CAUSES OF FINANCIAL EXCLUSION OF MICRO, SMALL TO MEDIUM ENTERPRISES OPERATING IN VICTORIA FALLS, ZIMBABWE

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ABSTRACT

The study sought to investigate the causes of financial exclusion of Micro, Small and Medium Enterprises operating in Victoria Falls, Zimbabwe. The literature review that was used as part of this study provided the basis for coming up with an appropriate research design and methodology. Both quantitative and qualitative research methods were utilized in this study, within the framework of the study adopted pertaining MSMEs in Victoria Falls. A response rate of 83% was achieved. The data was analysed using Microsoft Excel Spread sheets. The main conclusion from this study is that the majority of people without financial products are excluded by combination of marketing, pricing and inappropriate product design. The study also concluded that financial exclusion could be as a result of self-exclusion or unwillingness to open bank accounts. Additionally, the study also showed that lack of confidence in the financial sector was the major cause of financial exclusion. It was concluded that banks did not give appropriate advice to MSMEs in terms of embracing all financial products that were available to them.The study recommended that banks should provide advisory support, training and other services to help governments and regulators support MSME finance, and to help financial institutions expand access to finance. It was further recommended that to ensure an enabling environment that incentivises institutions to develop their MSME business, and build the efficient and reliable financial infrastructure that helps to better manage credit risk and improve access to credit.

Key words: Financial Exclusion, Innovation, Credit Risk, Financial Inclusion, Micro, Small and Medium Enterprises

INTRODUCTION

Policy makers are increasingly embracing financial inclusion as an important priority for fostering economic and social development (Mataruka, 2015). Financial inclusion is a driver of business transformation and economic development. The significance of financial inclusion has culminated in the adoption of policies and measures aimed at eradicating global financial exclusion as a means of promoting world economic prosperity (Mataruka, 2015). The Reserve Bank of Zimbabwe, in collaboration with relevant stakeholders has developed a National Financial Inclusion Strategy. The predominant objective of the Strategy is to deepen financial intermediation for the marginalised and the unbanked to have access to appropriate financial services during the Strategy period of 2016 - 2020. There is need to eradicate financial exclusion and provide small businesses with a wide range of quality, affordable and accessible financial services in a fair and transparent manner through formally regulated entities by all Zimbabweans.

MSMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the financial services that they require for growth and expansion; they face a financial gap that undermines economic prosperity (Beck et al 2006)

ISSN: 2223-9944, e ISSN: 2223-9553
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For any nation to attain a sustainable economic growth and higher Gross Domestic Product (GDP) per capita more focus should be placed on enhancing growth and development of MSMEs. The ability to perform and growth of the MSME sector however depends on a number of factors such as access to financial products and their potential to invest in technology, innovation and capital. MSMEs are collectively the largest employers in many low-income countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance and credit. Their growth is often stifled by restricted access to finance, equity and payment services.

Studies had shown that MSMEs have been found to have limited access to external finance in both the developing and developed world and to be more constrained in their operation and growth (Galindo &Schiantarelli, 2003). This has resulted in MSMEs failing to achieve their objectives.

RESEARCH OBJECTIVES

1. To explore the nature and the level of financial exclusion of MSME in Victoria Falls
2. To investigate the experiences of Micro, Small to Medium Enterprises in relation to financial exclusion in Victoria Falls

SIGNIFICANCE OF THE STUDY

The results from this research will help policy makers in the implementation of the National Financial Inclusion Strategy of 2016-2020.The study will also generate empirical data and information beneficial to the Reserve Bank of Zimbabwe in coming up with policies to enhance financial inclusion. The research will also contribute to the future research materials for educational institutions. The study will be a source of reference material for future researchers on other related topics; it can also help other research students with literature on financial exclusion. Furthermore, the research will assist financial institutions such as banks and micro finance institutions to come up with products and services that are tailor made to fit into SME financial needs.

LITERATURE REVIEW

The concept of financial Exclusion

Financial exclusion is viewed as the inability of some individuals to access and use basic financial services. Such services include savings, insurance and loans in a manner that is reasonably convenient, reliable and flexible in terms of access and design. Being financially excluded may be viewed as implying the existence of both price and non-price barriers to use financial services. Financial exclusion can also be voluntary or involuntary and some self-exclusion barriers exist due to cultural distrusts for banks, personal and religious inclinations (Corr, 2006).

Measuring of financial inclusion is difficult to perceive and it is commonly defined in terms of financial exclusion from the scope of financial system of a country or geographical territory. Financial exclusion is broadly interpreted as the inability to provide required financial services in an appropriate way to the needy borrowers or users. The problems involved with the provision of financial services to the needy borrowers or users include factors such as their conditions, difficulty in accessing the service, prices of the financial products and services, self-exclusion due to discouraging experiences or perceptions of individuals or entities and marketing ineffectiveness (Leyshon and Thrift, 1995).

In a broader sense, the word financial exclusion was first referred in the year 1999. At this point of time, the concept of financial exclusion used to mean that category of people who

ISSN: 2223-9944, e ISSN: 2223-9553
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have been restricted or constrained to have access to core financial services or products (Kempson and Whyley, 1999).

Kempson et al. (2004) had undertaken very comprehensive analysis of the term financial exclusion in the United Kingdom on his work for the apex monetary institution of the nation, Financial Services Authority (FSA). The argument raised by him was that financial exclusion initially viewed as a geographic subject matter pertaining to branch closures, especially in specific low-income societies without any financial services or with minimum services being made available to them (Leyshon and Thrift 1995).

The definition of financial exclusion was further broadened by the work of Kempson et al. (2010). Financial exclusion also includes denying the poor and disadvantaged social groups from gaining access to the financial system (Leyshon & Thrift 1995). Exclusion may also arise out of assessing the risk and coming up with bespoke products for the poor the marginalized. Exclusion that occurs because of mismatch in the cost of providing service to the customers in relation to the income derived on the same product or service. Self-exclusion: Here people voluntarily believe that they will be denied the access of financial products or services, or customers may take back seat instead of getting themselves involved with banking services offered by the financial institutions.

Role of financial institutions in MSME performance

The financial sector plays a central role in the growth and development of any economy through mobilization and deployment of financial resources. "Finance is the oil for growth in any business. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system" (Sowah 2003). Banks therefore plays an important role in financing business activities especially in developing countries. Since efficient management of scarce resources are best facilitated by financial institutions such as banks. This makes the role of banks very vital. Things they do to small and medium scale enterprises among others by making their vast financial resources available for financial and promotes developments. Banks play this important role through mobilizing resources and distributing them to needy SMEs. Sowah (2003) further suggested that bank should be urged to take "reasonable risk" in vetting loan applications from small and medium enterprises, especially for business ventures in new areas and technology.

RESEARCH METHODOLOGY

The research design

The research is a hybrid where both qualitative descriptive and quantitative research design was used. The main purpose of this design is to describe what is prevalent with respect to the issue or problem under study. It enables respondents to give more information freely.

Yin (2003) defines research design as a logical sequence that links empirical data collection to initial research questions and eventually to its conclusions. The research design deals with at least four problems: what questions to study; what data are relevant; what data to collect; and how to analyse the results. Qualitative research design was used because it makes it easy for researcher to gain clearer understanding about the subject under study.

This research design allows issues and subjects covered to be evaluated in depth and in detail. It also allows scope for the direction and framework of research to be revised quickly as soon as fresh information and findings emerge. The data in qualitative research depends on human experience and this is more compelling and powerful than data gathered through quantitative research. Under qualitative research design, data is usually gathered from few individuals or

ISSN: 2223-9944, e ISSN: 2223-9553
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cases therefore findings and outcomes cannot be spread to larger populations. However, findings can be transferred to another setting for example findings from MSMEs in Victoria Falls industrial area can be transferred to other areas in Zimbabwe.

Population and sampling procedures

According to Burns and Grove (1999), a population is defined as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a research. The study population consisted of all MSMEs registered with the Small and Medium Enterprises Association (SMEA) and operating within the Industrial area of Victoria Falls. The SMEA register has got approximately 3000 MSMEs nationwide of which about 110 are located in the Victoria Falls Industrial Area. The research focused on MSMEs operating in Victoria Falls Industrial area which houses 70 MSMEs, hence the population size is 70. For the purpose of this research. Simple random sampling technique was used and a sample size of 50 was considered. The study used interviews as a research instrument and owners of MSMEs were the respondents. In this way, the data collected was reliable because the respondents were well positioned to provide the correct information.

Researchers used a random sampling technique given its advantage of being able to ensure inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population.

DATA PRESENTATION AND ANALYSIS

The nature and levels of financial exclusion

Table 1. Causes of financial exclusion

Causes of financial exclusion	Number of Responses
People think that opening bank accounts is not important.	2
People do not understand the importance of accessing financial products	9
People have no confidence in the financial system.	35
Banks are not responsive to financial requirements of MSMEs	29
It is difficult to access financial loans because banks require collateral	50
There are no sufficient banks and financial institutions in Victoria Falls.	2
There is no sufficient infrastructure to support financial inclusion in the country.	38
There are no policies to support financial inclusion in the country	28

Source: Computed from questionnaires' responses

Out of the 50 interviewed MSMEs owners, only 2 think that having a bank account is not important.

18% of respondents think that people do not understand the importance of accessing financial products but the majority appreciates the importance of being financially included. The country has been characterised by a liquidity crisis and this has encouraged people to embrace all transactional products available to them.

70% of respondents think that people shun financial products because they no longer have confidence in the banking sector.

29 out of the 50 respondents feel that MSMEs are financially excluded because banks are not responsive to the needs of Micro, Small and medium enterprises. All the respondents pointed lack of collateral as the main cause of financial exclusion.

The results from MSMEs show that there are sufficient banks in Victoria Falls; hence the number of banks in Victoria Falls cannot be cited as a cause of financial exclusion. There is good presence of banks in the town because all banks are interested in foreign currency that is generated by the tourism industry in Victoria Falls. 76% and 56% of respondents cited absence of infrastructure and policy respectively as a causes of financial exclusion. Absence of coordinated national policy and strategy on financial inclusion as well as concerns about transaction charges on the various platforms such as POS, mobile money platforms and the fees of maintaining bank accounts are supply and regulatory barriers to financial inclusion.

The experiences of Micro, Small to Medium Enterprises in relation to financial exclusion in Victoria Falls

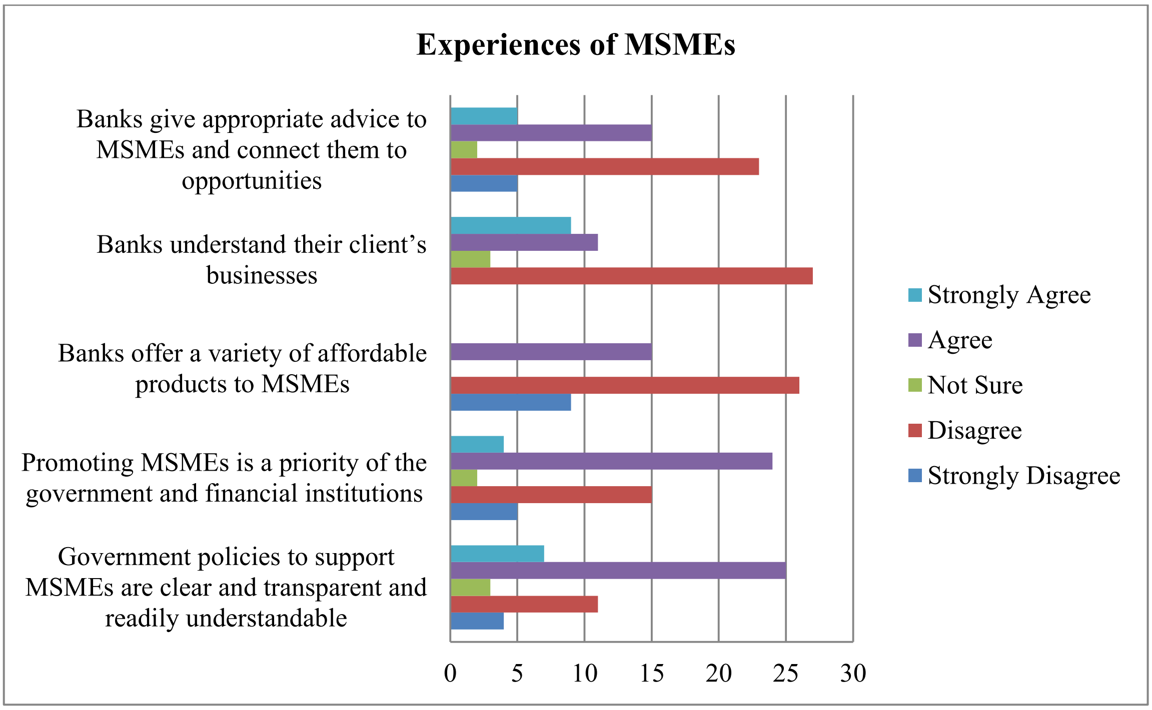

Figure 1. Experiences of MSMEs

Source: Computed from questionnaires' responses

56 % of respondents do not agree that they get appropriate advice from their bankers because most banks are not giving specialised services MSMEs. 30% agree that they get appropriate advice from their personal bankers.

However, 54% of respondents disagree that banks understand their clients' businesses. 53% of respondents do not agree that banks offer a variety of products for MSMEs. 24 out of the 50 respondents agree that the government and financial institutions prioritise the promotion of MSMEs. Also 50% of the respondents agree that government policies to support MSMEs are clear transparent and understandable.

The results show that the majority on entrepreneurs they do not agree that they get appropriate advise from their bankers. Entrepreneurs expect their bankers to understand their industries and businesses so that they can be able to offer appropriate advises. If a banker does not understand how to register a company or the options that are there in registering a company, it becomes very difficult for them to advise Greenfield businesses appropriately on the available options.

The majority of entrepreneurs feel that their bankers do not understand their businesses. There are no bespoke products for small businesses for instance a small business requiring a

ISSN: 2223-9944, e ISSN: 2223-9553
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small overdraft facility to cater for working capital or to pay for an order will be asked to provide title deeds and wait for bond registrations before they get the funding from banks.

The results also revealed that banks are not coming up with a variety of products and this on its own is form if financial exclusion. MSMEs have got a limited range of products to choose from. This makes prices of products and services very expensive to them and can affect their performance.

People seem to be very optimistic about the policies that are being introduced by the government. The initiative by the government through the Reserve Bank of Zimbabwe to implement the national financial inclusion strategy has encouraged people to embrace financial inclusion.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Results from the data collected and statistical analysis that was done confirmed that the majority of people without financial products are excluded by combination of marketing, pricing and inappropriate product design. Although most have used some financial products, very few have had unlimited access to financial products. A small group, however, have either been refused access to financial products or make a conscious decision not to use them.

From the statistics it was shown that financial exclusion can be as a result of self-exclusion or unwillingness to open bank accounts. Some people think that most banks are often unwilling to extend normal current accounts to people, offering basic bank accounts instead. These accounts offer very basic banking services. They have no credit or overdraft facilities and simply offer a debit card and an account to pay money into and out of, including direct debits. Due to the lack of credit facilities from the banks, their point of view is that these accounts do not make them any money. However the majority of MSMEs in Victoria Falls understand the importance of having a bank account, especially those in tourism. It is impossible to get an operators' licence if you do not have a bank account.

Lack of confidence in the financial sector also proved to be a major cause of financial exclusion. Zimbabweans generally prefer keeping and transacting in hard cash even though there are some alternative payment systems such as point of sale and mobile platforms. It has also been observed that the country has low confidence in the banking system following the loss of savings after the transition to the multi-currency system from hyperinflation.

Some enterprises do not embrace financial inclusion simply because they feel that banks are not dedicated to them and not responsive to their needs. The fact that the banks do not have departments that are adequately resourced to deal with the financial needs of SMEs who are either serviced through the retail banking staff who do not have enough skills to deal with business banking or through banks, makes it difficult for banks to respond to MSMEs.

The descriptive statistics highlighted that the highest number of people who are financially excluded failed to access financial products because banks require collateral. Commercial banks expect collateral security from the loan applicants (for risk), it is however unfortunate that the majority of small business operators lack assets that can be accepted by banks as collateral. To the majority of small business operators, this is as a result of poverty.

It was shown that some people do not appreciate the importance of accessing financial products but the majority understands that to be included in the formal financial system helps people to make day-to-day transactions, including sending and receiving money; Safeguard savings, which can help households manage cash flow

ISSN: 2223-9944, e ISSN: 2223-9553

spikes, smooth consumption and build working capital; Finance small businesses or microenterprises, helping owners invest in assets and grow their businesses; Plan and pay for recurring expenses, such as school fees; Mitigate shocks and manage expenses related to unexpected events such as medical emergencies, a death in the family, theft, or natural disasters; and Improve their overall welfare. The study also showed that financial exclusion is also a result of insufficient infrastructural developments to support financial inclusion.

The study highlighted that there are inadequate policies to support financial inclusion in the country and people have no confidence in the financial sector. Government is good at drafting documents and making well decorated statements but the reality is that there is nothing of that sort taking place on the ground. Most of the policies and research findings have not helped to boost viability because government does not have effective monitoring mechanisms of the programmes

From the descriptive statistics findings, it can be concluded that banks do not give appropriate advice to MSMEs in terms of embracing all financial products that are available to them. Some banks are manned by dedicated relationship managers and account executives that give advice and connect their customers to opportunities. However, the results show that a lot of banks are yet to adopt that strategy of employing specialist to manage portfolios for enterprise clients. If a banker is not dedicated to a client it becomes very difficult to understand their clients' business and needs. For banks and other financial institutions to come out with bespoke products for their clients, they need to understand their businesses and needs.

Researchers also concluded that banks and financial institutions do not offer a variety of affordable products. Results also show that banks are not coming up with a variety of products which suits every player in business. Financial exclusion refers to the barriers that hinder the effective use of a wide range of quality, affordable and accessible financial services, provided in a fair and transparent manner through formal and regulated entities. Financial exclusion entails that there should be a wide range of products and that people are not limited to certain types of products which are not affordable. The loans are repaid at an interest rate ranging between 13 and 18 percent per annum. Micro financial institutions have often been the most common conduits for borrowing by informal sector players, even though their interest rates are "extortionate". While these also require collateral, this can be in the form of household goods such as refrigerators or even such items as motor vehicles. However, proof of address and identification are required to open these accounts, and this can sometimes be a problem for very vulnerable or low-income people. That's because these individuals sometimes have no fixed address, and the cost of a driving licence or passport for identification is prohibitive.

Some of MSMEs shun products offered by financial institutions because they feel that institutions short change them. For instance, when accessing loans they are not told in detail anything to do with interest rates and this will only come to light when they begin to repay. It was also concluded that financial institutions do not connect MSMEs to opportunities that are at their disposal. A lot of opportunities are presented to larger businesses that they consider profitable. However MSMEs feel that promoting MSMEs is a priority of the government and financial institutions. The government realises that MSMEs contributes a significant portion to the gross domestic product and that the majority of citizens are employed in Micro, Small to Medium enterprises. The fact that the government has come up with a ministry of Small and Medium Enterprises shows that it's a priority for the government to grow this sector.

ISSN: 2223-9944, e ISSN: 2223-9553

RECOMMENDATIONS

The banking sector needs scalable and transformational solutions that incorporate various types of financial services and products and complement financing with capacity building. Examples of high-impact MSME finance initiatives show that such a holistic approach is needed to address bottlenecks across the financing value chain. Technology-based solutions also hold the potential to help accelerate financial inclusion for MSMEs in Victoria Falls and Zimbabwe as whole.

Banks should provide advisory support, training and other services to help governments and regulators support MSME finance, and to help financial institutions expand access to finance. Bank should also develop guidance, principles and toolkits for governments, regulators and the private sector. On the other side banks have come up with specific units and departments for Small to medium enterprises. These specialised units try to grow their customer base in this sector because they have realised that there is potential in Micro, Small to Medium enterprises.

ISSN: 2223-9944, e ISSN: 2223-9553

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