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MHLANGA THAMARY Z. (R082463A)

- SIGNATURE……………………… DATE………………………………………..

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ABSTRACT

This study sought to evaluate the impediments to financial inclusion of the informal sector and recommend strategies to overcome these impediments. The objectives of this study were to investigate the impediments to financial inclusion for the informal sector in Zimbabwe, to evaluate the extent to which identified impediments hinder financial inclusion as well as to recommend strategies that policy makers and other stakeholders can adopt to eradicate challenges of financial inclusion in the informal sector.The study builds on previous work that has unpacked the barriers to financial inclusion but has not evaluated the extent to which each of these impact the process. A deductive approach was employed to randomly select 100 informal traders at the prominent Glen View informal traders' hub in Zimbabwe. The study focused on the informal sector in light of the increased informalisation of the Zimbabwean economy making the sector a key development factor. The results of the study inform policy makers on strategies needed to attract the thriving informal sector into using formal financial channels. The sector has been noted to have significant financial resources that can immensely contribute to the economy if lured into formality. The significant impediments identified through the study were; financial ineligibility, liquidity crisis, high transaction costs and lack of confidence in the banking sector. These impediments were identified in the context of the informal sector thus making the study a relevant one. The use of quantitative methods enabled the impact and significance of the identified strategies to be established so as to determine the amount of resources that should be dedicated to each challenge.

KEY WORDS: Financial Inclusion, Impediments, Informal Sector

ABBREVIATIONS AND ACRONYMS

ATM : AUTOMATED TELLER MACHINE

ESAP : ECONOMIC STRUCTURAL ADJUSTMENT PROGRAMME

GDP : GROSS DOMESTIC PRODUCT

ILO : INTERNATIONAL LABOUR ORGANISATION

IMF : INTERNATIONAL MONETARY FUND

MFIs : MICROFINANCE INSTITUTIONS

MSMEs : MICRO, SMALL AND MEDIUM ENTERPRISES

NFIS : NATIONAL FINANCIAL INCLUSION STRATEGY

OECD : ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

POS : POINT OF SALE

POSB : PEOPLE'S OWN SAVINGS BANK

RBZ : RESERVE BANK OF ZIMBABWE

SMEs : SMALL AND MEDIUM ENTERPRISES

USA : UNITED STATES OF AMERICA

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CHAPTER ONE: INTRODUCTION

1.0 INTRODUCTION

The general consensus prevailing amongst stakeholders championing the financial inclusion agenda globally is that enhancing access to and usage of financial services accelerates economic development (World Bank, 2016). This is achievable through capacitating financial institutions to effectively mobilise investments and savings thus enabling them to properly execute their role of financial intermediation. This subsequently leads to a more developed financial system which is an important function of social and economic development for any country. Beck et al (2009) argues that a well-developed financial system including all stakeholders in the economy has the positive effect of reducing information and transaction costs, stimulating savings and investments, technological innovations as well as long run growth rates. Zimbabwe's financial system is relatively well-developed as evidenced by the number of formal and informal financial institutions servicing the approximately 17 million strong population (International Monetary Fund, 2016). The Zimbabwe National Financial Inclusion Strategy (NFIS) (2016-2020) notes that despite this, some sections of the population are still financially excluded from mainstream financial services and products. The most glaring gaps are noticeable in the low income households, women, youths and Micro, Small and Medium Enterprises (MSMEs).

Sarma (2008) and Kumar (2013) both concur on the definition of financial inclusion as the process that ensures the ease of access, availability and usage of formal financial systems for all members of the economy. Financial inclusion is the effective use of a wide range of quality, reasonable and easily accessible financial services that should be provided in a fair and transparent manner through formal entities.

The SME and informal sectors are increasingly becoming more important in the country's development thrust with the Minister of Finance in his 2016 budget statement alluding to it as the 'new economy'. Based on the statistics given above it is clear that important sector needs to be more financially included so as to channel the immense benefits that this sector has to offer. The problem of limited access to finance, therefore, needs to be addressed by encouraging business owners to embrace formal financial products and services and thus become financially included. This study sought to investigate the factors impeding success in the financial inclusion strategies based on a study of Glen View furniture complex in Harare.

1.1 BACKGROUND

The Economic Structural Adjustment Programme (ESAP) introduced in 1991 promoted the liberalisation of the financial sector in Zimbabwe. This was to allow indigenous banks to participate in the banking sector. It is at the backdrop of this that numerous indigenous banks arose from the mid-1990s up to 2003 (Murisa and Chikweche, 2013). This resulted in more than twenty banks and building societies operating against a recommendation of just six banks by the International Monetary Fund (IMF). Despite being relatively over-banked, Zimbabwe remains with low levels of financial inclusion. A number of Zimbabweans had been absorbed into the mainstream financial system but the bank closures of 2004 created a dent on confidence in the financial system as most depositors lost their savings. Soon after the Reserve Bank of Zimbabwe (RBZ) attempted to reign in the errant financial institutions in 2004, the economy took a nosedive and up to the year 2009 Zimbabwe was operating in a hyperinflationary environment (IMF, 2010). In 2009 the multi-currency system was adopted to curb inflation and the United States dollar became the dominant mode of exchange in the economy. Liquidity challenges due to economic meltdown in the country led to over borrowing with banks lending at high interest rates albeit very stringent requirements (Matunhu,2010). This led to banks discriminating between the high end of the market and lower end as products and services began to exclude the poor. This has been the harsh reality of the financial sector in Zimbabwe which is literally segmented against the low income groups.

Zimbabwe's financial sector consists of thirteen (13) Commercial banks, four (4) building societies, and one (1) Savings Bank (RBZ, 2018). According to a Reserve Bank of Zimbabwe,(2011) study 70% of Zimbabwe's population lives in rural areas which are served by only 11.7% of Bank total branch network. From this history of the Zimbabwean banking sector it is evident that financial inclusion remains low in the country due to discrimination and a low branch network of existing banks. It is, therefore, the objective of this study to identify the barriers that have hindered the Zimbabwean financial sector from carrying out financially inclusive policies that benefit the wider populace.

According to the Global Index database for 2014, 62% of the world's adult population had accounts with formal financial institutions, only 27% had some formal savings whereas 11% had some formal borrowings. Only 34% of the Sub-Saharan Africa adult population had accounts whilst 16% had savings and 6% had formal borrowings. Sub-Saharan Africa therefore remains the region with the worst statistics of financial inclusion globally.A FinScope Survey carried out in 2014 established that 23% of the population in Zimbabwe is financially excluded. About 8% of Zimbabweans solely depend on informal financial products, 30% make use of the formal financial institutions whilst 39% of Zimbabweans use other formal channels which are neither non-bank nor commercial bank products.

It has been established through various studies that there is need to include groups that are still excluded financially if the economy is to develop meaningfully by developing the country's financial system. Countries have employed a wide array of financial inclusion strategies. The Community Reinvestment Act of 1997 in the USA is one example whereby banks were mandated to extend credit to any member of the community despite their income levels (Gupte et al, 2012). South Africa, in a bid to address income disparities, conceived the "Mzansi" low cost account in 2004 to cater for the financially excluded masses. China has become a net lender following the establishment of seven micro credit corporations as well as its thrust towards encouraging savings and indoctrinating the culture from a tender age. Brazil documented success of its financial inclusion policy by gaining 8 million new customers using the formal financial channels. The policy required state banks to use 2% of the 45% site deposit they should maintain with the central bank for micro-loans at an interest of between 24 and 48% per annum.

In 2016, Zimbabwe launched the NFIS spanning from 2016-2020. This followed the realization that financial inclusion enables the banking sector to allocate resources to the productive sectors of the economy with the resultant diversity likely to improve productivity. Sharma (2016) purports that economic growth is determined by the effective allocation of funds by banking institutions.If an economy has lines of credit available for people to borrow money they could do so for productive purposes. This would eventually improve on their welfare resulting in the reduction of income in equality hence a positive effect in economic growth (Kim, 2016).

Financial inclusion enhances the functionality and effectiveness of the banking sector in serving the unbanked and marginalised. It also improves the banks' ability to facilitate and increase savings thus creating capital formation which eventually fosters growth as a cycle. Countries with low levels of financial inclusion system have higher levels of poverty and income inequality (Gandhi 2013, Kim 2016).

1.2 STATEMENT OF THE PROBLEM

In 2012, the Finscope MSMEs Survey revealed that only 14% of MSME owners in Zimbabwe make use of banks whilst 50% use informal mechanisms to manage their finances. A 2014 Finscope Survey showed that the level of financial exclusion in Zimbabwe was 70% for banking. This implies that only 30% made use of the banks (FinScope, 2014). Various studies conducted on financial inclusion show how highly developed financial systems marshal savings, apportion resources, diversify risks and contribute to the growth of the economy through greater access to formal financial services (Karlan Dean, 2010). The FinScope Survey in 2014 established that in Zimbabwe there is very minimal financial inclusion which has curtailed social and economic development. The National Financial Inclusion Strategy launched in 2016 has resulted in the implementation of a raft of measures.

Despite the introduction of these strategies, the level of financial inclusion remains very low in Zimbabwe thus resulting in high levels of poverty and inequality in the economy. The low levels of financial inclusion could also be a result of a deteriorating macro-economic environment, which militate against efforts to include the unbanked. Increasingly high costs of banking, loss of regular income and increase in cost of financial transactions has also resulted in exclusion of previously included people or businesses in the informal sector.

This results in a number of questions arising. This study therefore focused onproblems frustrating financial inclusion efforts and proffer recommendations to overcome them. It is therefore imperative to establish the impediments to financial inclusion in the informal sector given its role and contribution to the economy.

1.3 RESEARCH OBJECTIVES

The research objectives of this study were:

- To investigatethe impediments to financial inclusion in the informal sectoroperating at Glenview Complex, Harare, Zimbabwe.
- To evaluate the extent to which identified impediments hinder financial inclusion.
- To recommend strategies that policy makers and other stakeholders can adopt to eradicate challenges of financial inclusion in the informal sector.

1.4 RESEARCH QUESTIONS

The research questions were the following:

- What are the impediments to increasing the level of financial inclusion in the Zimbabwean informal sector?
- To what extent do these impediments hinder financial inclusion of the informal sector?
- What are the strategies that stakeholders can adopt to eradicate challenges of financial inclusion in the informal sector?

1.5 HYPOTHESIS

- The impediments to financial inclusion of the informal sector have a significant and negative impact on the level of financial inclusion.

1.6 JUSTIFICATION

This research seeks to add to the body of knowledge currently in existence as Zimbabwe has had a few published researches on financial inclusion(Fin Scope consumer survey, (2011), Chitungo and Munongo, (2013), Chibango, (2014), Chitokwindo, (2014), Tembo and Dhlamini, (2013), Munyanyi, (2014), Chikoko and Mangwendeza, (2012), Mago and Maganga, (2014).This research however, focused on the impediments to financial inclusion of the Zimbabwean informal sector which has seen banks fail to financially include even half the population at a time when other countries such as Sweden and Germany have nearly 100% inclusion (Mohan, (2006). Previous researchers have mainly focused on the benefits of financial inclusion as well as barriers to financial inclusion on a broader spectrum. Demirgüç-kunt, A., Klapper, L., and Singer, D. (2015) carried out a study on financial inclusion barriers from a global perspective whilst Zins and Weill, (2016) concentrated on factors influencing financial inclusion on a regional basis. This study therefore sought to closely investigate the challenges curtailing efforts to financially include marginalised groups such as the informal businesses. This analysis aimed at educating policy makers and the informal sector on the benefits of financial inclusion which include;

- Access to loans or unique needs of low income earners
- Investments
- Mobilisation of financial resources which are in the informal sector
- Enhances efficiency and welfare of low income earners
- Efficient allocation of productive resources

Additionally, financial inclusion will foster improvements in the financial services sector due to the efficient allocation of resources which eventually lead to economic growth (Akinboade and Kinfack, 2014).

1.7 SCOPE OF RESEARCH

The study was limited to informal sectors operating from Glen View Informal market in Harare. This market is a significant informal marketing hub where one can source quality products that are reasonably priced. Glen View was selected due to its importance in the Zimbabwean informal sector landscape due to its large scale of operations. It also enabled the researcher to carry out a contextualized study of the concept of financial inclusion. Studies have so far concentrated on a global, country and regional level and thus the need to zoom into the challenges faced in implementing this important concept.

1.8 DISSERTATION OUTLINE

The research is divided into five distinct chapters organized as follows:
All the underlying factors which bind the project are spelt out in **chapter one**. The research objectives are clearly outlined together with the statement of the problem which creates the basis for the need to undertake a research study of such nature.
Chapter 2: Analyses various articles and journals which have been developed in order to understand financial inclusion and all its facets. Any gaps, arguments or conclusions presented by previous researches were critically analysed in accordance with the research objectives for this study.

Chapter 3: Highlights the methodology that was used to carry out the study. It spelled out the research design, the sample population and the research method used for data collection. It concludes by developing, explaining and justifying the presentation plan for chapter four.

Chapter 4: All the data which was gathered is presented and analysed in this Chapter. This forms the basis for the research findings, conclusions and recommendations executed in Chapter 5.

Chapter 5: Gives the research findings and the recommendations out of the findings gathered. This chapter is largely conclusive in nature and it gives recommendations for future research. All the references and appendices that were used in the research were listed in this chapter. It is that final chapter of the research.

1.9 CHAPTER SUMMARY

This chapter introduced the study by explaining the problem of low levels of financial inclusion in Zimbabwe's informal sector. It highlighted the need to improve levels of financial inclusion in the sector so as to realize the benefits with respect to economic development. In order to achieve the research aim, the objectives set out in this chapter included establishing the impediments to the financial inclusion sector as well as propose strategies to mitigate these impediments. The introductory nature of this chapter sets the tone for the execution of the various chapters which it precedes. The next chapter will review the various journals, publications and papers on the subject of evolution of banking and financial inclusion. The review of this literature is of assistance to the research project in that it gives a guide and appreciation of how other authorities have tackled issues to do with financial inclusion.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

Literature review refers to an extensive, thorough and systematic examination of publication relevant to the research project (Seaman, 1987). It involves the critical evaluation of previous research (Shuttleworth, et al, 2009). In this chapter the researcher performs an in-depth analysis of the literature available on the topic of study. It is a synopsis of a particular area of research that enables anyone reading the paper to establish the aim of conducting the research. The review of literature in this study enhances understanding of the challenges resulting in limited uptake of formal financial services and products as well as strategies that may help eradicate these challenges.

Literature on financial inclusion of marginalized groups gives varying conclusions with the main focus being on the benefits of financial inclusion.Chapter two reviews existing literature and previous empirical studies that were done on the effectiveness of financial inclusion strategies in stimulating financial inclusion of the informal sector. The research focuses on the impediments and the extent to which these hinder access to and usage of financial services.

In this study the researcher collected existing literature of the most noteworthy scholars and authors according to their contribution to the subject of financial inclusion. Due to word limit and resources constraints only the most important contributions are used in the literature review section. Apart from major models, theories and frameworks, the researcher focuses on latest research on the subject under study.

2.2 DEFINITION OF KEY TERMS

This section gives definitions and explanations of major terms that are used in this study which are: **Evaluation,Financial inclusion, impediments and informal sector**.

2.2.1 Evaluation

Herren and Watson (2015) define evaluation as a critical assessment of information for directing decisions on complex or debatable issues and to provide a foundation on which decisions about whether to alter or modify a proposed development can be made. According to Word Web, an evaluation is defined as an appraisal, judgement or classification of someone or something with respect to its worth. It is also defined as an estimation or assessment of the significance of the subject or object of interest. In the context of this research therefore, it is the assessment of the impediments to financial inclusion of the informal sector and the extent to which they hinder the process.

2.2.2 Financial Inclusion

There are various definitions of financial inclusion with a definition by Sarma (2008) emphasizing the ease with which financial services can be accessed as well as their availability and affordability. Fungacova and Weil, (2014) view financial inclusion as having more to do with usage rather than quality of services provided whilst Claessens (2006) views it in the context of variety and affordability of financial services. All the definitions however are more insistent on issues of access and usage rather than the quality of financial services. For the purposes of this study, access to and usage of financial services were adopted as the working definition of financial inclusion. In the context of this research therefore, the impediments to the enhanced access and usage of financial services by the informal sector were investigated.

Many authors including Figart, (2013), Demirgüç-Kunt,(2008), Thorat, (2007), the World Bank amongst several others have more points of convergence than divergence on the meaning of financial inclusion. These authors agree that financial inclusion involves enhanced access to formal financial services and results in general economic well-being through enhanced financial mobilisation. Figart, (2013) goes further to state that financial inclusion is not just enhanced access to formal financial services but should be a representation of reliable access to affordable savings, loans, remittances and insurance services.

The RBZ defines financial inclusion as the 'effective use of a wide range of quality, affordable & accessible financial services, provided in a fair and transparent manner through formal and regulated entities, by all Zimbabweans' (RBZ, 2016:36). Financial inclusion refers to programmes, policies and activities that are employed to attract the unbanked part of the population. In Zimbabwe regardless of concerted efforts and many resources channeled to promote financial inclusion still a higher proportion of Zimbabweans are currently unserved by formal financial intermediaries. Financial inclusion covers the ability of households and business enterprises in relevant financial products and services at affordable and favourable costs. It covers 3 elements thus: access; usage; and quality. Financial inclusion goes further than just access to finance, it includes how often clients use products, are the products effectively meeting their clients' needs and are they better off(African Development Bank, 2016). Financial inclusion is based on the fact that inclusion or exclusion depends on socio-economic and financial development of a certain country as well as the priorities placed on social concerns (Goyal, 2014). Financial inclusion in developed countries falls in the context of social exclusion while issues of development and poverty eradication are a priority in developing countries. In Zimbabwe the government through the RBZ (2016) introduced a National Financial Inclusion Strategy (NFIS) that aims to alleviate poverty and improve welfare of SMEs.

Thorat, (2007) postulates that financial Inclusion involves access to financial services such as savings, loans, insurance, affordable credit, financial counseling, bank accounts, payment and remittance services as illustrated by figure 2.1 below.

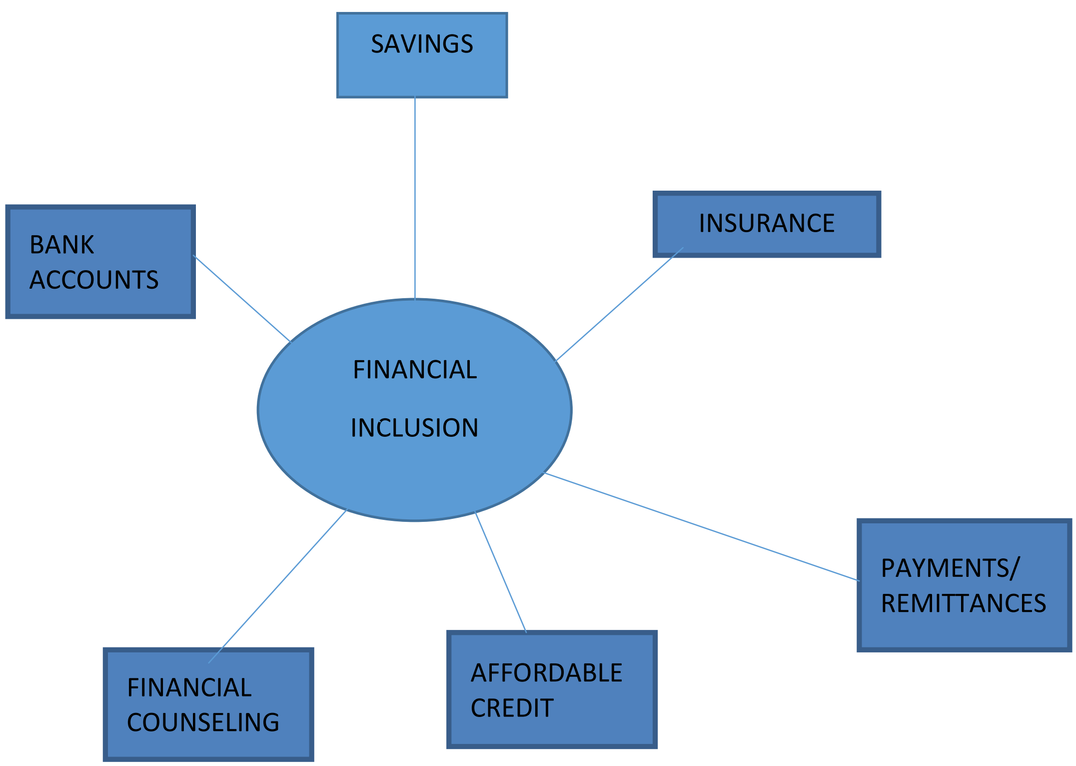


Figure 2.1: Financial Inclusion system S Source: Thorat, (2006)

2.2.3 Impediment

The Merriam Webster dictionary defines an impediment as a hindrance or obstruction that prevents or interferes with a process. This research therefore evaluated hindrances to the financial inclusion process in the Zimbabwean informal sector.

2.2.4 Informal sector

According to a World Bank paper published in 2014, size of the activity, registration with a government agency and keeping regular accounts are the most common factors used in defining the informal sector. The criteria of size is mostly derived from the approach of the International Labour Organisation (ILO) which defines an informal firm as an unregistered entity where the owner is an individual or a household whose capital cannot be distinguished from that of the firm and for which there is no reliable accounting allowing for the retracing of the entity's operations (ILO, 2002). The World Bank also defines the informal sector as a part of the economy that neither remits tax nor is regulated by any form of government. This research synergized both the World Bank and ILO's definitions referring to the informal sector as an unregistered entity where the owner is an individual or household whose capital cannot be distinguished from that of the business and does not remit taxes.

Some authors suggest that the informal sector implies illegal dealings and this presents a point of divergence with authors such as Hart (2008) who maintain that operating informally does not necessarily imply illegality. Hart (2008) agrees with ILO and the World Bank that an informal business is one that is unregistered, unregulated with operations based on social rather than legal or formal contracts.

2.3 THEORETICAL REVIEW OF LITERATURE (THEORIES UNDERPINNING FINANCIAL INCLUSION)

2.3.1 Keynesian Economic theory

This theory covers broad monetary and economic aspects. Keynes (1930) in his treatise on money argued for the importance of the banking sector in economic growth. He suggested the bank credit is the pavement along which production travels, and the bankers if they knew their duty, would provide the transport facilities to just the extent that is required in order that the productive powers of the community can be employed at their full capacity. In the same spirit Robinson (1952) argued that financial development follows growth, and articulated this causality argument by suggesting that where enterprise leads finance follows. Both, however, recognized this as a function of current institutional structure, which is not necessarily given. Keynesian economics relies on government spending to jumpstart a nation′s economic growth during sluggish economic downturns. Similar to classical economists, Keynesians believe the nation economy is made up of consumer spending, business investment and government spending. The Keynesian line of thinking therefore identifies access to credit (tenet of financial inclusion) as akey aspect of economic development.

2.3.2 Non-Bank-led Model

2.3.2 Non-Bank-led Model

Lyman, et al, (2006) opines that this model offers a good alternative to conventional branch based banking whereby clients access financial services from retail agents. The proponents of this model regard it as a way of increasing the reach of financial services by using diverse delivery channels. This model identifies the use of agents as a way of encouraging the use of formal financial services without visiting any bank branch. It is viewed as a more appealing way of making formal financial services accessible to the marginal groups (Tomaskova, 2010).

In relevance to the study, it can be concluded that adoption of the non-bank led model will enhance financial inclusion of the informal sector through provision of lower cost, less time-consuming formal transacting channels.

2.3.3 Agency Theory

The theory was proposed by Jensen and Meckling (1986) and views a commercial bank as the principal and correspondent bank, as the agent whereby problems arise due to misunderstanding or incongruence of their different interests. Agency problem occurs where the bank agency fails to observe the agency regulations as issued by the central bank and hence putting the interest of the bank at risk since it is the one required to ensure that the agents comply with the regulations. According to this theory, intermediation places financial institutions (banks and their agents) as intermediating between money and the market. Resource (money) allocation based on perfect and complete markets is hindered by frictions such as transaction costs and asymmetric information (Aduda et al, 2013).

The critical aspects in agency theory are premised on the existence of market mechanisms compelling managers to maximize the utility of shareholders. The principal gives the agent authority to decide on their behalf albeit in the principal′s best interests.

In relation to financial inclusion and the informal sector, agent banks are retail establishments contracted by the banks and authorized by the central banks to render services for banks by ensuring that all security measures are in place and the transactions and information is secure. By facilitating financial inclusion, informal businesses enjoy savings deposits, credit withdrawals, bill payments, new account openings, money transfers, insurance, and government benefits including pension receipts. The agents may obtain the information and use it in a way that puts the interest of commercial banks and informal business at risk hence creating an agency problem. Additionally, the regulatory authorities′ motive to promote economic development through financial inclusion programs may not be profitable for banks as the intended beneficiaries are low income groups. This therefore antagonizes the banks′ primary objective of maximizing their utility thus creating a principal agency problem. This is especially the case for government-owned entities such as the People′s Own Savings Bank (POSB) which is expected to promote social welfare programs promoting financial inclusion. The owner (government) has a social contract wherein it must champion social welfare programs such as financial inclusion through its various entities. Such objectives may not be in tandem with the bank management′s objectives which seek to maximize utility. This theory is therefore fundamental in the financial inclusion discussion.

2.4 IMPORTANCE OF FINANCIAL INCLUSION AND THE INFORMAL SECTOR

Financial inclusion continues to be the basis upon which modern economic developmentis centered. Munyanyi, (2014), opines that there is a casual link between financial depth and financial inclusion in that the more a society is financially included the more complex financial services are. Ramji, (2009) in the same vein agrees that a vibrant financial system can alleviate poverty. This means that access to finance can increase the welfare of both households and corporates. However the pertinent which lies from the assertions given is the determination of the variable which facilitates the other (Economic growth and financial inclusion). (Rabha, 2012) argues that financial inclusion facilitates economic growth whilst Ramji (2009) is of the view that economic growth facilitates financial inclusion.

A view penned by Levine (1997) is more leaned towards the argument that financial development facilitates economic growth. His views are based on the argument that the presence of information and transaction costs facilitates the need for financial markets which will in turn solicit funds from excess economic units and advance those funds to deficit units through credit. This argument clearly brings out the link of why households and firms need to be incorporated in the mainstream financial system which is the hub for credit and savings. In other words the model by Levine calls for financial inclusion. Kempson, (2006) noted that financial inclusion is important in promoting sustainable economic development.

Aduku and Kalunda, (2012) developed a model presented in Figure 2.2 which showed that financial inclusion inevitably leads to financial growth and stability. They argued that if the whole population is financially empowered even banks can amass many deposits which will help save financial institutions. A financially empowered population will be able to undertake financial transactions and be able to access cheap loans. Even small to medium enterprises can get access to enough capital to finance their business.

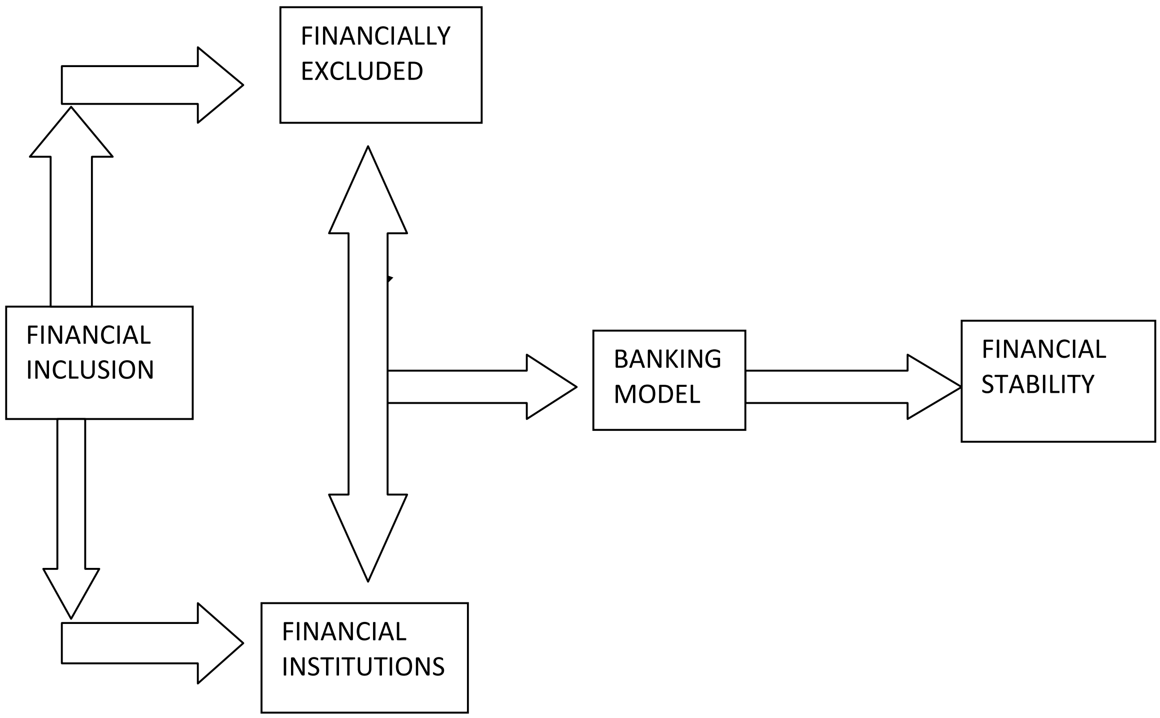


Figure 2.2 Financial Exclusion Model Source: Aduku and Kalunda, (2012)

Functional financial systems facilitate the vital process of financial intermediation ensuring the allocation of resources to strategic parts of the economy. Inclusive financial systems allowing broad access to financial services, have been found to particularly benefit the marginalized low-income groups. In the absence of inclusive financial systems, the poor have to depend on their low savings to invest in their informal ventures and remain poor without expansion opportunities through access to credit. Such a scenario results in continued income inequalities and subdued economic development. (Demirguc-Kunt &Levine 2009).

With financial inclusion, the banking sector is able to allocate resources to the productive sectors of the economy with the resultant diversity likely to improve productivity. Sharma (2016) purports that economic growth is determined by the effective allocation of funds by banking institutions. If an economy has lines of credit available for people to borrow money they could do so for productive purposes. This would eventually improve on their welfare resulting in the reduction of income in equality hence a positive effect in economic growth (Kim, 2016).

Financial inclusion enhances the functionality and effectiveness of the banking sector. It also improves the banks' ability to facilitate and increase savings thus creating capital formation which eventually fosters growth as a cycle. Countries with low levels of financial inclusion systems have higher levels of poverty and income inequality (Gandhi 2013, Kim 2016).

Countries have employed a wide array of financial inclusion strategies. The Community Reinvestment Act of 1997 in the USA is one example whereby banks were mandated to extend credit to any member of the community despite their income levels (Gupte et al, 2012). South Africa, in a bid to address income disparities, conceived the "Mzansi" low cost account in 2004 to cater for the financially excluded masses. China has become a net lender following the establishment of seven micro credit corporations as well as its thrust towards encouraging savings and indoctrinating the culture from a tender age. Brazil documented success of its financial inclusion policy by gaining 8 million new customers using the formal financial channels. The policy required state banks to use 2% of the 45% site deposit they should maintain with the central bank for micro-loans at an interest of between 24 and 48% per annum. In 2016, Zimbabwe, through its central bank, launched the NFIS spanning from 2016-2020. This encompasses various strategies that are being implemented to address the factors constraining financial inclusion.

In the developing countries, the informal sector accounts for an average of 65% of employment and 30% of output (ILO and World Trade Organisation, 2009. Additionally, the Ghana Statistical Survey (2008) reports that over 80% of those employed in Ghana are working in the informal sector. This shows the importance of the sector in the provision of employment and improvement of livelihoods. It has been to bolster standards of living particularly in the developing countries.

A recent study by the International Monetary Fund (IMF, 2018) reported that Zimbabwe has the second largest informal sector in the world. The report further states that 60% of the Zimbabwean economy is informal, second to Bolivia's 62.3%. This reflects the importance of investigating ways of incorporating the informal sector into the formal channels so that it contributes to output. Luring the informal sector to utilize formal financial services will result in significant increases in the output of a country such as Zimbabwe whose informal sector continues to grow. Deposit mobilisation has been seen to be stifled by the informal sector whose transactions the banking sector is failing to attract. It is believed that $2 billion is circulating in the informal sector and this money never finds its way into the formal banking sector (RBZ, 2011).

2.5 IMPEDIMENTS TO FINANCIAL INCLUSION

Despite the many highlighted benefits of financial inclusion, Sub-Saharan Africa remains behind developed nations in improving access to and usage of formal financial services by marginalized groups. According to the Global Index database for 2014, 62% of the world's adult population had accounts with formal financial institutions, only 27% had some formal savings whereas 11% had some formal borrowings. Only 34% of the Sub-Saharan Africa adult population had accounts whilst 16% had savings and 6% had formal borrowings. Sub-Saharan Africa therefore remains the region with the worst statistics of financial inclusion globally. Researchers have mainly focused on the benefits of enhanced usage of financial products with limited research on the impediments to this fundamental process. The following impediments to financial inclusion drawn from literature are critically reviewed:

2.5.1Lack of Financial Literacy

As per the World Bank Report (2012), financial illiteracy provides a real difficulty in understanding the language and reading the document. Reddy (2005), defined financial literacy as knowledge required to manage one's finances. He further highlighted that such knowledge is an important part of the financial inclusion process.It not only involves acquiring financial knowledge, it also involves behavioural change in terms of financial decision-making. The desired end is to improve people's understanding of financial products available and to ensure that they are aware of the pros and cons of adopting them. Financial literacy is also explained in an International Monetary Fund paper (2016) as a way of mitigating problems of asymmetrical or imperfect information. Information asymmetry is a major cause for the subdued levels of financial inclusion.

Financial literacy is mainly referred to in connection with personal finance matters. It encompasses the possession of knowledge and understanding of financial matters (Bhattacharjee, 2013). From simple taskssuch as a household budget or balancing a cheque book, evaluating life insurance and selecting an investment vehicle, people have to learn about personal finance in order to be successful in increasing their income and assets. Management of own funds and utilization of the surplus funds earned by an individual through formal financial systems is the basis for the sustainable development of the economy, for which financial literacy is vital. Financial literacy often entails the knowledge of properly making decisions pertaining to certain personal financial processes which include banking, insurance, investing, saving and retirement. It also involves intimate knowledge of financial concepts relating to day to day life of an individual. Currently, there is no standard system to provide financial literacy to the population in general (Yong and Pearce, (2013). This may be the major reason for the common occurrence of money-making schemes such as Ponzi schemes and malpractices in the financial services sector. Lack of financial literacy therefore derails the process of financial inclusion.

2.5.2 Identity requirements

According to Gupta and Singh (2013), the usage of formal financial services is hindered by the need for identity documents, proof of employment and proof of residents. Several rural and other marginalized groups often do not have such documentation and are therefore denied access to formal services. They then seek informal services such as loan sharks to fund their informal ventures and remain excluded financially.

Efforts by government to combat money laundering and terrorist organisations have resulted in increased know your customer documentation. Parties without acceptable documentation that banks can legally use without being non-compliant remain unable to access services. Informal businesses are unregistered and as such perceived to be high risk. This compromises their credit-worthness. Collard et al, (2001) proved that account opening requirements discourage the opening of accounts and thus impedes the rate of financial inclusion.

2.5.3 Terms and Conditions

A range of different types of terms and conditions deter or prevent financially excluded parties opening an account and accessing associated financial products and services.The Canadian

Department of Finance, (1998) noted that several accounts were closed a few months after opening or eventually became dormant due to the minimum balance requirement being beyond the reach of low income groups. According to Blake and Jong, (2008), the terms and conditions of banks, and insurance companies are perceived to serve the purpose of hiding certain information from the lay-man. This perception was confirmed by Bayero, (2015) in his study of cashless policy in Nigeria when he pointed out that informal business owners such as stall owners in flea markets cited vague terms and conditions as their reason for not opening accounts.

In Britain, the Department of Finance cited the absence of safeguards against unintentional overdrawing of current accounts as a major cause of exclusion. Low-income groups also find that their accounts exceed the minimum withdrawal threshold because of delayed clearance of cheques. Customers end up being penalized for this.

In Zimbabwe, the RBZ (2011) stated that the pricing, terms and conditions of financial products including interest rates and all fees should be disclosed clearly in a manner that can be understood by the clients. This helps in overcoming the problems of imperfect information.

2.5.4High transaction costs

Many authors cite high transaction costs arising from minimum balance requirements, fixed card charges and loan processing charged as reasons for their unwillingness to use formal financial services. (Gupta and Singh 2013). Additional costs arising from overdrawing and failed stop orders were cited by Collard et al, (2001) as contributing to subdued uptake of formal financial services. A range of other charges that include capitalised loan interest, withdrawal fees and account maintenance fees have a significant effect on the meagre incomes of marginalized groups and therefore discourage use of banks.

2.5.5 Low confidence in the banking sector

The bank closures of 2004 created a dent on confidence in the financial system as most depositors lost their savings. The RBZ in its mid-term monetary policy of 2017 noted that circulation of money in the formal system remained subdued due to lack of confidence in the banking sector. The hyperinflationary environment eroded savings, pensions and investments. This greatly diminished confidence in the sector. The introduction of the bond note in 2016 has further eroded confidence due devaluation of savings as the 1:1 USD/Bond note exchange rate has failed to hold. Further pronouncements by the Minister of Finance to separate Nostro and RTGS accounts have further fueled speculation and devalued savings. Confidence in the banking sector continuously takes a knock. This was found to be a major impediment in the uptake of formal financial services amongst individuals and businesses.

2.6 APPROACHES TO MEASURING FINANCIAL INCLUSION

Hannig and Jansen, (2010) came up with four measures that can be used to measure financial inclusion which are presented in Figure 2.3 below. The first measure involves access which measures the ability to use services and products currently being offered by financial institutions. Understanding levels of access may require insight into and analysis of potential barriers to opening and using a bank account for any purpose, such as cost and physical proximity of bank service points (for example, branches and ATMs). A very basic proxy for access can be derived by counting the number of open accounts across financial institutions and estimating the proportion of the population with an account. The second measure is quality which measures the adequacy of the financial product to the needs of the clientele. Quality encompasses the experience of the consumer, demonstrated in attitudes and opinions toward those products that are currently available to them. The measure of quality therefore would be used to gauge the nature and depth of the relationship between the financial service provider and the consumer as well as the choices available and consumers' levels of understanding of those choices and their implications. Another measure includes usage where the provided clientele is able to use the financial services and products that they have been offered by financial institutions. Hence, determining usage requires more details about, frequency, and duration of use over time. To measure usage, it is critical that information reflect the user's point of view, that is, data gathered through a demand-side survey. Lastly, the measure of impact measures the effect that has been observed on the lives of the users of financial services. It measures whether there has been any change due to usage of the financial services and products.

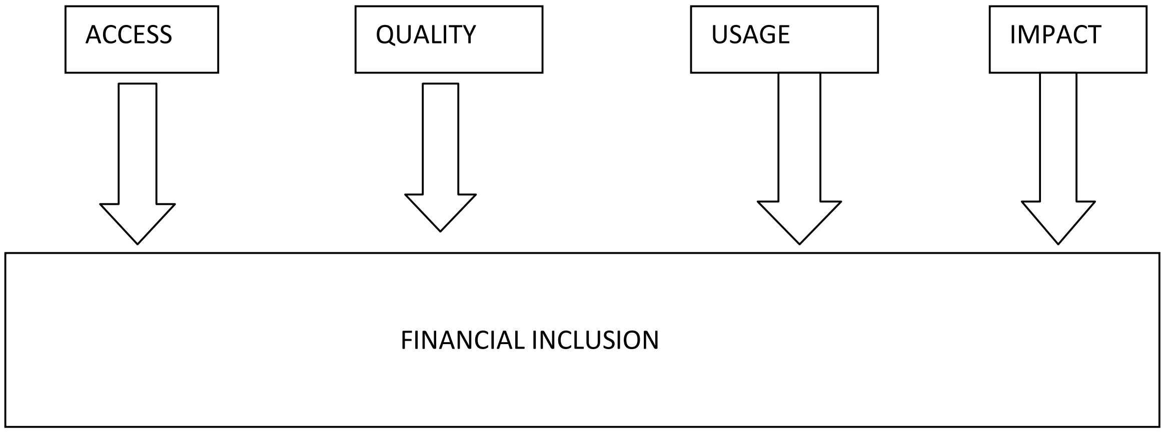


Figure 2.3 Measuring Financial Inclusion Source: Hannig and Jansen (2010)

Sharma, (2008), Subbarao, (2009), and RBI, (2009) however, argued that measuring financial inclusion using bank accounts and banks branches shows an incomplete picture of the whole. They came up with individual indicators such as number of bank accounts and branches can provide only a partial picture. Sharma, (2008), Subbarao, (2009), RBI, (2009) came up with two ways in which financial exclusion can be measured. First there is the exclusion from payment systems and then from formal credit markets. This perspective is supported by Hannig and Jansen, (2010) who also introduced a two tier distinction of measuring financial inclusion. Micro Assessments which measures financial inclusion from an individual perspective. They argue that financial exclusion from an individual perspective leads to a distorted view as even countries which have age limits to those who can access credit services are counted as excluded.

The Global Financial Inclusion (Global Findex) database developed by the World Bank (2011), presents a new set of indicators that measure how adults (15 years old and above) in 148 economies save, borrow, make payments, and manage risk (Dermiguc-Kunt and Klapper, 2012a). The Global Findex indicators measure the use of financial services among different groups, including poor people, youth, and women, taking into account both the demand and supply of these services. These indicators measure access to basic bank account, credit, insurance and a microfinance institution, including alternatives to formal accounts (mobile money);those that focus on savings behavior; those that focus on sources of borrowing (formal and informal) and purposes of borrowing; and those that focus on the use of insurance products for health care and agriculture. Dermiguc-Kunt and Klapper, (2012a), consider the Global Findex country-level estimates of account penetration to be generally higher than those of the Fin Scope surveys because they cover a wider population of 15 years old and above while FinScope covers 18 years old and above population and the definition of an account in the Global Findex is wider.

The most popular yardstick for measuring financial inclusion is ownership of a bank account. Since banking has constantly evolved other forms of payment and transaction systems like mobile banking and internet banking have been incorporated. The World Bank lists and analyses variables which it uses to measure the extent of financial inclusion. These include savings, credit, payments, insurance and ownership of accounts. However, some researchers such as Beck and De La Torre (2006), argue that inasmuch as financial inclusion should signify access to a range of different financial services, the percentage of people in a given area with access to a bank account is the typical measuring stick for breadth of financial services.

Access to finance for marginalized groups in Zimbabwe is considered one of the first steps in improving theirperformance as these are significantly contributing to the country's economic output. Therefore, by extending to them well-functioning and inclusive financial services would give them an opportunity to boost their production since they can now access savings, payments, and credits facilities. This gives SMEsan opportunity to invest in education and a reduction in the country's overall income inequality and poverty. Financial inclusion in Zimbabwe is an urgent issue sincethere is a bigger number of 'unbanked' compared to banked people. The unbanked people come from the unemployed and low income people who find themselves excluded from financial services due to access barriers.

Several researches investigatedon the effects of financial inclusion on SMEsand little has been focused on the effectiveness of financial inclusion strategies in stimulating financial inclusion of SMEs in Zimbabwe hence this paper contributes to this gap. The recent estimate points out that around two billion people do not have access to formal financial services worldwide. South Asia, East Asia and the Pacific, and Sub-Saharan Africa recorded high numbers of the unbanked people worldwide with about 31%, 24% and 17% of adults without an account, respectively. However the High Income OECD countries recorded lower numbersof unbanked with 3%, Middle East (4%), Europe and Central Asia (5%), Latin America and Caribbean (10%) and while other countries had (4%), (World Bank, 2017). This shows that the vast majority of people (about 46%) having no bank account live developing countries.

2.6.1 Global Trends in Financial Inclusion

World Bank (2013), data indicates that financial inclusion varies among countries with countries such as Turkmenistan recording 1% while to Denmark recorded 99%. The face of this data clearly indicates that financial exclusion is widespread in less developed countries. The provider based indicators such as branch network density and ATM density also vary from country to country. In developed economies 89% have bank accounts as compared to 24% in developing countries and worldwide 50% which is equivalent to 2.5 billion people have no access to formal bank accounts. It has also been noted that social class follows the level of inclusiveness in a country. The top 20 of the wealthiest adults are more than twice as likely as the poorest adults to get a bank account (Demirguc-Kunt, and Klapper, 2002). Aduda and Kalunda, (2012), noted that some countries in Asia, such as India and Indonesia, have a long tradition of emphasizing access to finance. These policy priorities have paid off as 25 % of households living on less than $2 a day now have access to formal or semi-formal financial services, compared to 40–50 % of the population as a whole.

Other success stories include Mongolia where a successful turnaround of a state bank increased the number of deposit accounts by over 1.4 million since 2006, now reaching 62 % of households (Gandhi (2013). In the Philippines mobile phone banking has expanded to serve to 4 million clients since 2002. India's access to credit among the poor is up from 7 % in 2004 to 20% in 2009, as the microfinance sector added 9.9 million clients. In Bangladesh: 4–6 million new microcredit clients have been added since 2006; financial services have reached about 55% of poor households, substantially expanding access to savings. In the same vein, Viet Nam 2.1 million new microfinance clients have been added since 2006. In contrast, access in People's Republic of China (PRC) appears to have declined since the reforms of the rural cooperatives. Also, India's poor have little access to deposits: "no frills" accounts have increased to over 28 million.

Latin America is home to some of the best environments for microfinance, such as Peru and Bolivia (Chikoko and Mangwendeza, 2012). A record 6 million clients have opened new bank accounts in these two countries. Two new policy tools stand out. Brazilian policymakers achieved universal coverage of over 5,500 municipalities by enabling banks to use retail agents. This new low-cost delivery channel triggered a massive expansion of formal financial services to 12 million clients in only six years (Gandhi, 2013). Other countries, such as Colombia and Peru, are replicating this model. Latin America has also demonstrated the potential of conditional cash transfers into simplified bank accounts as a way to connect beneficiaries to formal finance while simultaneously lowering delivery costs to the government. Transfer challenges motivated the use of agents in Brazil. In Mexico, beneficiaries increased savings and investment, and more than 90 % of households started to use banking services. Proliferating mobile phones open another delivery channel for basic financial services to poor people. This new technology drastically reduces the costs of convenient and real-time financial transactions, expands access points, lessens the need to carry cash by introducing e-money, and attracts previously unbanked customers (Chitokwindo, Mago and Hofisi, 2014).

South Africa introduced the Mzansi account 2002 which is a National Bank Account Product (NBA) which is card based and provides limited services to customers at a very attractive price. Access to this account is provided through Bank branches and existing service points such as ATMs, Selected self-devices and post offices (Fillip and Foote, 2007). Canada introduced the Debit card pilot project of issuing debit cards to some clients without bank accounts which has proved to be such a success. The debit cards works like a bank card as monthly income support payment is credited to the card and can be withdrawn as needed. The card can also be used at stores for direct payment. Dubai's prepaid cards and credit cards have taken lead amongst developed countries to implement this unique system .In order to have financial inclusive system, the Dubai e-government and National Bank of Abu Dhabi have launched Prepaid Card which offers a convenient, flexible and a safe alternative to do transactions without the necessity of opening a bank account. It is backed by visa international. Recharge facility for prepaid card is available at any National Bank of Abu Dhabi branch without a bank account, any security deposit, income requirements, and monthly repayments. They have also launched Credit Cards in Classis, Gold and Corporate card which gives add on benefits like discount at over 1,700 outlets in UAE, Visa Application services, free road side assistance, purchase assistance and also sms alert services. California introduced the Pay Card which provides financial services to people without bank accounts. The pay card gives cost saving benefit by eliminating payment for check cashing and money transfers. In the UK the 'now let's talk money' Campaign government campaign to support people living on low income on money management was launched. This campaign is funded from the UK Government's Financial Inclusion Fund. It gives advices on how to manage money better. To tackle the financial exclusion UK government has initiated this 'now let's talk money' campaign which is a great way of engaging people with banking, affordable credit and advice services. Phase 1 of the campaign helps build awareness of financial exclusion among organizations that have contact with people on low incomes, such as local authorities, housing associations and charitable and voluntary organizations. Phase 2, encourages financially excluded individuals to find out about and take advantage of the financial advice, products and services available. From these trends in other countries it can be noted that Zimbabwe is lagging behind major developments that are currently taking place in other countries. Hence, this study looks at the causes and possible solutions to financial exclusion in the Zimbabwean financial services.

2.6.2 The state of financial inclusion in Africa

Financial depth as measured by the ratio of private credit to GDP is low in Africa in comparison with other developing economies. In 2010 the ratio was 24% of GDP in Sub-Saharan Africa and 39% in North Africa, compared with 77 % for all other developing economies and 172% for high-income economies (Demirguc-Kunt and Klapper, 2012b). The ratio of market capitalization to GDP excluding South Africa is 38% on average as compared to 44% in all other developing economies and 62% including high-income economies (World Bank, 2012). The 2012 Global Findex database shows that 23 % of adults in Africa have a formal account with variation within the continent that indicates 24 % of adults in Sub-Saharan Africa (ranging from 51% of adults in Southern Africa to 11 % in Central Africa. There are also large variations among counties for instance, in the Democratic Republic of Congo and the Central African Republic less than 5 % of adults have a formal account whereas in North Africa which on average has 20 % of adults having a formal account, the range is 39 % in Morocco and 10% in Egypt .

There is also a gender dimension to account ownership with men in Sub-Saharan Africa with a formal account reported at 27 % and women at 22 %. The gender bias is even marked in the Middle East and North Africa where women with a formal account are reported at 13% compared 23 % of adult men and more than 80% of adults without a formal account. Cost, distance and documentation were also cited by more than 30% of non-account holders in Sub-Saharan Africa. Younger adults cited insufficient documentation while distance from a bank is an important barrier for adults living in the rural areas. In Eastern and Southern Africa fixed fees and high costs of opening and maintaining accounts were cited as important barriers. For instance, commercial banks in Lesotho close client accounts when they are inactive for a period of three months. It is also reported that maintaining a checking account in Uganda can cost the equivalent of 25 % of GDP per capita annually and 54 % of adult non-account holders cited this cost as a reason for not having a formal account. According to CGAP (2009), geographical expansion of bank branches into rural areas is restricted by poor infrastructure and telecommunications.

It is also observed that financial inclusion is positively and significantly correlated with access points measured as commercial branches per 100,000 people. There are several opportunities from the World Bank research for addressing lack of financial access. First, it is gratifying that at least 35 % of respondents reported barriers to account use - high cost, physical distance, and lack of proper documentation- which can be addressed by public policy. Second, the use of accounts to receive remittances from family members living elsewhere was reported by 38 % of account holders in Sub-Saharan Africa higher than the world average of 14% of account holders. This indicates a possible positive relationship between use of bank account and use of it for receiving remittances if favourable conditions are created. Zimbabwe stands out starkly both for its low indicators and lack of data on other indicators. Despite having 40 % of the adult population having a formal account, only 5% of adults reported having credit from financial institutions. In Africa only Mauritius has financial inclusion indicators that are closer to those in advanced economies. The Global Findex database shows that indicators of financial use have a positive but imperfect correlation with indicators of financial depth such as credit to the private sector to GDP. South Africa demonstrates this imperfection in a way. While the country has a ratio of private credit to GDP of over 142%, only 54% of adults have a formal account; only 9% of adults have credit from financial institutions; and points of access such as number of bank branches per 100 000 adults are low at just 10.1. Nevertheless, the World Bank, (2008) suggests that the imperfect correlations might give room for policy reforms that increase the levels of financial inclusion for a country. The rapid growth of mobile phones has given rise to the growing use of new alternatives to traditional banking such as mobile money. Mobile money has enabled millions of financially excluded people to perform financial transactions relatively cheaply, securely and reliably.

In Sub-Saharan Africa 16% of adults reported using the mobile phone to perform financial transactions (pay bill or receive money). Kenya reported 68 % of adults using mobile money, courtesy to the commercial launch of M-PESA service in 2007, and 43 % who reported using it do not have a formal account. Chibango, (2014) argued that only 20% of households in Africa are estimated to have access to formal financial services (Financial Access, 2010). In Sub-Saharan Africa, only 16.5% of households have bank accounts, hence; the majority of Africans is unbanked. Most of the unbanked live in remote rural areas which are difficult to access due to the difficult geography. Banks find it too risky to invest in such areas because the poor and scattered inhabitants will not be able to meet the high expenses of the financial services offered. For this reason, formal financial institutions failed to address the problem of financial exclusion in Africa. With the introduction of mobile money services, millions of the previously unbanked poor now have an opportunity to mobile money revolution has the potential to bring about financial inclusion in Africa. Figure 2.4 below shows that South Africa is the most banked nation in Africa. This is attributed to the high level of development and financial literacy.

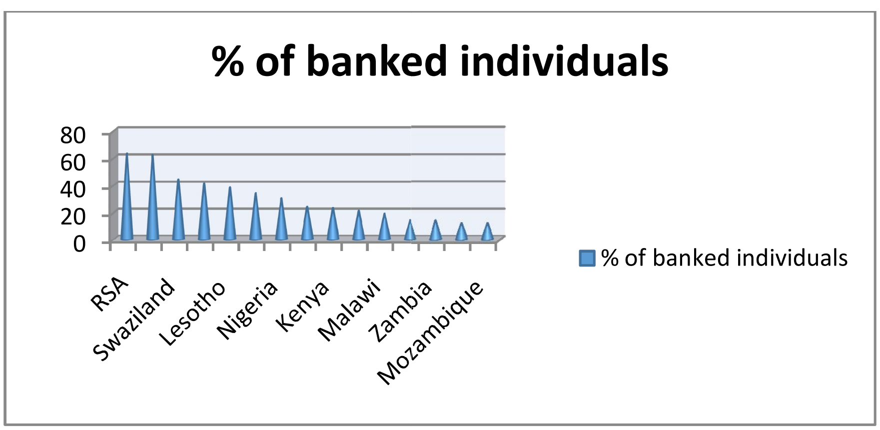


Figure 2.4 Source: Fin Scope survey data Fin Scope survey data (2011)

Prior research on financial inclusion shows pathetic figures on financial inclusion in Africa (Financial Access, 2010; Alliance for Financial Inclusion, 2013; International Finance Corporation, 2012; World Bank, 2008). Researchers conducted by Demirguc-Kunt and Klapper, (2013) noted that the rural sector, which constitutes about 60% of Africa's total population, is the one affected most since the commercial bank branch network is mostly underdeveloped. Populations (the poor, women, illiterate adults, the young and those in their old age) in the rural areas are generally financially excluded (Alliance for Financial Inclusion, 2013). This deprivation of financial services is not only a result of the physical-geographical isolation, but also of lack of necessary infrastructure and financial illiteracy. This then makes it difficult to provide bank services as transaction costs become extremely high (Condi, 2010). Kusoraki, (2014) identifies what he terms a non-monetized sector characterised by unorganised money markets. He further explains that unorganised money exchanges are an obstacle to economic development. From a simple analysis of Kusoraki's assertions it is evident that financial inclusion is far from being attained in the underdeveloped countries given some of the characteristics which he explains above. The short term nature of finance in the underdeveloped is one of the characteristics which hinder the development of capital markets as explained by Kusoraki, (2014). The non-development of capital markets ultimately leads to financial exclusion. According to Beck and Cull, (2013) Africa's banking systems are not only shallower than banking systems in non-African developing countries, they are also less inclusive. This statement clearly illustrates the dearth of financial awareness or a lackadaisical approach financial inclusion in the underdeveloped countries. Even compared with some non-African developing countries Africa's statistics on financial inclusion are way behind as per data provided by the World Bank's, Global Financial Development Indicators. Financial inclusion in the underdeveloped economies like Africa also tracks the some social trends. According to Demirguc-Klunt and Klapper (2012), men are more likely to have an account at a formal financial institution although the gender gap is relatively small (Klapper, 2012b).

The ratio of market capitalization to GDP excluding South Africa is 38 % on average as compared to 44% in all other developing economies and 62 % including high-income economies (World Bank, 2012). The 2012 Global Findex database shows that 23% of adults in Africa have a formal account with variation within the continent that indicates 24% of adults in Sub-Saharan Africa (ranging from 51 % of adults in Southern Africa to 11 % in Central Africa. There are also large variations among counties for instance, in the Democratic Republic of Congo and the Central African Republic less than 5% of adults have a formal account whereas in North Africa which on average has 20% of adults having a formal account, the range is 39 % in Morocco and 10 %.

2.6.3 The State of Financial inclusion in Zimbabwe

The Fin Scope survey (2011), on financial inclusion in Zimbabwe found that 65% of the country's population live in rural areas while 35% live in urban areas, and that on average 80 % of the adult population earn less than US$200 a month, while about 17 % do not have an income. The gender distribution of the population was found to be 60% female and 40% male. Considering that 60% of the sampled population were women, poverty levels and financial exclusion should be greatest among women. Only 24% of the total population is banked and of this only 12 % of the rural population is banked. There is a large population not having access to financial services at all either through the formal or informal system, 40% in the case of the whole population and 51% in the case of the rural population. It is noteworthy that the Fin Scope survey puts the figure of formally served adult population at 38% while the Global Findex database puts it at 40%. The difference arises from differences in the definition of the adult population eligible for access to financial services. The Global Findex database uses adults of 15 years and older while the Fin Scope survey uses adults of 18 years and older. Notwithstanding that difference, the Fin Scope survey is more detailed as it is customised to the country concerned. According to the 2012 FinScope MSME Survey and the 2014 Consumer Survey, 23% of Zimbabwe's adult population was financially excluded with only 30%making use of banking services as at 2014. The Survey further observed that only 14% of MSME owners were banked and only 1% of the adult population made use of capital market services.

The Fin Scope Consumer Survey for Zimbabwe shows a strong urban/urban divide, which is more apparent in the usage of bank products whereby 47% of adults are banked in the urban areas as compared with only 12% banked in the rural areas. The rural population is mainly served by the informal sector. The urban/rural divide is put in the spotlight if financial access is analysed by province as in Table below. Harare and Bulawayo, the main urban centers show the highest levels of financial inclusion. Provinces such as Matabeleland South, Matabeleland North, Mashonaland and Central and Mashonaland East have acute levels of financial exclusion whereby no less than 50% of the adult population are financial excluded from either formal financial services or informal financial services.

Table Financial Access Strands by province Province	**% Have/use bank products/services**	**% Have/use non-bank formal products/services**	**% Use only informal mechanisms**	**% Financially excluded**
Harare	49	24	10	17
Bulawayo	46	16	18	20
Midlands	24	13	26	37
Mash West	21	20	17	42
Mat South	16	6	28	50
Manicaland	16	9	29	46
Mash East	15	12	20	53
Mat North	15	12	13	60
Masvingo	14	12	35	39
Mash Central	10	8	24	58

Figure 2.6: Financial inclusion figures Zimbabwe. Source: RBZ NFIS 2016-2020

2.7STRATEGIES TO PROMOTE FINANCIAL INCLUSION

2.7.1 Mobile Based Payment System

The Khan Committee, (2010) argues that while there are 15 savings account holders in India, about 43 mobile subscribers are being added each month. Hence, he argues that financial inclusion can best be attained through mobile based payment systems. Lammermann, (2002), believes that mobile money transactions require efforts of banks, telecommunication companies and technological companies if ever they are to effectively fight against financial exclusion. Ushar, (2010) notes that Yes Bank has successfully implemented a program under the National Innovative Program to use mobile technology to provide financial services to the populace.Triki and Faye, (2013) in the same vein suggested that the rapid growth in mobile subscribers makes it possible for banks to collaborate with telecom companies to develop an alternative channel in the provision of financial services. (Khan, 2012) further argues that banks can make use of such technological advancements to verify Know Your Customer (KYC) related concerns while protecting their mutual concerns.

2.7.2 Smart Card

Khan, (2012) notes that the issuance of smartcards to the populace has seen India's total number of financially excluded people dwindle. This strategy is especially ideal when incorporating the rural populace where the rural people are mostly excluded. To acquire the smartcard, India uses a very simple process where one has to produce documents citing proof of residence for more than one year and should be registered under minimum employment guarantee scheme and social security pension program of India. This method involves having a bank official who goes to rural areas which a wireless hand held device where every single client will be issued with a swipe card which will help the rural clients to make withdrawals and deposits authenticating the transaction with his or her fingerprint impression and it is after authenticating the bank official will give the client cash. RBI, (2002) cites the Bank of India which entered into an agreement with Tata consultancy which provides the technological hand devices and business consultants which helps extent the bank's coverage to consumers living in the rural areas.

2.7.3 Telecentres

Gupta and Singh, (2013) defines telecenters as places where shared access to information and communication technology and Information Technology enabled services are available. Fillip and Foote, (2007) has concluded that telecentres will potentially address the problem of assymetric information thus promoting financial inclusion. The World Summit on Information Society, (2003) argues that telecenters are a cost effective way in which developing countries can take advantage and effectively include their people as a way to bring financial services to the poor. Naik, (2011) stated that governments in developing countries may use such centers for the convergence of policies and information which will also serve as the multiway media of information. Bikki and Bilandzic, (2013) argue that telecenters can facilitate the provision of services to the nation which will act as a bridge between businesses and rural people. Telecenters can promote financial inclusion by making available information thereby filling up the demand and supply gap. By so doing telecentres play a critical role in providing reliable information which will help incorporate all areas of a nation. Sankaramuthukumar, (2011) states that if banks make use of such telecenters as it will erode low inclusion figures, wrong selection of policies and the high costs involved in attaining financial inclusion. Which will also help provide reliable information for banks as telecenters are much closer to rural people.

2.7.4 Voluntary charters and codes of practice

Lammermann, (2002) proposes that voluntary charters and codes of practice are the way to end financial exclusion. These voluntary codes are developed by banks themselves through their trade associations a technique used mostly across Europe. In France, these codes were developed by the French Banker's Association which required banks to open an affordable account with facilities such as a cash card, free access to a cash machine network, bank statements and a negotiable number of cheques. Belgium introduced such voluntary codes in 1997 through the Belgian Bankers Association (ABB) which introduced basic financial services especially to the marginalised, the poor and the unbanked youth. These accounts were named "call deposit accounts" which offered three basic services money transfers, deposits and withdrawals and these accounts could take up a maximum of three transactions a month at a cost of less than 10 euros per year. Germany also introduced a voluntary code through the German Bankers Association in 1996 which provided for low cost accounts which were named "Everyman" current accounts offering basic bank accounts without an overdraft facility. This initiative reaped great results as more that more than 800,000 'Everyman' accounts had been opened in 4 years(Institut fur Finanzdienstleistungen, 2000). The United Kingdom and Australia achieved universal access through such arrangements with banks providing "a basic account" which offered financial services with all transactions are real time and it has a cash card for withdrawing money from cash machines but no cheque book (HM Treasury, 1999). Lammermann,, (2002) postulated that codes of practice and voluntary charters should be further promoted by financial providers if financial exclusion is to be totally eradicated.

2.7.5 Legislation

Legislation can also be the way in which the Government can ensure that banks craft policies that brings financial services to the people as a requirement. France passed the law on exclusion in 1998 which made having a bank account in France a right for every French citizen. This law also simplified opening and owning a bank account in France and if refused, they could apply to the Banque de France for that bank to be forced to open the account. Belgium introduced a basic banking bill in 2001 which imposed sanctions on banks that refused to comply. Canada set up rules which required banks to open bank accounts for everyone which had zero minimum balances and which disregarded prior individual financial history.Vighneswara, (2011) nevertheless, argues that regulation may hinder progress especially in emerging markets as it may preclude on innovation. Noting the limiting effect of this regulatory framework on innovation, the RBI created the payment bank framework in 2014 to enable payments innovators to enter the market more easily. Elsewhere in Zambia, interoperable payment platforms are taking advantage of favorable "test, then regulate" regulations. When regulation is well-informed and iterative, it ceases to be a barrier to payments innovation and instead drives progress with any mobile money scheme. Engel and Scher, (2014) state that Governments can establish a favourable legislative framework to promote financial inclusion. In several countries, pressure from the government and public opinion have successfully encouraged the banking sector to adopt voluntary codes of conducts regarding basic bank accounts provision (for example, in Belgium, France and Germany). Governments should also remove specific obstacles to the involvement of some people in the banking system (for example, people 'blacklisted' for not repaying loans) and limit practices of financial services institutions that exploit financially excluded people through high credit fees and lack of transparency(Khan, 2011).

2.7.6 Low-cost no-frills accounts

(Gupta and Singh, 2013) argue that developing countries have to make use of low-cost no-frill accounts as most people cannot afford the exorbitant bank charges that banks levy on basic accounts. Vighneswara, (2011) notes that it is the creation of such low cost accounts help ensure access of the low income. European countries such as France, UK and Belgium created such low cost accounts which helped achieve financial inclusion. (Gupta and Singh, 2013) highlighted features of effective low-cost accounts including the absence of overdraft facilities, fewer terms and conditions as well as eliminating identity requirements that reduce uptake of formal banking services. Khan, (2011) states that banks exclude people on low incomes who are otherwise prevented by complicated bank requirements such as documentation, high salary scale and exorbitant bank charges. No frills accounts can overcome these problems are provided free from bank charges and require only a copy of national identity card to open the account.

2.7.7 Developments in technology offer solutions and risks

Engel and Scher, (2014), highlights the need to have Information and Communication Technology (ICT) if financial inclusion is to be attained in India. Of a total of 6, 38,596 villages in the country, 4, 94,442 (or 83.3%) have less than 2,000 inhabitants with a total population of 340 million as per 2001 census. Covering all these villages with brick and mortar branches of banks would be nearly impossible. It is only through extensive adoption of technology that banks have the potential to reduce the cost of transactions by use of mobile and Automated teller Machines. Even those in remote and rural areas have the chance of being financially included, it is possible to provide doorstep banking services where the accounts can be operated by even illiterate customers by using biometrics or mobile telephones, thus ensuring the security of transactions and enhancing confidence in the banking system. Information technology in the BC eco- system is thus becoming a key business enabler and is being positioned as a key differentiator (Deepankar, 2002).

Biometric ATM -Triki and Faye, (2013) Notes that biometric automated teller machines (ATMs) can be the solution to financial exclusion around the world. According to Lammermann (2002), this measure was introduced in Nigeria where the bank introduces cards with biometric authentication which allows for basic recognition of the fingerprint. This allows for the inclusion of the illiterate and the elderly. Gupta and Singh, (2013) notes that the Podkarpacki Bank Spoldzielczy from Sanok in India implemented this strategy equipping its automated teller machines(ATMs)with biometric readers which scan the fingerprint and also the blood vessel pattern. The Union Bank of India has launched the region's first solar powered, voice enabled biometric rural automated teller machine (ATM) in Ludhiana District (www.indainexpress.com). This ATM is solar powered which supports biometric and pin based transactions which has seen the inclusion of many financially excluded illiterate people.

2.7.8 Infrastructure

Engel and Scher, (2014) suggested that building of infrastructure by banks is the key to eradicating financial exclusion. Many countries lack core infrastructure which is required to financially include everyone especially the innovative machine-to-machine (M2M) technology. By embedding SIM chips into solar-powered lighting units, they created a remote device management system enabling prepaid and pay-as-you-go (PAYG) financing via M-Pesa in East Africa. Deepankar (2002) argues that in the last decade there has been significant developments in information technology. Technological enhancements improve the efficiency of service providers, enhance the provision of customised products as well as dissemination of information to enhance financial literacy.

2.7.9 Self Help Group-Bank Linkage Programme (SLBP)

India has at most successfully dealt with financial exclusion through the Self Help Group-Bank Linkage Programme (SLBP) which has helped India provide financial services to the undeserved poor. These groups helped instill a credit discipline in these self-help groups, which also created social collateral bankable. Khan, (2011) stated that this strategy helped bring financial services especially to the rural populace as it helped banks with the problem of low loan recovery in rural areas and high transaction costs when especially dealing with small borrowers. RBI (2002) also concurred that these Self Help Group-Bank Linkage Programmes had a major positive impact of generating social and economic empowerment of the membership. Khan, (2011) however, argues that Self Help Group-Bank Linkage Programmes had negative impacts as the process was marred by delays in opening and disbursing loans.

2.7.10 Microfinance Institutions (MFIs):

Banthia, (2002) noted that have thus far been the linchpin upon which the financially excluded have been served in the past few years. Microfinance Institutions (MFIs) have served the underserved/unserved populace and improved access to credit. Banthia, (2002) argues that Microfinance Institutions are vital as they promote financial deepening especially as they have continued to serve those most alienated by banks such as pensioners, small to medium enterprises and the unbanked. Microfinance Institutions (MFIs) will however have remove the negative perception that Microfinance Institutions (MFIs) are mostly present for profiteering at the cost of the poor (Khan, 2011).

2.8 RESEARCH GAP

This study sought to evaluate the impediments to financial inclusion of the informal sector and recommend strategies to overcome these impediments. It builds on previous work that has unpacked the barriers to financial inclusion but has not evaluated the extent to which each of these impact the process in the specific context of the informal sector.

2.9 CONCEPTUAL FRAMEWORK OF STUDY

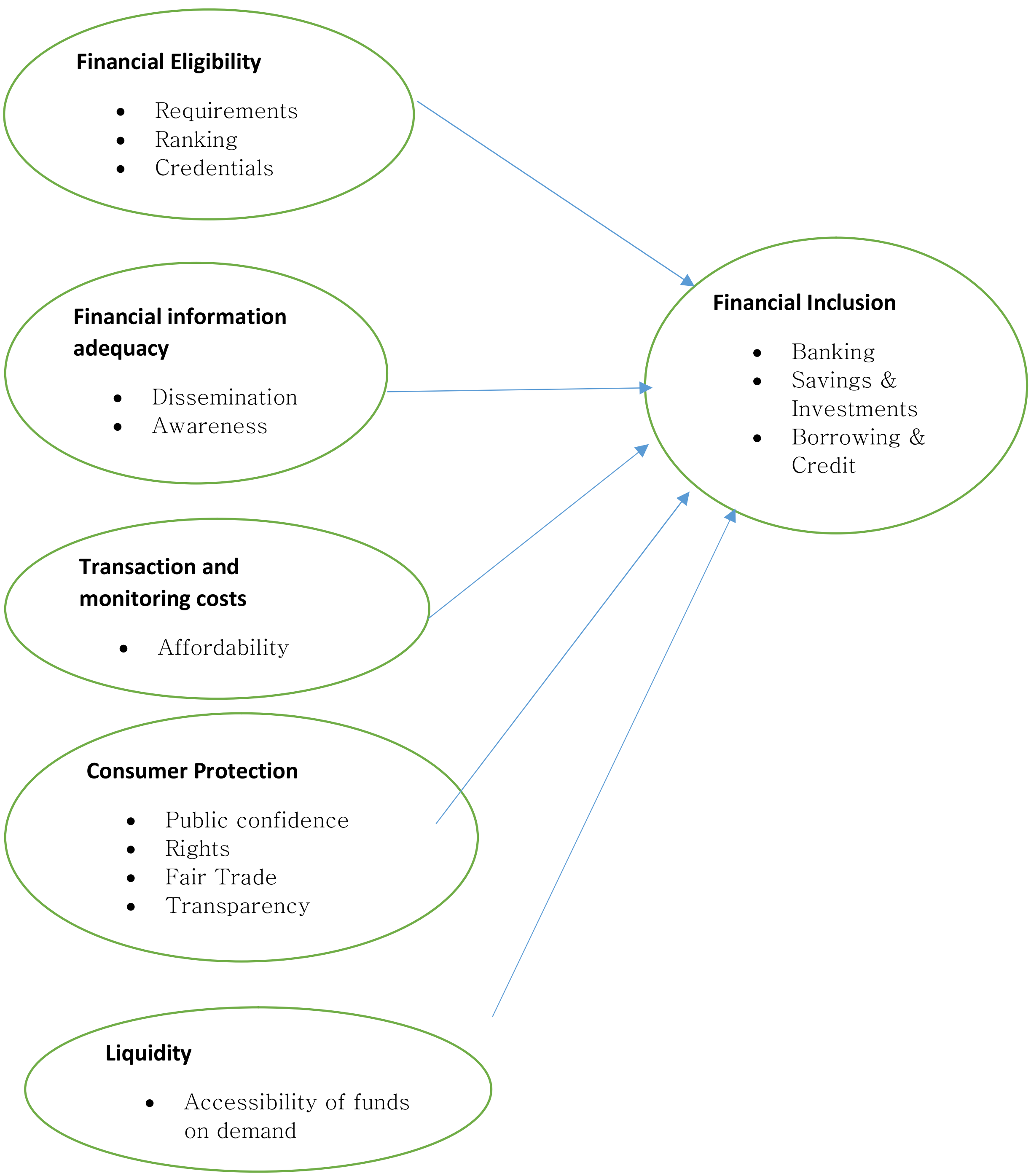


Figure 2.7: Conceptual Framework illustrating dependent and independent variables

From the above literature, this research has developed the above conceptual framework to be tested in the Zimbabwean scenario. This research evaluated the extent to whichtransaction cost, low confidence in the banking sector, liquidity problems, financial literacy, refusal by banks, registration requirements, stringent terms and conditions, psychological and cultural barriers as well as consumer protection legislation impede financial inclusion of the Zimbabwean informal sector. The main objective of this study is to provide strategies that will enable the increasingly important informal sector to be financially included and contribute to the country's Gross Domestic Product (GDP).

2.10 CHAPTER CONCLUSION

In this chapter, the views of various authorities on the financial inclusion discussion were synthesized to emerge with the writer's own perspective on the matter. Critical review of literature helps in identifying points of convergence and divergence as well as identifying research gaps. The impediments to financial inclusion and strategies identified in other countries through review of literature were then tested in the Zimbabwean informal sector context. It is therefore the main objective of this study to evaluate the impediments to financial inclusion of the informal sector in a Zimbabwean context and recommend strategies to overcome them.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter gives an outline of the systems of methods used in the study. It includes a comprehensive explanation and description of methods used to sample the population, to collect and analyse data as well as an outline of the descriptive statistics and the model used for processing the data.The chapter gives a synopsis of the deductive approach, the method used in selecting the research participants; a discussion of data collection tools, data analysis methods used and research methodology limitations.

3.2 RESEARCH DESIGN

A research design refers to a detailed plan of the processes that the researcher would have used in the collection of relevant data for the research. It gives a structure of the whole research process that guides on how best the study can be carried out. The research design involves data collection, the research instrument used and the sampling methods used (Bhattacherjee, 2012). This study used a quantitative approach. The descriptive research design was adopted since it allowed the research findings to be generalized to the target population. Furthermore, it allowed data analysis and determination of relationships between the dependent and independent variables in the study. The quantitative study is aimed at achieving the objective of evaluating impediments to financial inclusion of the informal sector.

3.2.1 Research philosophy

Saunders, Lewis and Thornhill (2009, p. 107) describes research philosophy as the development of knowledge and the nature of that knowledge as shaped by our assumption of what is important and what can be known. Research philosophy covers the development of the research background, knowledge and nature of the research process (Saunders and Thornhill, 2016).

Ontological – refers to the form and nature of reality and what can be known about it (Guba & Lincoln, 1994). There is one truth which is external.

Epistemological - refers to the nature of the relationship between the knower and what can be known. There is a presumption that the knower and the known are separate and independent entities that do not influence one another. There is a search for the "truth"; for the facts in objective and quantifiable terms which holds empirical data in the highest esteem.

Axiological – brings in values into the research process. Voluntary participation and confidentiality guarantee.

3.2.2 Research paradigm

Research paradigm refers to the broad framework that covers perceptions, beliefs and practices which are used in doingthe research (Marrison, 2000). A research paradigm is a way of thinking and carrying out the research itself hence the research philosophy and paradigm consist of various factors for instance: the personal mental model, way of looking at things, perceptions, beliefs on reality and values of researchers in coming up with valid arguments and terminology in providing reliable results. The research paradigms include positivism, interpretivism and pragmatism (Saunders, Lewis & Thornhill 2009).Positivists assume that there is one external and objective truth which is knowable and directly measurable. In this study the researcher used the positivism paradigm so that the results can be generalized to all the players in the informal sector in Zimbabwe. Positivism results in a conclusive result and is therefore deemed by quantitative researchers as being reliable and objective (Easterby-Smith et al, 2008). It allows for the replication of findings thus enabling confirmation of results.

3.2.3 Research Approach

The study will be deductive, rather than inductive and theory testing rather than theory building. This stands to reason given that the study seeks to test already established theory. The deductive approach takes the form illustrated below:

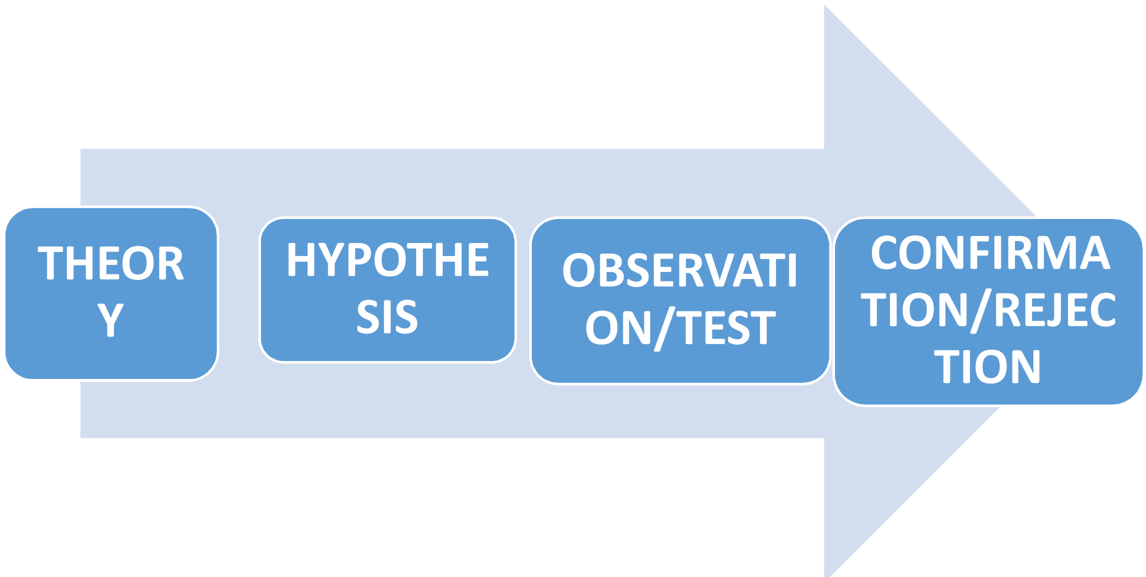


Figure 3.1: Deductive approach to research (adopted from texts)

3.3 METHODS OF DATA COLLECTION

The research aimed at generating primary data through a quantitative method (surveys) through questionnaires (Creswell, 2014). The researcher collected data using self-administered questionnaires (Williams, 2011). Data collection methods are the techniques and ways used in gathering and analysing data related to the set research questions or hypotheses. It is also described as a process of collecting and measuring data on the variables on the research problem in a systematic way (Donald and Schindler, 2011).The research used both primary and secondary data. Secondary data was collected from journals, reports, books and newspapers. The researcher used a systematic random sampling method to select the sample and self-administered questionnaire to collect data from the respondents. The use of a questionnaire reduces the element of subjectivity and biases which are mostly associated with qualitative data collection methods. A questionnaire saves time, easy to administer, useful when gathering precise data therefore improves the validity and reliability of the research. A questionnaire does not call for extensive training of the researcher and respondents as compared to qualitative methods for example in the case of interviews and observations.

3.4 RESEARCH INSTRUMENT

A research instrument is a tool that is used in data collection. Research instruments are the fact finding strategies (Fowler, 2014). Research instruments include questionnaires, interviews, observations or just reading (Saunders & Rojon, 2014). The researcher made use of questionnaires due to their suitability for the positivist research approach. A total of 120 questionnaire were administered. Questionnaires were used because they offer a practical solution to research directly from respondents. Large amounts of information can be collected from a large number of people in very little time in a cost effective way (Muchengetwa, 2005). Since the research is quantitative in nature, the results would be quickly and easily quantified hence its suitability to this research allowing for a more scientific and objective study.

3.4.1 Questionnaire development

A questionnaire is a data collection instrument which is used mostly in surveys that consists of systematically prepared set of questions which are deliberately designed to elicit answers (responses) from the respondents (Nahid, 2014).

In order to capture the attention of the respondents the questionnaire was drafted with concise and relevant questions and great care was taken to ensure that respondents would not spend more than 15 minutes in completing the questionnaire. The questions were in a structured format to ensure that the research objectives are achieved. Saunders et al. (2012) proposes that a questionnaire should have just 6-8 pages so that it is simple and easy to understand. The researcher managed to physically obtain the details and consent of respondents prior to the administration of the questionnaires and timelines were set in advance.

The questionnaire used consisted of four sections namely; sections A, B, C and D. The sections are structured as follows:
Section A: Demographic information for statistical use.
Section B: sought to unpack the general overview on financial inclusion so as to determine the current levels of financial inclusion in the informal sector.
Section C covered the research aim of investigating the impediments to financial inclusion.
Section D sought to meet the researcher’s aim of strategies to enhance financial inclusion.

A Likert scale was used to measure the respondents' opinions with respect to financial inclusion of the informal sector in Zimbabwe. The scale was used to rate the respondents' views, the respondent was required to show their agreement or disagreement to the statement by ticking in the box. Respondents were given 5 options to show their views. The choices provided by respondents on the questionnaire for each question were then quantified and analysed using SPSS. The table below shows a Likert scale:

Table 3.1: Likert scale

Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	**2**	**3**	**4**	**5**

Source: Primary data

3.4.2 Pilot testing

Pilot testing is the process of carrying out a small preliminary study to test the feasibility of the study before carrying out the actual research. It saves time, costs and improves the research design (Saunders, Thornhil and Lewis, 2016).

To collect data enabling the research to address its objectives and answer research questions on the impediments to financial inclusion, 10 questionnaires were administered to test the suitability of the questionnaire to all the various informal businesses operating from Glen View and their ability to give the data which the researcher requires. Pilot testing also enabled the researcher to test the accuracy, validity and reliability of the questionnaire. Information obtained from the test group resulted in the elimination of some irrelevant questions and editing of other questions to make the data collection instrument more concise for the respondents and useful in addressing research questions.

3.5POPULATION AND SAMPLING TECHNIQUES

This section seeks to give the study population, sample frame, sample size and sampling methods used in this study.

3.5.1 Population

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study (Bhattacherjee, 2012). The population refers to a set of members or items from which the study intends to make some inferences (Boddie, 2013). It is from the study population that results and findings of the study can be generalised. The study population in this study comprised all the informal traders registered by council to operate from the complex. The actual figure is unknown as it fluctuates depending on how many traders pay rentals to operate in a particular month although it can be estimated at 500 based on the number of tables.

3.5.2 Sample sizes

The sample size of this research is 100 informal business owners. A sample is a subset of the study population which has been systematically chosen to represent the study population (Saunders, Thornhil and Lewis, 2016). The sample was drawn from business owners as these are believed to have more knowledge of the business. Additionally, only those who have been operating from the market for at least five years were selected as these would have a more institutional memory of their workplace.

3.5.3 Sampling methods

Utilizing an ideal sampling method is very crucial as this reduces research costs, speedy, flexibility and gives greater accuracy (Boddie, 2013). Sampling can be described as an act, process or method of selecting a representative sample of the study population for the purpose of determining characteristics of the entire study population. The researcher adopted simple random sampling since to award each member of the population an equal chance of selection for the study. The researcher however proceeded to only interview those who have been operating for at least two years from the complex as these proved through the pilot test to have a deeper institutional knowledge of the place. It was understood from the pilot test that the number of years for which one has operated from the informal activities hub significantly affected the perspective given on the issues under study.

3.6QUESTIONNAIRE ADMINSTRATION

The researcher individually administered the structured questionnaires to the respondents. On the set dates the researcher visited the business stalls to meet the study respondents, made presentations on the research aim, approach to be used and research methodology as well as the ethical considerations. The questionnaires were aided by interviews so as to enable proper understanding of the questions.

3.7DATA PRESENTATION AND ANALYSIS

Data presentation and analysis play an important role in the research process. The analysis of data helped the researcher to make inferences from the data gathered through content analysis. Completed questionnaires were then coded using a coding technique which was used to categorise the raw data, the grouped data was then analysed (Saunders et al., 2012). The information gathered from the questionnaires was then summarised and presented in form of visual diagrams such as tables, graphs and histograms. The Statistical Package for Social Science (SPSS) and Microsoft Excel were used in analysing and processing collected data and research findings. Elementary statistical inferential techniques were applied for instance frequency tables, mean, standard deviation, variance and other descriptive statistics showing the effectiveness of financial inclusion strategies in stimulating financial inclusion. SPSS was adopted due to its efficiency in handling large amounts of data and ability to perform all the analysis. Measures of central tendency were used on an ungrouped set of data to include the mean, median, and mode.

Data analysis involves applying statistical techniques to analyse researched data. The analyses included descriptive tests; first to determine whether any anomalies existed thus, detecting outliers. Cooper and Emory (1995), maintain that descriptive tests provide the overall means and standard deviations. The research carried out factor analysis since the research mainly dealt with causes and solutions to which factor analysis is an ideal tool to solicit for adequate data.

The purpose of factor analysis is to explore the underlying variance structure of a set of correlation coefficients. Thus, factor analysis is useful for exploring and verifying patterns in a set of correlation coefficients (Brown, 2001). Factor analysis is to reduce the large number of variables that describe a complex concept such as socioeconomic status to a few interpretable latent variables (factor). The study carried out the Bartlett's test (Snedecor and Cochran, 1983) which tested if k samples have equal variances. Equal variances across samples is called homogeneity of variances. A Kaiser-Meir-Olkin statistic is a Measure of Sampling Adequacy, both overall and for each variable (Kaiser 1970;Cerny and Kaiser 1977; Dziuban and Shirkey,

1974) was also carried out before factor analysis was carried out to determine if the KMO and Bartlett's test were satisfied to carry out factor analysis. The KMO statistic is a summary of how small the partial correlations are, relative to the original (zero-order) correlations. The partial correlation for each pair of variables in the factor analysis is comprised of the correlation between those variables after removing the influence of all of the other variables in the factor analysis. (The off-diagonal elements of the Anti-image correlation matrix are the partial correlations multiplied by -1.0.) If the variables share common factor(s), then the partial correlations should be small and the KMO should be close to 1.0. Once the extraction of factors was completed, the study examined Communalities which tells us to ascertain how much of the variance in each of the original variables was explained by the extracted factors.The percent of variance accounted for by each principal component measuring the variance of each component was also carried out. Screen plot graphs for the impediments to financial inclusion and solutions to financial exclusion were constructed with the Eigen value against the component number. Differences among the variable under investigation were evaluated using the Kruskal-Wallis Test and the Wilcoxon test for ownership and type of institution.

3.8 RESEARCH LIMITATIONS

As a result of limited financial and time resources, only a small sample size of 100 informal traders was used for the study. A much larger sample would have resulted in an even better quality study with more information.

Additionally, Zimbabwe is a highly politically polarized nation that has experienced instability in the recent past. This resulted in some respondents being wary of the responses they gave to questions and therefore potentially compromising the data collected. Some declined to complete the questionnaire thinking that this study was politically motivated in some way.

3.9 VALIDITY AND RELIABILITY

According to Ferg, (1986) validity refers to the degree to which inferences can legitimately be made from the operationalisation in one’s study to the theoretical constructs on which the operationalisation was based. To ensure validity, the questionnaire was derived from previously used and validated items derived from the literature. Nevertheless a pilot test was still conducted to ensure that the respondents fully understood the questionnaire and accurately completed it to the best of their ability. Some items were omitted from the original instrument and the questions had to be re-arranged and re-worded in simple language that the participants could comprehend without the assistance of the researcher. Trochim (2004) and Haire, Money, Samouel and Page (2006), maintained that reliability is the consistency or repeatability of a measurement and that for reliability to be acceptable it must have a Cronbach's Alpha coefficient greater than 0.6. Yin (2011) argued that reliability is a concept which makes sure that if a later researcher followed the same procedures as done by an earlier researcher repeatedly, the later researcher must be able to reach the same conclusion and findings. It, therefore, demonstrates that the operations of a study such as data collection can be repeated yielding the same results. The reliability of the items was checked using Cronbach Alpha to ensure that the items were consistently measuring the same constructs.

3.9.1 Reliability Statistics

Cronbach's Alpha	N of Items
.707	19

Table 3.2: Reliability test

According to Muchengetwa,, (2005), the Cronbach's Alpha statistic is a measure of internal consistence. The same author states that for results to be reliable, Alpha should be >0.7. The Alpha for this research was 0.707 showing a reliable scale meaning that the analysis could proceed.

3.10 ETHICAL CONSIDERATIONS

Greener (2008), defines ethics as moral principles that govern a person's behaviour or the conducting of an activity. Bhattacherjee, (2012) stated that the main aim of research ethics is to ensure that any study carried out should not negatively impact any of the respondents or any party involved.Information was only collected with the consent of the concerned parties. Participants were reassured that any information that they contributed to this research will not be used for commercial purposes but for academic purposes and to educate policymakers and other stakeholders for the benefit of the informal businesses. Informants were also assured that any personal information collected would remain confidential. Participating in the research was optional and participants retained their right to withdraw from the research if they so wished.

3.11 CHAPTER SUMMARY

In this chapter the researcher established the use of a deductive research approach given the quantitative nature of the study. A sample size base on an approximate population was also drawn using the random sampling approach so as to draw a representative sample. The data collection instrument was also validated using the Cronbach Alpha statistic so as to ensure collection of relevant data for a reliable conclusion.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 INTRODUCTION

In this chapter, the findings of the research are analysed using SPSS Statistics 20, presented and discussed. The use of descriptive statistics and inferential statistics was made to interpret the results from the SPSS analysis. Descriptive statistics involves summarizing, organizing, diagrammatizing and interpreting data for example describing frequencies and standard deviations. Inferential statistics involves the use of statistical procedures allowing the researcher to draw inferences to the population on the basis of sample data. Processes involve regression analysis and tests of relationships.

4.2 QUESTIONNAIRE RESPONSE RATE

Table 4.1: Questionnaire response rate

Respondents	Target	Actual	Response rate
Registered Glen View Traders	100	91	91 %

As highlighted in Chapter 3, a total of 100 questionnaires were administered to traders at Glen View informal market. According to Gloukoviezoff, (2006),a response rate of at least 50% is necessary for analysis and reporting, a 60% response rate is considered good whilst a rate above 70% is very good. In this study, 91 questionnaires were properly completed thus showing a very good response rate. This good response maybe in line with Gupta and Sighn, (2013) who argued that when a researcher personally distributes questionnaires to the respondents, a higher response rate is likely to be achieved. A response rate of 91% makes the research outcome reliable and valid.

4.3 DESCRIPTIVE ANALYSIS

Table 4.2: Operating Experience

Operating_experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 3 years	13	14.3	14.3	14.3
	3 to 5 years	34	37.4	37.4	51.6
	Above 5 to 10 years	25	27.5	27.5	79.1
	Above 10 to 20 years	16	17.6	17.6	96.7
	Above 20 years	3	3.3	3.3	100.0
	Total	91	100.0	100.0	

Out of a total of 91 respondents, the majority of 37.4% has been operating for between 3 to 5 years with the second highest percentage of 27.5% operating for 5 to 10 years. The researcher attributed this to the increased informalisation of the economy during the past decade. As formal employment opportunities become fewer, the informal sector is becoming more proliferate with the then Minister of Finance in his 2016 budget speech referring to the sector as "the new economy." The RBZ through its monetary policy in 2016 pointed out that financial inclusion remains at its lowest due to low interest on savings discouraging a saving culture in the country as the informal business which is believed to have about $6 billion in circulation is opting to keep their funds in cash.Additionally, the IMF in 2018 reported that Zimbabwe has the second largest informal economy in the world making up 60% of the total economy. It is therefore important to ensure that informal businesses become financially excluded so that they contribute meaningfully to economic development. Only 3.3% of the total informal businesses were found to be above 20 years.

Table 4.3: Level of education

LOE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary school	50	54.9	54.9	54.9
	Diploma	23	25.3	25.3	80.2
	Degree	17	18.7	18.7	98.9
	Doctorate	1	1.1	1.1	100.0
	Total	91	100.0	100.0	

The majority of the respondents (50%) were found to have gone up to secondary level whilst 25.3% attained diplomas, 18.7% have degrees and 1.1% have a doctorate. Camara and Tuesta (2014) concluded that education accomplishment is positively related to the consumption of financial services. Based on this assertion, one can opine that the consumption of formal financial services in the informal sector remains subdued because the majority have not advanced their education. Despite a significant number of people having diplomas and degrees, they have opted for the informal businesses likely due to the lack of formal employment opportunities. Some have attained diplomas in practical subjects such as woodwork. The factors driving informal business owners to venture in their businesses is a possible research area for the future.

Table 4.4: Access to any formal financial service during the past 2 years

access_to_any_formal_financial_service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	1	1.1	1.1	1.1
	Yes	27	29.7	29.7	30.8
	No	60	65.9	65.9	96.7
	No response	3	3.3	3.3	100.0
	Total	91	100.0	100.0	

65.9% of the respondents said that they have not accessed any formal financial service during the past two years. These include access to credit and insurance services. This is attributed to the impediments cited by the respondents in another section of the questionnaire. The most common challenges cited were strict terms and conditions by service providers, cash shortages, lack of confidence in the banking sector and lack of documentation due to operating informally.

4.4 VALIDITY AND RELIABILITY TESTS

4.4.1 Reliability tests

Table 4.4: Cronbach's Alpha coefficient

Cronbach's Alpha	N of Items

Cronbach's Alpha	N of Items
.707	12

The reliability of the scale was determined by establishing the Cronbach's Alpha coefficient. For a scale to be considered reliable, Muchengetwa (2005) states that it should have a Cronbach's Alpha coefficient greater than 0.7. As shown in table 4.4, the coefficient for this study was 0.707 showing acceptable reliability of the scale. Table 4.5 below shows the item total statistics showing the Cronbach's Alpha coefficient for each variable under study. In conclusion results reveal that the questionnaire is a reliable instrument for data collection and analysis for the purposes of evaluating the impediments to financial inclusion in the informal sector.

Table 4.5: Item-Total statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
C1	91.4167	63.356	.233	.605
C2	91.2500	60.932	.402	.685
C3	91.1667	68.333	.063	.718
C4	91.0000	58.909	.645	.763
C5	90.4167	72.629	-.235	.623
C6	91.0000	66.545	.235	.701
C7	90.7500	69.295	.084	.711
C8	91.0833	65.902	.265	.699
C9	91.7500	63.659	.231	.705
C10	91.1667	59.606	.564	.670
C11	90.5833	65.902	.286	.698
C12	92.5833	63.538	.228	.706

4.5 FACTOR ANALYSIS

Factor analysis was carried out to establish the impediments to financial inclusion of the formal sector that are significant for further analysis. The factor analysis steps and results are presented in the sections below.

4.5.1 Step 1: Assessment of the suitability of data for factor analysis.

SPSS generated the Bartlett's test of Sphericity (Bartlett, 1954) and the Kaiser-Meyer-Olkin (KMO) (Kaiser, 1974) to enable the researcher to determine the factorability of the data. The Bartlett's test of sphericity should be significant ($p<.05$) for the factor analysis to be considered appropriate whilst the KMO index ranges from 0 to 1, with 0.6 suggested as the minimum value for a good factor analysis (Tabachnick & Fidell, 2001). Table 4.6 below shows that the factors are suitable for analysis since the KMO and Bartlett's test statistics lie in the recommended range of suitability.

Table 4.6: KMO and Bartlett's test

KMO and Bartlett's Test[a]

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.693
Bartlett's Test of Sphericity	Approx. Chi-Square	293.279
	df	12
	Sig.	.000

a. Based on correlations

4.5.2 Step 2: Factor extraction

There are a number of techniques use to extract useful factors for analysis namely; Kaiser's criterion or the eigenvalue rule and the scree test. Using the eigenvalue rule, only factors with an eigenvalue of 1.0 or more are retained for further investigation. With Catell's scree test (Catell, 1966), each eigenvalue of the factors is plotted and then the plot is inspected to find a point at which the curve becomes horizontal. Catell recommends retaining all factors above the elbow, or break in the plot, as these factors contribute the most to the explanation of the variance in the data set.

Table 4.7 shows the individual contribution of each factor to the total variance. All the factors with Eigen values above one contribute significantly to the total variance in the dependent variable and are therefore retained for analysis. The six components explain 68.038% of the research question. The six factors significantly explain variance in financial inclusion of the informal sector.

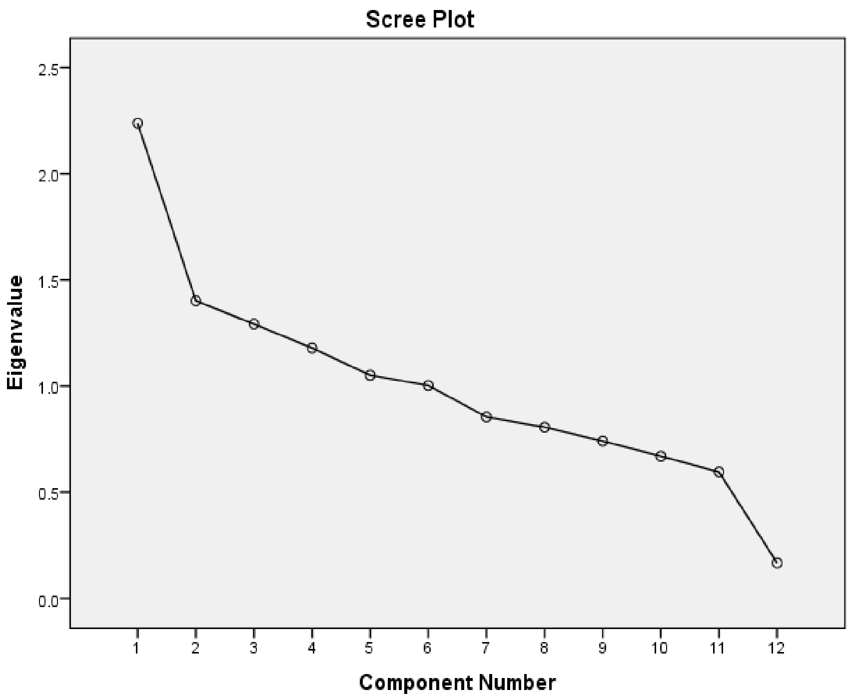
Table 4.7 Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.238	18.648	18.648	2.238	18.648	18.648	1.856	15.470	15.470
2	1.402	11.680	30.328	1.402	11.680	30.328	1.398	11.651	27.121
3	1.292	10.769	41.097	1.292	10.769	41.097	1.311	10.925	38.046
4	1.179	9.827	50.924	1.179	9.827	50.924	1.242	10.352	48.398
5	1.051	8.759	59.683	1.051	8.759	59.683	1.182	9.852	58.250
6	1.003	8.355	68.038	1.003	8.355	68.038	1.175	9.788	68.038
7	.855	7.124	75.162						
8	.807	6.721	81.883						
9	.741	6.176	88.059						
10	.670	5.582	93.641						
11	.595	4.962	98.603						
12	.168	1.397	100.000						

Extraction Method: Principal Component Analysis.

The scree plot in table 4.8 below shows six factors that significantly impede the use and access to formal financial services by the informal businesses. From the seventh factor, the contribution to total variance is becoming smaller and therefore insignificant. In conclusion, the six components with Eigenvalues greater than one are retained.

Table 4.8: Scree Plot



4.5.3 Step 3: Factor rotation and interpretation

Table 4.9 Component Matrix

	Component					
	1	2	3	4	5	6
C1			.686			
C2				.642		
C3		.637				
C4	.415					
C5					.535	
C6	.451					-.424
C7						-.635
C8		.417			.592	
C9	.850					
C10	.828					
C11			.421	.437		
C12		.546	.435			

Extraction Method: Principal Component Analysis.

Variables C4, C2, C5 and C6 constituted component one, while C4 and C8 were clumped as component 2. The third component was made up of B1, C7 and C8 with the fourth component constituting of B2 and C7, while the fifth component consisted of C1 and C4.The Table below shows the constituents of the rotated Matrix.

4.5.4 Factor rotation

The Varimax orthogonal rotation with Kaiser Normalisation was employed in determining the degree of correlation of a measured variable with a particular factor. To determine how strongly correlated a measured variable was with a particular factor, the variable was supposed to load at least 0.4 on a factor because it meant that the variable belonged to that factor (Jolliffe, 2005). Table 4.10 below is a summary of the rotated factor loading matrix after deletion of these items.

Table 4.10 Rotated Component Matrix

	Component					
	1	2	3	4	5	6
C1	.019	.203	.019	.212	-.247	.693
C2	.119	-.182	-.121	-.234	.739	-.084
C3	.042	.654	.269	-.293	.021	.159
C4	.114	.195	.687	-.072	.051	.103
C5	.213	-.336	.653	.320	-.009	-.092
C6	.213	.728	-.083	.136	-.002	-.150
C7	.147	.210	.064	.218	-.168	-.706
C8	-.118	.367	.164	.275	.721	.071
C9	.920	.165	.082	-.054	.076	-.086
C10	.922	.053	.124	.114	-.040	-.014
C11	.056	-.081	-.513	.300	.123	.331
C12	-.042	.026	.043	-.838	.048	-.009

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Table 4.11Naming of Factors

CAUSES OF FINANCIAL EXCLUSION				
ITEM No	**ITEM**	**LOADING**	**No**	**FACTOR NAME**
C11	Strict account opening requirements	.920	1	Financial ineligibility
C12	Informal operations	.922		
C4	Cash shortages	.654	2	Liquidity crisis
C8	Low interest on savings and investments	.728		
C6	High bank charges and minimum balance	.687	3	High Transaction and monitoring costs
C7	Inefficiency	.654		
C14	Lack of financial awareness	.838	4	Financial illiteracy
C3	Vague or complicated terms and conditions	.739	5	Consumer protection issues
C10	Information asymmetry	.721		
C2	Fear of bank closure	.693	6	Lack of confidence in banking sector

4.5.5NAMING OF FACTORS

4.5.5.1 Factor 1: Financial ineligibility

Two variables were found to explain financial ineligibility as an impediment to financial inclusion of informal businesses. Strict account opening requirements and operating informally had factor loadings of .920 and .922 respectively. These two factors had high factor loading statistics showing that they are major challenges impeding the process of financial inclusion. Matunhu, (2002) noted that banks often adopt restrictive requirements in order to exclude parties that are deemed as high risk from accessing their services and products. Informal businesses are generally viewed as high uncertainty ventures since the owner's capital is intertwined with that of the business thus making it difficult to seek legal recourse in the event that the proprietor defaults on credit payments.

Studies by Collard et al, (2001) and Kempson and Whyley (1998) note that different types of terms and conditions deter financially excluded groups such as the informal sector from opening accounts. Gupta and Singh (2013), argued that access to formal financial sources requires documents of proof regarding person's identity, postal address, income, poor people generally do not have these documents and thus are excluded from financial services.

4.5.5.2 Factor 2: Liquidity crisis

Cash shortages and low interest on investments had high factor loadings showing their significance as impediments to financial inclusion in the informal sector. The biting liquidity crunch in Zimbabwe is arguably a major hindrance in increasing the banked proportion of the population (RBZ, 2017). Liquidity challenges were also cited by Gupta and Singh (2013) as causing the unbanked to become reluctant to deposit, save and or invest due to the uncertainty in accessing the funds upon demanding them. The informal businesses attain the bulk of their raw materials using cash and therefore its availability is a key determinant of whether to bank or not. Prior studies (Collard *et al*, 2001; Connolly and Hajaj, 2001; Hajaj,2002; Kempson and Whyley, 1998; Kempson *et al*, 2000) have shown that liquidity challenges have been a major deterrent in the adoption of formal financial services. Additionally, the RBZ, (2016) pegged interest on investment at a rate to try and lure deposits due to the predominantly low interest on savings. The Bank through its monetary policy pointed out that financial inclusion remains at its lowest due to low interest on savings discouraging a saving culture in the country as the informal business which is believed to have about $6 billion as of 2017 in circulation opting to keep their funds in cash.

4.5.5.3 Factor 3: High transaction and monitoring costs

Factor number 3 comprised two components namely; inefficiency, high bank charges and high minimum balance requirements as barriers to financial inclusion of the informal sector. Gupta and Singh (2013), argued that the low income and financially excluded groups are reluctant to utilize financial services due to high cost such as minimum balance requirements in saving account, fixed charges in credit cards and debit cards, loan processing charges.

In France, Canada, the USA and Australia, attention has been drawn to the minimum balances that are required for an account to be opened. In many cases, these opening balances are beyond the budgets of group on low or irregular incomes such as the informal sector.Costs of inadvertently over-drawing, bounced cheques and failed direct debits are a major deterrent to people on low incomes using a bank account to manage their day-to-day finances (Collard *et al*, 2001; Connolly and Hajaj, 2001; Hajaj, 2002; Kempson and Whyley, 1998; Kempson *et al,* 2000). In Zimbabwe, the RBZ (2011:19) stated that the pricing, terms and conditions of financial products including interest rates and all fees should be disclosed clearly in a manner that can be understood by the clients. This helps in overcoming the problems of imperfect information.

4.5.5.4 Factor 4: Financial illiteracy

Lack of financial literacy was found to be a significant impediment to financial inclusion. Informal business owners are largely unaware of the benefits of using formal financial services in improving their livelihoods. They remain with the mentality that transacting in cash is the most efficient way of doing business. As per the World Bank Report (2012), financial illiteracy provides a real difficulty in understanding the language and reading the document.Despite Zimbabwe's high literacy rate, very fewhave a functional understanding of offerings by banks and other formal financial service providers. A Finscope Survey in 2014 revealed a low uptake in formal investment services by Zimbabwe's adult population citing lack of awareness as the reason.

Creating awareness about availability and benefits of financial services is expected to improve inclusion especially in low income countries characterised by low levels of education and financial illiteracy. In his study of cashless policy in Nigeria, (Bayero, 2015) found that adoption of electronic channels by informal businesses and other excluded groups had a positive impact on financial inclusion. Gwalani and Parkhi (2014) posited that creating awareness about existing products needs to be the first step in implementing financial inclusion strategies. They identified lack of financial literacy as a hindrance to including financially excluded groups and tapping into the economic development benefits of financial inclusion. They further opine that the focus should be specifically on financial literacy for informal business owners to embrace formal financial services as a beneficial way of improving livelihoods.

4.5.5.5 Factor 5: Consumer protection issues

The fifth factor identified as affecting financial inclusion was the issue of consumer protection legislation. This is in agreement with Engel and Lederle, (2009)who state that governments can establish a favourable legislative framework to promote financial inclusion as it forces banks to craft policies that financially include those excluded. World Bank Report (2012) also came up with similar conclusions when they found that people are not always comfortable using formal financial services due to difficulty in understanding the language and reading the document

4.5.5.6 Factor 6: Lack of confidence in the banking sector

The bank closures of 2004 created a dent on confidence in the financial system as most depositors lost their savings. This factor was found to significantly impact the uptake of formal financial services. The RBZ in its mid-term monetary policy of 2017 noted that circulation of money in the formal system remained subdued due to lack of confidence in the banking sector. The hyperinflationary environment eroded savings, pensions and investments. This greatly diminished confidence in the sector. The introduction of the bond note in 2016 has further eroded confidence due devaluation of savings as the 1:1 USD/Bond note exchange rate has failed to hold. Further pronouncements by the Minister of Finance to separate Nostro and RTGS accounts have further fuelled speculation and devalued savings. Confidence in the banking sector continuously takes a knock. This was found to be a major impediment in the uptake of formal financial services by informal business owners.

4.6 REGRESSION ANALYSIS

This section demonstrates the cause and effect relationships between the dependent variable being the use of any formal financial service and the independent variables namely financial ineligibility, liquidity crisis, high transaction and monitoring costs, financial illiteracy, consumer protection legislation and lack of confidence in the banking sector. The coefficients below were used to test the hypothesis that there is a negative and significant relationship between financial inclusion (use of any formal financial service) and the independent variables. A regression equation was formulated from the SPSS coefficients shown in table 4.12 below:

Table 4.12: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.634	1.042		3.488	.001		
	financial_illiteracy	-.266	.114	.240	2.347	.082	.571	1.750
	liquidity_crisis	-.484	.080	-.549	6.041	.000	.727	1.375
	financial_ineligibility	-.032	.124	-.024	-.257	.011	.672	1.487
	high_xn_costs	-.204	.116	-.175	-1.762	.002	.610	1.638
	lack_of_confidence	-.218	.097	-.189	-2.261	.027	.858	1.166

a. Dependent Variable: Use_of_any_formal_fin_service

4.6.1 Testing hypotheses

H1: Financial illiteracy has a negative and significant impact on the use of formal financial services by the informal sector.

H2: Liquidity crisis has a negative and significant impact on the use of formal financial services by the informal sector.

H3: Financial ineligibility has a negative and significant impact on the use of formal financial services by the informal sector.

H4: High transaction costs have a negative and significant impact on the use of formal financial services by the informal sector.

H5: Lack of confidence in the banking sector has a negative and significant impact on the use of formal financial services by the informal sector.

Decisions

H1: Reject the hypothesis because $p>0.05$ meaning that the impact of financial illiteracy on use of formal financial services by the informal sector is not statistically significant.

H2: Accept the hypothesis ($p<0.05$, $\beta= -0.549$). Liquidity crisis has a negative and significant impact on the use of formal financial services by the informal sector.

H3: Accept the hypothesis ($p<0.05$, $\beta= -0.024$). Financial ineligibility has a negative and significant impact on the use of formal financial services by the informal sector.

H4: Accept the hypothesis ($p<0.05$, $\beta= -0.175$). High transaction and monitoring costs have a negative and significant impact on the use of formal financial services by the informal sector.

H5: Accept the hypothesis ($p<0.05$, $\beta= -0.189$). Lack of confidence in the banking sector has a negative and significant impact on the use of formal financial services by the informal sector.

4.6.3 Regression Equation

The regression equation is as follows:

FI (Inf) = 3.634– 0.549 LC – 0.024 FE – 0.175 TXNCOST – 0.189 CONF

Key:

LC	:	Liquidity Crisis
FE	:	Financial Ineligibility
TXNCOST	:	High transaction cost
CONF	:	Lack of confidence in the banking sector

Interpretation:

- A 1 unit change in the liquidity crisis results in a 0.549% decrease in the use of formal financial services by the informal sector. A deterioration in the liquidity situation will result in reduced uptake of formal financial services by informal sector players.
- Increasing financial ineligibility by 1 unit results in a decrease in formal financial services by informal businesses by 0.024 units. This may be due to making account opening requirements more stringent.
- When transaction costs are increased by 1 unit, the uptake of formal financial services by the informal sector reduce by 0.175 units.
- A 1 unit increase in lack of bank confidence results in a 0.189 unit reduction in the use of formal financial services by the informal business.

4.6.4 Model Summary

The R square value in the table below explains the variance in the dependent variable which is predicted by the dependent variables.

Table 4.13: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721[a]	.520	.460	.435

a. Predictors: (Constant), financial_ineligibility, liquidity_crisis, high_xn_costs, financial_illiteracy, legislation, lack_of_confidence

According to the table above, 52% of variance in financial inclusion of the informal sector is explained by the independent variables. 48% of the variance in the process need to be researched on. Having adjusted for sampling errors and biased, the factors explain 46% of variance in financial inclusion. This depicts a fairly predictive model.

4.6.5ANOVA Test (Fitness of model)

Table 4.14: ANOVA TEST

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.410	10	1.641	8.678	.000[b]
	Residual	15.128	80	.189		
	Total	31.538	90			

a. Dependent Variable: Use_of_any_formal_fin_service

b. Predictors: (Constant), financial_ineligibility, liquidity_crisis, high_xn_costs, financial_illiteracy, legislation, lack_of_confidence

This was employed to test the fitness of the model in addressing the research questions.The positive F- value of 8.678 at p-value 0.000 demonstrates that the relationship between the variables is significant. This shows that the model is fit and statistically significant.

4.7 CHAPTER CONCLUSION

This chapter analyzed and evaluated responses to the research instrument with the use of IBM-SPSS Statistics 20 software. The results showed that the impediments to financial inclusion of the informal sector in Zimbabwe are multi-faceted. The analyses identified the main impediments as being financial ineligibility, liquidity crisis, high transaction costs, lack of confidence in the banking sector and financial illiteracy. The results however rejected consumer protection legislation and financial illiteracy as significant hindrances to the uptake of formal financial services by the informal sector. The analyses also established that the identified factors had a significant and negative impact on the use of formal financial services by the informal sector.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter is a summary of the research findings and gives conclusions as well as recommendations on how to overcome the impediments to financial inclusion in the informal sector. The purpose is to guide future research on this issue and related subjects as well as to provide them with possible challenges, limitations and other areas of concern which the study did not cover (Sebopetji and Beleti, 2009).

5.2 SUMMARY

The main aim of this study was to evaluate the impediments to financial inclusion in the informal sector and establish the extent to which they hinder the process.Additionally, the study also sought to recommend useful strategies aimed at increasing the uptake of formal financial services specifically by the informal sector. The ultimate aim was achieved by going through several steps. In this study Chapter 1 focused on the background of financial inclusion. It discussed the problem statement which led to generation of the objectives that were to be achieved. Research questions, hypothesis, limitations as well as the significance of the study were also contained in chapter 1.

The critical review of literature in chapter 2 facilitated an understanding of the meaning of financial inclusion, its importance, the current state of financial inclusion globally, regionally and at country level as well as the impediments to the process. Several impediments to the process of financial inclusion were drawn from literature and tested in the Zimbabwean informal sector case to determine their applicability. Each objective was reviewed basing on what other researchers have found about the problem globally, regionally and nationally.

Chapter 3 was a detailed outline of the research methodology used to achieve objectives and answer research questions.100 close-ended questionnaires were administered as the data collection instruments. These were completed by informal traders at the thriving Glen View informal traders market in Harare. This market was used due to its importance in the informal sector landscape of Zimbabwe. The market was also conveniently located for the researcher. All respondents were asked to rate twelve impediments to financial inclusion in their line of business and to suggest tailor made solutions to encourage them to make more use of formal financial services. Using SPSS, the data was analysed, interpreted and discussed with respect to literature in chapter 4.

5.3 CONCLUSION

Results of the research on impediments to financial inclusion of the informal sector were mostly in agreement with literature reviewed from past studies.

5.3.1 Objective 1: To investigate the impediments to financial inclusion in the informal sector in Zimbabwe.

The study identified through factor analysis six factors as the main impediments causing low uptake of formal financial services in the informal sector namely; financial ineligibility, liquidity crisis, high transaction and monitoring costs, financial literacy, consumer protection legislation and lack of confidence in the banking sector. The first objective was therefore successfully achieved.

5.3.2 Objective 2: To evaluate the extent to which identified impediments hinder financial inclusion.

Through regression analysis four factors were identified as having a negative and significant impact on financial inclusion in the informal sector. These are financial ineligibility, liquidity crisis, high transaction costs and lack of confidence in the banking sector. The study concluded that these four impediments are cited as the major reasons for low usage of formal financial services by informal businesses. This second objective was thus successfully achieved.

5.3.3 To recommend strategies that policy makers and other stakeholders can adopt to eradicate challenges of financial inclusion in the informal sector.

The third objective was achieved with respondents suggesting various solutions to increase uptake of formal financial services. Results obtained concurred with the view that formalization of operations, mobile banking platforms, improved legislation, financial literacy programmes amongst othersresult in an increase in the usage of formal services. The research agrees to the findings carried out in South Africa by Demirguc-Kunt, and Klapper, (2002) noted that low cost accounts encourage the marginalized people to open accounts. It was also noted that mobile based The results also showed agreed with Aysen, Dolgun, and Turhan, (2013) who suggested that building of infrastructure by banks is the key to improving financial inclusion as respondents advocated for capacity building of financial institutions to enable them to carry out outreach programs. Hence, the research study successfully came up with strategies that Zimbabwe can adopt to increase the use of formal financial services.

5.4HYPOTHESES

H1: Financial illiteracy has a negative and significant impact on the use of formal financial services by the informal sector.

H2: Liquidity crisis has a negative and significant impact on the use of formal financial services by the informal sector.

H3: Financial ineligibility has a negative and significant impact on the use of formal financial services by the informal sector.

H4: High transaction costs have a negative and significant impact on the use of formal financial services by the informal sector.

H5: Lack of confidence in the banking sector has a negative and significant impact on the use of formal financial services by the informal sector.

Decisions

H1: Reject the hypothesis because $p>0.05$ meaning that the impact of financial illiteracy on use of formal financial services by the informal sector is not statistically significant.

H2: Accept the hypothesis ($p<0.05$, $\beta= -0.549$). Liquidity crisis has a negative and significant impact on the use of formal financial services by the informal sector.

H3: Accept the hypothesis ($p<0.05$, $\beta= -0.024$). Financial ineligibility has a negative and significant impact on the use of formal financial services by the informal sector.

H4: Accept the hypothesis ($p<0.05$, $\beta= -0.175$). High transaction and monitoring costs have a negative and significant impact on the use of formal financial services by the informal sector.

H5: Accept the hypothesis ($p<0.05$, $\beta= -0.189$). Lack of confidence in the banking sector has a negative and significant impact on the use of formal financial services by the informal sector.

5.5RECOMMENDATIONS

Policy and managerial recommendations

FI (Inf) = 3.634– 0.549 LC – 0.024 FE – 0.175 TXNCOST – 0.189 CONF

Key:

LC	:	Liquidity Crisis
FE	:	Financial Ineligibility
TXNCOST	:	High transaction cost
CONF	:	Lack of confidence in the banking sector

The extent to which each of the impediments identified impact financial inclusion is evident from the equation above. It is worth noting that the liquidity crisis is cited as the most important reason for low uptake of formal financial services by the informal businesses. These businesses acquire their raw materials using cash and as such the availability of cash is a major determinant of whether or not to bank. Lack of confidence in the banking sector, high transaction costs and financial ineligibility in that order also negatively and significantly impact financial inclusion in the sector. Policy makers should therefore on the following variables:

5.5.1 Liquidity crisis

Availability of deposits on demand proved to be a very significant determinant of whether or not informal business owners open bank accounts. It is therefore important for policy makers to ensure liquidity in the market through implementation of effective macroeconomic policies. The obtaining liquidity crisis in the country subdues the rate of adoption of formal services by the important sector. To correct the cash crisis, it is important to unpack its causes which include policy inconsistency driving investment away, trade and budget deficits as well as heavy international and local debt obligations amongst others. There is need to address these so as to inject cash into the economy.

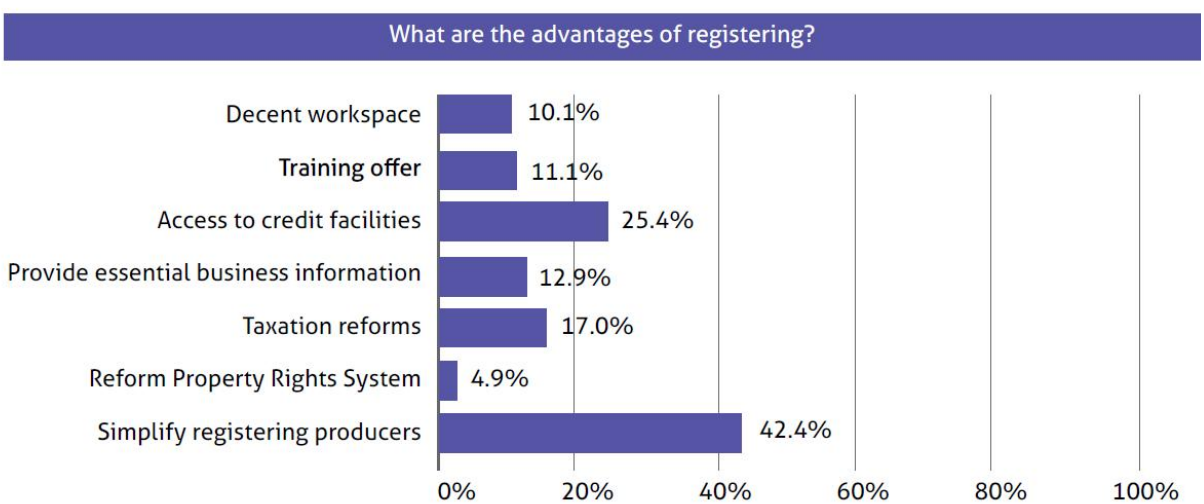
5.5.2Financial Ineligibility

Matunhu, (2002) noted that banks often adopt restrictive requirements in order to exclude parties that are deemed as high risk from accessing their services and products. Informal businesses are generally viewed as high uncertainty ventures since the owner's capital is intertwined with that of the business thus making it difficult to seek legal recourse in the event that the proprietor defaults on credit payments.

Studies by Collard et al, (2001) and Kempson and Whyley (1998) note that different types of terms and conditions deter financially excluded groups such as the informal sector from opening accounts. Gupta and Singh (2013), argued that access to formal financial sources requires documents of proof regarding person's identity, postal address, income, poor people generally do not have these documents and thus are excluded from financial services. The introduction of no-frill accounts is a way of ensuring that the marginalized groups are able to open accounts and access formal services. The absence of collateral is also an impediment to accessing credit from formal institutions for several informal business owners. It is recommended that strategies such as value chain financing, collateral registry and group lending are implemented to overcome this major challenge of being ineligible to borrow because of lack of collateral.

In 2016, the Zimbabwean government mooted the formalization strategy framework. This arose from findings citing enhanced access to credit and investments as one of the main advantages of registering one's business. Implementation of the formalization strategy in earnest is therefore recommended.

Figure 5.1: Advantages of registering.



Source: Ministry of Micro, Small and Medium Enterprises

5.5.4 Lack of confidence in the banking sector

The study confirmed that the lack of confidence in the banking sector arising from past bank collapses is a deterrent in the increased uptake of formal financial services. A number of Zimbabweans had been absorbed into the mainstream financial system but the bank closures of 2004 created a dent in confidence in the financial system as most depositors lost their savings (RBZ, 2011). The Ministry of Finance in its mid-term fiscal policy highlighted that financial consumer protection legislation is one of the pillars on which the financial inclusion strategy is anchored. Putting in place legislation to better protect the consumer is a sure way of enhancing confidence in the sector to provide legal recourse in the event of bank closure.

Additionally, the Deposit Protection Scheme needs to be better resourced so as to be better placed to compensate depositors in the event of bank failure. The Scheme has so far had limited success in pursuing directors of failed banks.

5.6GENERALISATION OF FINDINGS

The research focused on Glen View Informal Marketfrom which a sample of 100 respondents was drawn. The research findings from the sample used can be generalized to the population as a result of the following reasons:

- Probability Sampling Technique was used.
  Simple random sampling was used to select 100 informal traders operating at the market. Random sampling eliminates biases in the selection process which guarantees that the sample selected is representative of the population. Findings can therefore be generalized to the population.
- High Response Rate (91%)
  Out of the 100 respondents selected only 9 failed to properly complete the questionnaires thus representing a good response rate of 91%. Such a high response rate makes the results valid and generalizable.

5.7RESEARCH LIMITATIONS

- In quantitative research, a large sample is recommended to ensure validity and generalizability. This study however used a small sample due to time and financial resource constraints. The study was also confined to a single informal market. Ideally, more informal markets in different towns should have been included. This could not be done due to time and financial resource constraints.
- The results yielded a Cronbach Alpha of .7 after deleting some items which however left out a lot of very important questions. Thus, future research should ensure that research results yield a better Cronbach Alpha to enhance credibility.

5.8 RECOMMENDATIONS FOR FUTURE STUDIES

This study focused on impediments for the informal sector and recommended strategies. Future studies need to focus on the effectiveness of identified strategies so as to ensure that proper strategies are implemented.

A qualitative research approach is recommended to take a deeper dive into the informal sector and solicit more meaningful data.

The research instrument only targeted the informal businesses, financial inclusion has several stakeholders including banks and government and these need to also be included in future studies so that they also unpack the barriers to financial inclusion from their perspective.

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APPENDIX A: STRUCTURED QUESTIONNAIRE

Dear Respondent

Kindly fill in the questionnaire. Its main aim is to investigate the impediments to financial inclusion in the Zimbabwean informal sector. Your responses will be private and confidential and will only be used for the purposes of this research. The findings will be used for academic purposes only.

The questionnaire was designed by Thamary Z. Mhlanga, a third year MBA student at the University of Zimbabwe. For further information, kindly contact my supervisor on any of the following: 0713229428, 0779965258

Your co-operation will be highly appreciated. Please read the following instructions:

1. When answering this questionnaire, please do so with respect to your business
2. If a question does not refer to your department, kindly pass it on to the relevant person.
3. The questionnaire takes about 7 minutes to complete.

SECTION A: DEMOGRAPHIC CHARACTERISTICS (tick where applicable)

1. **Kindly indicate your gender.**

- ( )Female
- ( )Male

2. Kindly indicate your age group.

- ( )Between 15 and 20 years
- ( )Above 20 to 30 years
- ( )Above 30 to 40 years
- ( )Above 40 to 65 years
- ( )Above 65 years

3. For how long have you been operating your business?

- ( )Below 3 years
- ( )3 to 5 years
- ( )Above 5 to 10 years
- ( )Above 10 to 20 years
- ( )Above 20 years

4. What is the highest level of education you have attained?

- ( )Secondary school
- ( )Diploma
- ( )Degree
- ( )Doctorate

SECTION B: MEASURES OF FINANCIAL INCLUSION

B1. Have you had access to any formal financial service in the past two years?

- ( )Yes
- ( )No

B2. Which type of bank account(s) (if any) do you have?

- ( )Current

- ( )Savings
- ( )Fixed deposit
- ( )Investment
- ( )Other (specify)

B3. Have you applied for credit from any bank?

- ( )Yes
- ( )No

B4. Do you have any insurance policy to your name?

- ( )Yes
- ( )No

B5. Do you use any mobile banking service(s)?

- ( )Yes
- ( )No

SECTION C: THE EXTENT TO WHICH IMPEDIMENTS TO FINANCIAL INCLUSION ADVERSELY AFFECT THE PROCESS.

C1. Lack of confidence in the financial system adversely affects the use of formal banking services.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly Agree

C2. The account opening requirements by banks discourage the use of formal financial services.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

C3. Operating informally reduces access to credit and other financial products.

- ( )Strong disagree

- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

C4. Informal business owners are unaware of the product offering by formal financial service providers.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

C5. The high cost of operating a bank account in Zimbabwe discourages the use of banks by informal businesses.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

C6. The inefficiency of banks in terms of turnaround time causes informal business owners to opt for faster, informal service providers with fewer processes.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

C7. The terms and conditions of formal financial service providers are too complicated and therefore discourage use of services.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly Agree

C8. Availability of deposited funds on demand is a determinant of whether or not to open a bank account.

- ( )Strongly disagree

- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly Agree

SECTION D: GENERAL INFORMATION ON FINANCIAL INCLUSION.

D1. Formalization of informal businesses will lead to increased access to and usage of financial services.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

D2. Financial literacy programs will raise awareness of formal financial services and enhance usage of formal institutions by the informal sector.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

D3. The introduction of low cost accounts will result in increased uptake of financial services.

- ( )Strongly disagree
- ( )Disagree
- ( )Neutral
- ( )Agree
- ( )Strongly agree

D4. What is your understanding of the term financial inclusion?

D5. What, in your view, are the reasons for the low rate of usage of formal financial services in your line of business?

D6. What solutions do you recommend to ensure that the informal sector is more financially included?

End of questionnaire. Thank you for your time.