving subsidies from the government.

About twenty-four percent of theinterviewees mentioned that the government must act as a guarantor to rural people in order for them to access loans from banks because of their lack of collateral. They argued that it was highly risk to provide loans to rural people since they lacked assets that could be availed as collateral. They claimed in such a case they expected the government to act as the guarantor of such people.

The respondents were unanimous that the government was responsible for coming up with policies and regulations that promote financial inclusion. They mentioned that without appropriate policies it would be difficult to come up with initiatives that support financial inclusion.

Fifteen percent of the interviewees mentioned that government was responsible for educating the rural customers about financial products. When asked whether consumer education was the duty of government alone the interviewees seem to agree that providers of lower end products too were supposed to bear the responsibility of conscientising people about the existence of financial products.

While seventy-five percent of the interviewees mentioned that government acts as a transaction mover and they would expect it to move huge transaction like pensions through the banks. The interviewee said instead of the government paying individuals their pension directly; it must move such funds through the bank in order to encourage people open accounts with banks.

When asked whether they have received any incentive from government to bank the poor since dollarization, the respondents said they have received nothing. They however lamented that government showed some favouritism when moving funds that are intended to benefit lower end markets. The respondents claimed that certain banks always get priority ahead of others.This study however established that two banks namely CBZ and CABS were involved in the distribution of the youth empowerment funds.

When asked how they view current legislation like the Memorandum of Understanding on bank charges (MOU) agreed upon by the government and representative of banks. Therespondents unanimously mentioned the MOU on bank charges and an interest rate cap that was put in place by the government must be removed. They argued that the removal of bank charges makes the business of serving the poor unviable and unattractive and hence banks would be encouraged to serve the upper markets at the expense of lower markets. They also argued that the MOU and interest rates caps would influence negatively on their profits and without government subsidies, rural people would bear the brand.

The findings of this study that the main role of government in promoting financial inclusion was through policy formulation were in line with the literature of CGAP and the

World Bank. CGAP (2012, p.6) observed that government's most obvious role—viewed by many as its primary role—is that of rule maker. As rule makers, governments determine not only what efforts may be undertaken to promote financial inclusion, but also by whom, how, and when. The government also enacts laws that protect the consumers; promote innovative financial inclusion business models, including entry of new actors into the financial sector. The World Bank (2012) also noted further that the government is also responsible for enacting laws that ensure fair market practices, equitable treatment of customers, disclosure, redress, financial education, credit counseling and privacy. However, the role of government as a subsidizer that has been identified by the literature of the World Bankhas not been supported by the findings of this study. The findings of this study instead that the government was not financially sound to provide subsidies.

4.6 CONCLUSIONS

In the chapter research findings were presented and analyzed, the findings were discussed in conjunction with literature and gaps were identified. These gaps were addressed in the form of recommendations in the next chapter

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter seeks to draw conclusions and recommendations of the evaluation of financial inclusion strategies by Zimbabwean banks to ensure that every rural unbanked is included into the financial system. This chapter seeks to make recommendations on how best the research problem can be solved taking into account the different roles of the two critical players which are involved in promoting financial inclusion which are the government and the banking sector. Areas which needed further studies have been identified at the end of the chapter.

5.1 CONCLUSIONS

5.1.1 NO BASIC ENTRY SAVING ACCOUNT

The financial sector in Zimbabwe lacked a basic entry saving account earmarked for low income people which resulted in low income people being financially excluded, for example a bank statement is a prerequisite for one to access a loan or enjoy the benefits of mobile banking.Financial inclusion models that are currently in use favours wealth and salaried staff at the expense of the majority rural people who remain unbanked.The mobile banking model currently in use by banks is additive and only benefits the already bank leaving out the un-banked.

5.1.2LOW UP TAKE OF LOWER END PRODUCTS

Theuptake of lower end products was very low because stringent regulations such as the know your customer requirement and therefore banks were struggling to achieve a critical mass, a factor which affects their profitability. In addition to that, banks shunned lower products because they were not viable as a business option.

5.1.3 POLICY RESTRICTIONS

The memorandum of understanding on bank charges (MOU) worked negatively to affect the profitability of banks and also the ability of banks to provide products that were suitable for the lower end markets since it was no longer viable to do so. Interest rate caps were having the same negative effects on profitability as MOU onbank charges. Government's move to fix bank charges and put interest rates caps on banks severely compromised the smooth operation of banks and consequently the majority of the rural people were left unbanked as banks concentrated on the profitable upperor wealthier markets.

5.1.4 LACK OF INTEROPERABILITY

Interoperability between mobile network operators and banks proved to be a problem. Some mobile network operators have their mobile money facilities connected to Zimswitch platform while others were not. As a result the products offeredwere expensive and their uptake and use was very low making it difficult to achieve a critical mass.

5.1.5 LACK OF A LEGAL FRAME THAT GOVERNS AGENT BANKING

The researcher based on research findings concluded that there is lack of a legal framework that governs agent banking in Zimbabwe which makes it extremely difficult for banks to take advantage of the wide distribution networks built by other players throughout the country to distribute lower market end financial products and services.Banks could take advantage of post office, gasoline service station, localcouncils countrywide to distribute their products and services at a lower cost.

5.1.2. TESTING OF THE RESEARCH PROPOSITION

a) The first proposition argued current banking models are modeled in such a way that they appeal more to salaried staff and wealthy members of society. None of the banks which participated acknowledge to have a provision for a basic entry saving account and their mobile products too were meant to serve their current customers who have bank accounts already as opposed to serving new customers without bank accounts. Therefore this proposition was accepted.

b) The second proposition was that mobile banking was likely to replace conventional banking as the banking model of the future. Evidence showed that low income segments valued personal interface more than transacting virtually, therefore physical banks are very important in this area. There was no enough evidence to support this proposition and therefore it was rejected.

c) The third proposition proposes that current legislation promotes financial inclusion. Evidence has shown that current legislation never mentions financial inclusion and the Central Bank has to rely on internally developed policy when dealing with the issue of financial inclusion. Furthermore evidence showed that current stringent legislation like the know your customer provision place a high constraint on the banks capacity to bank as many poor as possible. Therefore evidence was not sufficient enough to support this proposition and as a result it was rejected.

5.3 RECOMMENDATIONS

5.3.1 ENACTMENT OF AN ELECTRONIC MONEY ACT

There is a need to come up with laws that govern the use of electronic money. Such an act should covers such issues as interoperability between networks and banks, use agents, product range permissible, risk management and whether a bank based model or network based model was to be used.

5.3.2FINANCIAL AWARENES CAMPAIGNS

There is need to introduce financial literacy awareness campaigns to increase consumer awareness. All banks and the government must set up a pooled marketing budget that is specifically meant to centrally market all the products and services aimed at the unbanked. The approach should take a clue from commodities whereby one advert from the supplier covers all the retail shops that sell that commodity or product. Banks and the government should jointly administer the fund. The funds would then be used to educate traditional heads and local non-government organizations about products and services that are being offered to the unbanked population. These leaders would then teach their subordinates or communities they serve.

5.3.3REDUCTION OF BANK CHARGES

Banks must be encouraged to lower bank charges and should work to earn more income from interest income than from non-interest income. Banks must also be encouraged to charge positive interest rates to encourage the unbanked to save with banks as opposed to keep their money underneath their pillows.The current bank charges are expensive to be afforded by low income people.

5.3.4GOVERNMENTAND PRIVATE PARTNERSHIP TO IMPROVE INFRASTRUCTURE

A partnership between the government and the private sector must be established in order to improve the availability of decent infrastructure in rural areas. Banks must be encouraged to collude in the provision of infrastructure and compete in pricing and product differentiation. Such a partnership between the main plays would ensure the availability of infrastructure in rural areas at affordable prices of which the benefit would be passed to final consumer in the form of low prices of products.

5.3.5 EASING OF THE KNOW YOUR CUSTOMER REQUIREMENT (KYC)

The regulatory authority must be encouraged to relax the know your customer relationship to allow banks to open basic accounts such as basic savings accounts. Such accounts are would allow those rural unbanked people who were previous denied access to bank accounts due to lack of proper documentation to open their accounts.

5.4 GENERALIZATION

A large sample of twenty banks out of the twenty-two banks that were available managed to take part in the interviews and also the respondents involved were knowledgeable and experience people who happen to be senior manager who were involved with products and services earmarked to serve lower end markets. So these results can be generalized and if a research of a similar nature is carried out it would identify similar issues.

5.5 AREA OF FURTHER STUDY

The strategies and the impact of mobile banking in promoting financial inclusion in Zimbabwe needs to be looked at as a topic for further studies. Since dollarization mobile banking services have experienced tremendous growth as opposed to the growth of conventional banks meaning that there was an upsurge in the demand of mobile banking products and services in the dollarized era. Emphasis must be put on establishing which model is the most appropriate between the bank led model and the mobile network operator led model.

REFERENCES

1. Adams, J., Khan, H.T.A., Raeside, R. and White, D. (2007). Research Methods for Graduate Business and Social Science Students. Sage Publications, Inc., London.

2. Ambarkhane, D. and Sahasrabunde, S. (2013). Financial inclusion and role of cooperative banks. *ASM's International E-Journal of Ongoing Research in Management and IT e-ISSN-2320-0065.*

3. Alliance for financial inclusion (AFI), (2010). *The AFI Survey on financial inclusion policy in developing countries*:(Preliminary Findings. April 2010).

4. Alliance for financial inclusion (AFI), (2012). *The 2012 AFI Global Policy Forum Report: Making Financial Inclusion Real*: (The 2012 AFI Global Policy Forum, Cape town, South Africa).

5. Assibey, E.O. (2009). Financial exclusion: What drives supply and demand for basic financial services in Ghana?

6. Access Through Innovation Sub-Group (2010). ATISG *Innovative Financial Inclusion*. Principles and Report on Innovative Financial Sub-Group of the G 20 Financial Inclusion. Experts Group. Retrieved from: www.cab.org.ICTportal/lists/.../Global%20Insight_23_12_2007pdf

7. Beck, T. and Demiurgic¸-Kunt, A. (2008). Access to Finance: An Unfinished Agenda. *The World Bank Economic Review, 22(3), p 383- 396.*

8. Beck, T., Demiurgic¸-Kunt, A, and Levine, R. (2007). Finance, Inequality and the Poor: Cross-Country Evidence*. Journal of Economic Growth 12(1), p27–49.*

9. Beg, M.A (2012). *Financial Inclusion: Gateway for Poverty and Unemployment*. India, Zaskar Husain College, University of Dehli.

10. Bhanot, D., Bapat, V., and Bera, S. (2012). Studying financial inclusion in north-east India. *International Journal of Bank Marketing, 30(6),p.465-484.*

11. Bhattecherjee, A. (2012). Social Science Research: Principles, Methods, and Practices. University of South Florida.USA.

12. Bhuiyan, A.B.,Siwar, C., Ismail, A.G and Hossain, T.B. (2012). Microcredit Impact on Children's Education and Women Empowerment: A Review experience of Grameen Bank Microfinance Schemes in Bangladesh*. Research Journal of Applied Sciences, Engineering and Technology 5(1): 66-71.*

13. Biti, T. (2013) Statement on the 2013 Budget. Ministry of Finance (November).

14. Boston Consulting Group. (2007). The Next Billion Consumers. A Road Map for Expanding Financial Inclusion in India: Boston, USA: Sinha, J. and Subramanian A.

15. Brewer, J. and Hunter, A., (2006). Multimethod Research. The Multimethod Approach and its Promise. SAGE Publications, Ltd. Doi: 10.4135/9781412984294.

16. Bryman, A. (2004) Social Research Methods (2nd edn). Oxford: Oxford University Press.

17. Buffie, E. F. (1984). Financial repression, the new structuralists and stabilisation policy in semi-industrial economies. Jounal of development economics, 305-322.

18. Casterns, M. (2013). Kenya's M-shwari crosses KSh 1billion inmobile banking transactions a month.

Retrieved from:ventureburn.com/…/kenyas-m-shwari-crosses-ksh1-billion

19. Center For Financial Services Innovation (2008). CFSI, Lessons from South Africa: Innovations and opportunities in under banked services.

20. Chilisa, B., and Preece, J. (2005). *Research methods for adult Education in Africa*. Pearson Education South Africa.

21. Chopra, P., and Wright, G.A.N. (2011). Financial Inclusion Through E/M-Banking.

22. Clarke, D., Lotto, L. and Astuto, T. (1984). Effective schooling and school improvement: A comparative analysis of two lines to inquiry. *Educational Administration Quarterly20, pp. 41-68.*

23. Crosby, L. A. and Stephen, N. 1987. Effects of relationship marketing on satisfaction

24. Consultative Group to Assist the Poor (2012).CGAP: *Financially Inclusive Ecosystems: The Roles of Government Today.* Focus Note number 76.

25. Consultative Group to Assist the Poor (2011). CGAP: Technology Program Country Note South Africa (May 2011).

26. Consultative Group to Assist the Poor [CGAP] (2006). *Mobile Phone Banking and Low-Income Customers*. Evidence from South Africa.

27. Chibba, M. (2009). Financial inclusion, Poverty Reduction and the Millennium Development Goals. *European Journal of Development Research (2009) 21, p. 213- 230.*

28. Chokoko, L. and Mangwendeza, P. (2012) Financial inclusion by Zimbabwean Commercial Banks in a Liquidity constrained Environment. *Journal of Economics and International Finance vol. 4(10), p 252-259.*

29. Christen, R.P. (2010). Beyond Microcredit: Delivering Financial Services to the Poor through Agent Banking.

30. Cracknel, D. (2012). Policy Innovations to Improve Access to Financial Services in Developing Countries: Learning from Case Studies in Kenya.

31. Cull, R. and Scott, K. (2010). Measuring Household Usage of Financial Services: Does it Matter How or Whom You Ask? *The World Bank Economic Review, 24(2), p.199-233.*

32. Gallagher, M. (2009). 3 Data Collection and Analysis. In Researching with Children and Young People: Research Design, Methods and Analysis. (pp. 65-77). London: SAGE Publications Ltd. Retrieved fromhttp://srmo.sagepub.com/view/researching-with-children-and-young-people/SAGE.xml

33. Gomm, R.,Hamersley, M. and Foster P. (Eds.), (2009). Case Study Method. (pp. 116-118). SAGE Publications Ltd. Retrieved from http://srmo.sagepub.com/view/case-study-method/SAGE.xml

34. Dermish, A., Kneiding C., Leishman, P., and Mas, I. (2012). Branchless and Mobile Banking Solutions for the Poor: A Survey of the Literature.

35. Enhancing Financial Innovation & Access (2011). EFInA: evaluation of Agent Banking Models in different countries.

36. Eriksson, P., & Kovalainen, A. (2008). 2 Research Philosophy. In *Qualitative Methods in Business Research.* (pp. 11-25). London, England: SAGE Publications Ltd. doi: http://dx.doi.org/10.4135/9780857028044.d8

37. FATF/OECD (2011). Anti- money Laundering and terrorist financing measures and Financial inclusion.

38. Federal Reserve Bank of Dallas (2011). *Hyperinflation in Zimbabwe*. (Global and Monetary Institute 2011 Annual Report).

39. Fin Mark Trust (2009). *The Mzansi Account Initiative in South Africa.* Financial Report (May 20).

40. Fin Mark Trust (2010). *South African Financial Diaries and the Mzansi Initiative:* Five years later.

41. FinMark Trust (2012). Mapping the Retail Payment Service Land scape Zimbabwe (August).

42. Fraenkel, J.R. and Wallena, N.E (1996). How to Design and Evaluate Research in Education. 4th Ed. New York, McGraw-Hill, Inc.

43. Gardeva, A. and Ryne, E. (2011). *Opportunities and Obstacles to Financial Inclusion*. Center for Financial Inclusion Publication 12.

44. Gono, G.(2013) Monetary Policy Statement. Reserve Bank of Zimbabwe (31 January).

45. Gono, G. (2012b) Monetary Policy Statement. Reserve Bank of Zimbabwe (31 July) Gono

46. Gono, G. (2011a) Monetary Policy Statement. Reserve Bank of Zimbabwe (January).

47. Gono, G. (2010a) Monetary Policy Statement. Reserve Bank of Zimbabwe (29 January).

48. Gono, G. (2007) Rural Banking , Financial Inclusion and Empowerment of Small to Medium Enterprises: A supplement to the January 2007 Monetary Policy Statement. Reserve Bank of Zimbabwe (31 January).

49. Government of Zimbabwe (2010) Medium Term Plan . Ministry of Economic Planning and Investment Promotion (January 2010- December 2015)

50. Heron, J. (1996), Co-operative inquiry: research into the human condition, London, Sage.

51. Hingrajiya, S.K. (2012). *A study on business correspondent model under financial inclusion drive in Surendranager district of Gujarat*. (Summer Internship Project, Dhirubhani Ambani Institute of information and communication Technology (DA-IICT), Gandhinagar, Gujarat).

52. Hulme, D. (2008).*The Story of the Grameen Bank: From Subsidised Microcredit to Market-based Microfinance*.(BWPI Working paper 60) United Kingdom: University of Manchester, Brooks World Poverty Institute.

53. Hulme, D. and Mosley, P. (1996). *Finance against Poverty*. London: Routledge.

54. Ibeachu, E. H. (2010). Comparative analysis of financial inclusion: A study of Nigeria and the UK, .Master Degree Thesis in International Business Leeds Metropolitan University Faculty of Business & Law

55. Imboden, K. (2005). Building Inclusive Financial Sectors: The Road To Growth And Poverty Reduction. *Journal Of International Affairs, 58(2), p65-86*.

56. Levine, R. (2004), *Finance and Growth: Theory and Evidence, national Bureau of Economic Research,* Working Paper 10766, September 2004, http://www.nber.org/papers/w10766

57. Lewis-Beck, M.S., Bryan A., and Liao, T.M. (2004). Multi-Strategy Research. The SAGE Encyclopedia of Social Science Research Methods. (pp. 699-700). Sage Publications, Inc. Doi: 10.4135/9781412950589.n605

58. Lucas, R. E., (1988). *On the mechanics of economic development*. Journal of Monetary Economics, 22(1),3-42.

59. International Financial Corporation (2012). IFC:Ensuring Financial Inclusion via Mobile Money *. Journal of E-Governance 35(2012), 71-76.*DOI. 10.3233/Gov-2012-0296.

60. Institute for Development and Research in Banking Technology (2010-2011). Technology in Banking- Insight and Foresight. (Established by Reserve Bank of India.)

61. International Monetary Fund (2012) Zimbabwe: Staff Report for the 2012 Article iv Consultation

62. International Monetary Fund (2011).Official Dollarization as a Monetary Regime: Its Effects on El Salvador. IMF Working Paper

63. Jack, W.,Suri T., Townsend, R., (2010). *Monetary Theory and Electronic Money: Reflections on the Kenyan Experience*. Federal Reserve of Richmond, Economic Quarterly (first quarter,2010), 96(1), 83–122.

64. Jan, M., Bohra S. and Mathur T.N. (2012). Financial services to excluded sectors through Financial inclusion. *Arth Prabhand: A Journal of Economics and Management, 1(2), ISSN 2278-0629.*

65. Johnson, D. and Morduch J. (2008). The Unbanked: Evidence from Indonesia. *The World Bank Economic Review, 22(3), p 517-537.*

66. Kachembere, J. (2012) Biti's bank reforms detrimental: kingdom bank. The Zimbabwe Daily News. Retrieved: 02 April, 2013

67. Kairiza, T. (2010) Unbundling Zimbabwe,s Journey to hyperinflation and official dollarization. Discussion paper, Tokyo, GRIPS Policy Information Center.

68. Kempson, E and Collard, S (2012) Developing a vision for financial inclusion, London: Friends Provident Foundation

69. Klein, M.and Mayer, C. (2011). *Mobile Banking and Financial Inclusion. The Regulatory Lessons*: The World Bank Financial and Private Sector Development: Public-Private Infrastructure Advisory Facility Policy. Research Working Paper 5664

70. Karmakar, K.G. (2010) Financial Inclusion: Branchless Banking and Beyond. National Bank for Agriculture and Rural Development, India. ETI Dynamics Ltd,UK.[Internet],p.1.Retrieved:from:<http://ticorridors.com/IndiaUK/Lists/Featured%20Reports/Attachments/11/2010_06_30_Ch_Reports_Financial%20Inclusionbranch%20less%20banking.pd

71. Kumar, A. and Gupta H. (2009) Branchless Banking and Financial inclusion.

72. Kurmar, C. and Mishra S. (2011). Banking Outreach and Household level Access: Analyzing Financial Inclusion in India.

73. Makina, D. (2012), *Financial Sector Development and Resource Mobilization: Situation Analysis and Policy Options for Zimbabwe*, ZEPARU. Occasional Paper.

74. Makina, D. (2009). *Recovery of the Financial Sector and Building Financial Inclusiveness*. UNDP Working Paper Series, Working Paper No. 5, UNDP Zimbabwe.

75. Mariampolski, H. (2001). Qualitative Market Research. A comprehensive guide. Sage Publications, Inc., London.

76. Maritz, J. (2012). M-shwari: Kenya takes another step towards boosting financial inclusion. Retrieved from www.howwemadeitinafrica.com/m-shwari 13 August 2013.

77. McMillan, J. H., & Schumacher, S. (2006). Research in education: Evidence-Based Inquiry. New York. Pearson Education, Inc.

78. Menon, J. (2007) .*Dollarization and the Multiple Currency Phenomenon in Lao PDR: Costs, Benefits and Policy Options.* ADB Institute Discussion Paper No. 58.

79. Mehrotra, Nirupam, Puhazhendi, V., Nair G Gopakumaran and Sahoo, B.B., (2009). *Financial Inclusion-An Overview,* Department of Economic Analysis and Research, National Bank for Agriculture and Rural Development (NABARD), Occasional Paper No. 48, Mumbai, 2009.

80. Metre, k.. (2012). *Using Mobile Banking Services to Improve Financial Access for the Poor:* Lessons from Kenya, the Philippines, the United States, Haiti, and India.

81. Miller R.L and Brewer J.D. (2003). The A-Z of Social Research. SAGE Publications, Ltd. Doi: 10.4135/9780857020024.

82. Miller, D. (1983). Handbook of research design and social measurement. 4th ed. London: Longman.

83. Moloi, M. (2009). *Strategies for optimizing financial inclusion in South Africa.* (Master's Thesis, The University of Pretoria, South Africa).Retrieved from http//www.connecting-africa.net/query-2.php?=800028526.

84. Mor, N., and Ananth B., (2007). *Inclusive Financial Systems. Some Design Principles and a Case Study.* Economic and Political Weekly, 42(13), p. 1121-1126.

85. Nachmias, C. F. and Nachmias, D. 2008. Research methods in the social sciences. 7th ed. New York: Worth.

86. Nalini G.S and Mariappan K. (2012) The Role of Banks in Financial Inclusion. *Research Journal of Commerce and Behavioural Science,*

87. Ndlovu I., Ndlovu M. (2013).Mobile Banking the Future to Rural Financial Inclusion: Case Study of Zimbabwe*. IOSR Journal Of Humanities And Social Science (IOSR-JHSS) 9(4) PP 70-75.*

88. Noko J. (2011) Dollarization: The Case of Zimbabwe. *Cato Journal, vol.31*, *p339-365.*

89. Onaolapo A. A. and Odetayo T. A. (2012).Financial Inclusion as Tools for Survival in Globally Competitive Environment: Lessons for Nigerian Microfinance Banks*. American Journal of Business and Management 1(4), p.241-247*

90. Olit B. F (2012). *Financial inclusion in Spain: A comparative study among banks, savings banks and cooperative banks.* (PHD, Universidad Nacional de Educación a Distancia, Spain).

91. Patton, M. Q. (2002). Qualitative research and evaluation methods. Sage Publications, Inc., London.

92. Payne, G., & Payne, J. (Eds.). (2004). Key Concepts in Social Research. SAGE Publications, Ltd. Doi: 10.4135/9781849209397

93. Pickering K. and Mushinski D.w. (2001). Cultural Aspects of credit Institutions: Transplanting the Grameen Bank Credit Group Structure to the Pine Ridge Indian Reservation. *Journal of Economic issues, 35(2),p. 459-467.*

94. Pierce, R. (2008). Chapter 3 The Philosophy and Principles of Research. In Research Methods in Politics. (pp. 22-38). London, England: SAGE Publications Ltd. doi:http://dx.doi.org/10.4135/9780857024589.d6

95. Porteous, D. (2006). The enabling environment for mobile banking in Africa. London: DFID

96. Porteous, D. (2006). The enabling environment for mobile banking in Africa. Bankable Frontiers Associates, Boston, USA.

97. Puhazhendi V. (2012). Financial Inclusion - Forward step for Micro Finance Sector. *The Journal of Indian Institute of Banking and Finance, 83(2), p 5-64.*

98. Reddy R.K (2012). Financial inclusion: Road ahead. *The Journal of Indian Institute of Banking and Finance, 83(2), p 5-64.*

99. Robinson, M. (2001). *The Microfinance Revolution*. Vol. 1. Washington, D.C: World Bank.

100. Robson, C. (2007) Real World Research. 2nd edition. Blackwell Publishing.

101. Robson, C. (2002). Real World Research: A Resource for Social Scientists and Practitioner- Researchers 2nd ed. Oxford: Blackwell.

102. Rowlingson, K., and Mckay S. (2013) Financial Inclusion Annual Report . University of Birmingham, UK.

103. Roland W. Scholz, & O. Tietje (Eds.), Embedded Case Study Methods. (pp. 9-15). ThousandOaks,CA:SAGE Publications,Inc. doi: http://dx.doi.org/10.4135/9781412984027.n2

104. Sa-Dhan. The Association of Community Development Finance Institutions (2012). Financial Inclusion. A study on the efficacy of Banking Correspondent Model. International Journal of Finance and Economics, vol 93,ISSN 1450-2887.

105. Sahu S.U.C (2012). *Profitable Financial Inclusion Model*: State Bank of India Monthly review (July).'

106. 'Saleem Z and Rashid K. (2011). Mobile Banking Adoption in banking sector of Pakistan. *Journal of Yasar University 21(6), p. 3538-3560.*

107. Sapsford, R. (2007). Survey Research. (2nd). SAGE Publications, Ltd. Doi: 10.4135/9780857024664

108. Saunders, M., Lewis, P. and Thornhill, A. (2007). Research methods for business students. 4th ed. London: Prentice Hall."

109. Senthe S.E. (2012). Transformative Technology in Microfinance: Delivering Hope Electronically? Volume XIII – Fall 2012

110. Schoombee, A. (2000) Banking for the poor. The success and failures of South African banks.DEVNET conference on "Poverty, Prosperity and Progress." New Zealand: Victoria University of Wellington.

111. Schreiner M (2003). A cost-effectiveness Analysis of the Grameen Bank of Bangladesh. *Development Policy Review 21(3): 357-382.*

112. Sibanda G (2011 February). Banks still shun rural areas: RBZ. The Zimbabwe Herald. Retrieved: 2 Feb 2011.

113. Simons, H. (2009). Case Study Research in Practice. London: SAGE Publications, Ltd. Doi: 10.4135/978144626832

114. Sharma M. (2011) Profitable models for financial inclusion – Issues and concerns: Canara Bank.

115. Silverman D. (2000). Doing Qualitative Research. A Practical Handbook. SAGE Publications Ltd (1ST ed.) Thousand Oaks. New Delhi.

116. Stake, R. (2009). 1 The Case STudy Method in Social Inquiry. In R. Gomm, M. Hammersley, & P. Foster (Eds.), Case Study Method. (pp. 18-27). SAGE Publications Ltd. Doi: 10.4135/9780857024367.d5.

117. Strauss, A., & Corbin, J. (1990). Basics of qualitative research: Grounded theory procedures and techniques. Newbury Park, CA: Sage Publications, Inc.

118. Swamy V. (2011) Financial Inclusion in India: An Evaluation of the Coverage, Progress and Trends. *The IUP Journal of Economics, vol. 9, p 8-26.*

119. Stenbacka, C. (2001). Qualitative research requires quality concepts of its own. Management Decision, 39(7), 551-555.

120. Taruvinga A. (2012) banks under pressure to reduce charges. Kingdom market report.

121. African Development Fund, (2012). Zimbabwe monthly economic review (7 June).

122. Van Teijlingen, E. and Hundley, V. (2001). The Importance of Pilot Studies, Social Research Update, (35), pp. 1-4.

123. Vererakumar k. (2012). No-frills Accounts—An Instrument to combat 100% Financial Exclusion in rural India. Advances in Management, 5(11).

124. Vogt W.P. (2005). Dictionary of Statistics and Methodology. (3RD ed.). SAGE Publications, Inc. Doi: 10.4135/9781412983907

125. Vogt W. P. (Ed.) (2005)., Case-Study Method. Dictionary of Statistics & Methodology. (3rd ed., p. 39). SAGE Publications, Inc. Doi: 10.4135/9781412983907.n238.

126. Wahld A. N.M., (1994).The Grameen Bank and Poverty Alleviation in Bangladesh:Theory, Evidence and Limitations. *The American Journal of Economics and Sociology, vol 54, p.1-15.*

127. Walliman, N. (2006). Social Research Methods. (pp. 37-50). London, England:SAGE Publications,Ltd.doi*:http://dx.doi.org/10.4135/9781849209939.n4*

128. White, P. (2000). Dissertation Skills for Business and Management Students: Cassell

129. Woods, P. (2006). Qualitative Research, Faculty of Education, University of Plymouth, viewed 22 April 2014, http://www.edu.plymouth.ac.uk

130. World Bank (2012). Financial Inclusion Strategies Reference Framework.

131. World Bank.(2007). *Finance for All? Policies and Pitfalls in Expanding Access*. Policy Research Report. Washington, D.C.: World Bank.

132. World Bank (2006). Expanding Bank Outreach through Retail Partnerships. Correspondent Banking in Brazil. *W o r l d B a n k W o r k i n g P a p e r N O . 8 5.*

133. Yin, R. (1989) Case Study Research: Design and Methods. Newbury Park and London: Sage.

134. Zimbabwe National Chamber of Commerce (2012). Fin scope Consumer Survey: Retrieved: www.znccharare.co.zw/.../40-of-zim-population-unbanked.

135. Zikmund, W.G. (2003). Business Research Methods (7Th ed.) . Ohio: Thompson.

136. Zikmund, W.D. (1997). Business Research Methods. 6th ed. Ohio, Harcourt Brace College Publishers.

APPENDICES

APPENDIX 1: INTERVIEW GUIDE

INTERVIEW GUIDE

These questions act as guidelines in order for this researcher to elicit information from interviewees. The bullet points acts as a check list to ensure that the required areas are covered and to prompt the respondents.

INTERVIEW QUESTION	RESEARCH QUESTION
What models are currently in use by banks to reach the unbanked in rural areas? In your opinion which model do you think is the most appropriate to serve the rural unbanked? • Comment on the use of the branch model • comments on the use of microfinance models • how inclusive are the models • Security required when giving out loans • Do you offer a basic entry account?	APPROPRIATE FINANCIAL INCLUSION MODELS
In your opinion, what kind of banking services would the rural unbanked want? • Which of the products are most preferred by the rural people? • In your opinion what could be the main reasons why the products are most preferred? • What are your thoughts on small products • What are your thoughts on speed	BANKING SERVICES REQUIRED BY RURAL PEOPLE

<table>
<tr><td>What are your thoughts on flexibility
What are your thoughts on simplicity</td><td></td></tr>
<tr><td>Is it possible to provide banking services to the rural unbanked profitably?
If possible, how can profitability be improved?
What are your thoughts about those who say that it makes business sense to build a business model that focuses entirely on serving the poor or does it make business sense for an organization to focus on a wider segment of the market to survive (why?
What is your thoughts on those who say you have to improve on your product design, outsourcing, use single channel of distribution to move many products, improve efficiency throughout the value chain and leverage technology to improve on profitability</td><td>PROFITABILITY</td></tr>
<tr><td>How would you describe the role of mobile banking in ensuring that everyone is financially included?

In your opinion do you see the current traditional banking model being completely replaced by mobile banking in the future?
Do you offer mobile banking, and if you offer what is its name?
What do you think are the advantages of mobile banking to your bank?
What products or services are offered through your mobile banking
What products or services have the highest uptake and why?
In which way mobile banking can be used to improve access
Is your mobile banking, bank led or non-bank led?</td><td>Uses of mobile banking as a tool to increase financial inclusion (question 4)</td></tr>
</table>

• Which model in your opinion is the most effective and why? • What are your thoughts on the role of mobile banking in serving the unbanked rural poor?	
How would you describe the role of the government in promoting financial inclusion? • Is there any help or incentive, which your organization has received from government in the last 5 years? • In your opinion, what kind of help would you expect to receive from government? • In your thoughts, do you think the government is doing enough to promote financial inclusion, and if not what do you think it should do? • What is your thought on those who say that, consumer education responsibility must not be left to government alone but banks must also take an active step? What recommendations can you give in order to improve access to financial products by the rural poor?	Role of government in financial inclusion (question 5)

APPENDIX 2: INTERVIEWEE PROFILES AND THEIR INSTITUTIONS

INSTITUTION	POSITION	YEARS ON THE POSITION
Agribank	Marketing and Sales Manager	7 years
Afrasia Bank	Microfinance Manager	3 years
Barclays Bank	Head of Retail Banking	5 years
CABS	Mobile Banking Project Team Leader	5 years
Capital Bank	Product Development Officer	4 years
CBZ	Microfinance Manager Branch Manager	8 years 10 years
Ecobank	Head of Banking Operations	2 years
FBC	E-channel Manager Branch Manager	6years 5 years
POSB Bank	Branch Manager	4 years
Stanbic Bank	IT Manager	4 years
Standard Chartered Bank	Operations Manager	2 years
Steward Bank	Marketing and Sales Officer	1 year
Zb Bank	Branch Manager	9 years
Metbank	Head of IT	7 years
Allied Bank	Marketing and Sales Officer	5 years
Banc ABC	Head of Retail Banking	6 years

	Services	
RBZ	Senior Executive National Payment Systems	10 years
NMB	Product Development Manager	6 years

APPENDIX 3

NATIONAL PAYMENT SYSTEMS ACT: Chapter 24:23

Section (3) of this Act stipulates the nature of institutions, which are allowed to participate in the National Payment System. The Act left out mobile network operators despite them being a competitive member in the provision of mobile money. The NPS Act also does not specify any rules around outsourcing services by banks to third party providers (such as agents or MNO's) to facilitate the respective components of retail payment service provision outside of bank branches. In the absence of such specific rules, the NPS Act requires regulated institutions to ensure proper risk management measures are in place including in an outsourcing scenario. Such outsourcing arrangements are managed through service level agreements, which are approved in line with the bank's risk management framework. Section 18 of the Act clearly prohibits the use of agents. The resulting effect is the inability of banks in the country to make use of agents especially in remote areas where it is normally difficulty to reach using the convectional banking model.

PART II

PAYMENT AND SETTLEMENT SYSTEMS

(3) The Reserve Bank shall not recognize a payment system in terms of subsection (1) unless it is satisfied that – (a) only financial institutions and the Reserve Bank are permitted to become participants in the system; and (b) the system fairly represents the interests of all financial institutions that are or will become participants in the system and (c) the Reserve Bank will be able adequately to monitor and regulate the system and the activities of its participants in order to ensure compliance with this Act and the 18 Prohibition against payment intermediation (1) subject to subsection(3), no person other than-(a) a participant in a recognized payment system, acting in accordance with the system's constitution or rules; or (b) a person introduced by a participant in a recognized payment system in accordance with a provision of the system's constitution or rules referred to in subparagraph (v) of paragraph (d) of subsection (3) of section three; shall, as a regular feature of his business, accept money or a payment instruction from any other person for the purpose of making a payment on behalf of that other person to a third person to whom the payment is due.

APPENDIX FOUR

The Reserve Bank Act: Chapter (22:15)

Section 12 of this Act augments the NPS Act to govern participation in the National Payment System by stipulating the financial services, which can be traded. The Act does not mention mobile money as one of the products that can be traded. The absence of a legislation, which governs mobile money, therefore continues to hinder the development of mobile banking.

PART II

RESERVE BANK OF ZIMBABWE

12 Inter-bank clearing and payment arrangements

The Bank may assist banking institutions in organizing facilities for the clearing and settlement of inter-bank payments, including payments by cheque or other instruments, and may for that purpose, establish such procedures and issue such directions to banking institutions, as it considers appropriate.

13 Discount operations of Bank

(1)The bank may, in respect of a banking institution which holds an account with the Bank, discount the following instruments-

(a) Bills of exchange and promissory notes which are payable in Zimbabwe, whether they are dominated in Zimbabwean currency or a foreign currency:

Provided that the Bank shall not discount such a bill or note unless it bears the signatures of at least three solvent parties of which at least one shall be a banking institution, and matures within three months after its acquisition by the bank; and

(b) subject to subsection (2) of section seven, bills, notes and other debt securities which are issued or guaranteed by the State or by the Bank and which are payable in Zimbabwe, whether they are dominated in Zimbabwean currency or a foreign currency: Provided that the Bank shall not discount such a security unless it matures within three months after its acquisition by the Bank; and

(c) Obligations of statutory bodies.

(2) The discount operations of the Bank shall be subject to such terms and conditions, including the discount rate, as the bank may determine.

(3) The Bank may, without giving any reasons, refuse to discount any of the instruments referred to in subsection (1)

APPENDIX FIVE

BANKING ACT: Chapter 24:20

Section 5 of this Act also places restriction on who is supposed to conduct banking business in Zimbabwe. Only banks are allowed to operate banking services. Mobile network operators would not be in a position to offer banking services unless they enter into partnership with registered banks. The Act also does not specify any rules around outsourcing services by banks to third party providers (such as agents or MNO's) to facilitate the respective components of retail payment service provision outside of bank branches. In the absents of such specific rules, the NPS Act requires regulated institutions to ensure proper risk management measures are in place including in an outsourcing scenario. Such outsourcing arrangements are managed through service level arrangements, which are approved in line with bank's risk management framework. The Act however recognized the existence of agents on section 7(1) (i).

PART III

REGISTRATION OF BANKING INSTITUTIONS

5 Banking business and banking activities not to be conducted except by registered banking institutions

(1) No person, other than a registered banking institution, shall conduct banking business in Zimbabwe
(2) No registered banking institution shall –
   (a) Conduct any class of banking business unless it is registered in that class;
   (b) Subject of subsection (2) of section seven, engage in banking activity that is not specified in its registration certificate

(3) Any person who contravenes subsection (1) or (2) shall be guilty of an offence and liable to a fine not exceeding level fourteen or to imprisonment for a period not exceeding five years or to both such fine and such imprisonment. [Amended by Act 22 of 2001 with effect from the 10th September, 2002]

6 classes of banking business

(1) The classes of banking business in which a banking institution may be registered are –

(a) The business of a commercial bank ; or (b) the business of accepting house; or (c) the business of a discount house ; or (d) the business of a finance house

(2) No banking institution shall be registered in more than one class of banking business: Provided that this subsection shall not be construed as limiting the number or nature of banking activities that maybe specified in its registration certificate

7 Banking activities

(1) The banking activities that maybe specified in registration are –(a) receiving deposits; (b) extending credit, including –

(i)consumer and mortgage credit ;and (ii)factoring, with or without recourse, and (iii)the financing of commercial transactions; and (iv) the recovery ,by four closure or other means, of amounts so extended; and (v) forfaiting, that is to say, the medium–term discounting without recourse of bills, notes and other documents evidencing an exporter's claims on the person to whom the exports are sent ; (c) buying and selling instruments whether for the account of the banking institutions concerned or for the account of its customers including the underwriting of – (i) money market instruments including cheques, bills of exchange and certificates of deposit; and (ii) futures, options and other financial derivatives relating to debt securities or interest rates; and (iii) exchange and interest rate instruments; and (iv) debt securities and equity; (d) providing money transmission services; (e) subject to the Exchange Control Act [Chapter 22:05], buying and selling foreign currencies (f) issuing and administering means of payment, including credit cards, travellers' cheques bankers' drafts ; (g) money broking; (h) the safe keeping and administration of valuables, including securities; (i) providing services as a portfolio manager or adviser or as a financial agent or consultant; (j) financial leasing; (k) entering into or taking session or hire-purchase contracts in accordance with Hire-Purchase contract [Chapter 14:09]; (l) buying and selling shares on behalf of customers; (m) providing credit reference services; (n) such other activities as maybe prescribed

APPENDIX SIX

The Bank Use Promotion and Suppression of Laundering Act [Chapter 24:24]

Section 24 of the Act stipulates requirements, which banks have to verify before opening an account with them. The stringent requirements required place a dent on the effort of banks to take as many unbanked rural poor as they would want for them to attain a critical mass needed to become profitable.

PART IV

[Came into force on the 1st September 2004 – SI 177/04-Editor.]

Suppression of Money Laundering

"Identity document"- means --

(a) A document issued to a person of subsection (1) or (2) of section 7 of the National Registration Act [Chapter 10:17], or a passport or drivers licence issued by or on behalf of the Government of Zimbabwe; or
(b) Any visitors entry certificates or other certificate or permit issues to a person in-terms of the Immigration Act [Chapter 4:02], or in-terms of any enactment relating to refugees; or
(c) Any passport, identity document or drivers licence issued by a foreign government

24 Designated institutions to verify customers' identity

(1) A designated institution shall take reasonable to confirm the true identity of every applicant ,by requiring the following
    (a) An identity, where the applicant is an individual; and
    (b) Certificate of incorporation together with the latest annual tax return to the Zimbabwe Revenue Authority, where the applicant is a body corporate.
(2) Where an applicant requests a designated institution to enter into-
(a) A continuing business relationship with him or her; or
(b) To carry out a transaction for him or her, which relates to relevant financial business; such as designated institutions shall take reasonable steps to establish whether that person is acting on behalf of another person.
(3) If it appears to a designated institution that an applicant referred to in subsection (2) is acting on behalf of another person ,the designated institution shall take reasonable steps to establish the true identity of the person on whose behalf the applicant maybe acting, whether as trustee, nominee, agent or otherwise.

(4) In determining what constitutes reasonable steps for the purpose of subsections and (3), regard shall be had to all the circumstances of the case, and in particular to –
   (a) Whether the applicant is a person based or incorporated in a country their laws in force that prevent the use of the financial system for the purpose of money-laundering; and
   (b) The custom and practice that may from time to time be prevalent in the relevant field of business.

(5) Nothing in this section shall require the production any evidence of identity where-
   (a) The applicant is a designated institution; or
   (b) The applicant has produced satisfactory evidence of identity.

25 Designated Institutions to establish and maintain customer records

(1) A designated institution shall establish a register in which shall be recorded
   (a) The name, address and occupation or, where appropriate, the business or principal activity of each person conducting a transaction and if known on whose behalf the transaction being conducted; and
   (b) The nature and date of the transaction; and
   (c) The type and amount of currency involved; and
   (d) The type and identifying number of any account opened with the designated institution; and
   (e) If the transaction involves a negotiable instrument the name of the drawer of the instrument, the name of the institution on which it was drawn , the name of the payee, if any, the amount and date of the instrument, if any ,details of any endorsements appearing on the instrument; and
   (f) The name and address of the designated institution, and of the officer, employee or agent of the designated institution who prepaid the report of the transaction

(2) Records required under subsection (1) shall be kept by the designated institution for a period of at least 5 years from the date the business or transaction was completed

26 Designated institutions to report suspicious transactions

(1) Whenever a designated institution is a party to the transaction and has reasonable grounds to suspect that information that it has concerning the transaction maybe relevant to the investigation or prosecution for money laundering or a serious offence , it shall as soon as is reasonably possibly in the circumstances but no later than three days after and, wherever possible, before the transaction is carried out-

(a) Take reasonable steps to ascertain the origin and ultimate destination of the funds involved, and the identity and address of any ultimate beneficiary; and

(b)Prepare a report of the transaction in accordance with subsection (2); and

(c) communicate the information contained in the report to the Unit in writing or in such other form as the Minister may from time prescribe by circular to designated institutions or by notice in the Gazette.

(2) A report required by subsection (1) shall-

(a) Contain particulars of the matters specified in subsection (1) of a section twenty five; and

(b) Contain a statement of the grounds on which the designated institution holds the suspicion; and

(c) Be signed or otherwise authenticated by the chairperson of the governing body of the designated institution or by a person directly answerable to such body.

(3) a designated institution which has reported a suspicious transaction in accordance with this part shall, if requested to so by the Unit, give such further information as it has in relation to the transaction

27 designated institution to establish and maintain internal reporting procedures

(1) Every designated institution shall establish and maintain internal reporting procedures for employee to report any information which comes to their attention in the course of their employment that give rise to suspicion that a person is engaged in money laundering and shall identify a person to whom such reports will be made.

(2) A person identified in terms of subsection (1) shall be accorded reasonable access to information that may be relevant to determine whether they are sufficient grounds to suspect that money laundering taking or