



Determining Factors That Influence Financial Inclusion among SMEs: The Case of Harare Metropolitan

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ABSTRACT

Zimbabwe has been experiencing unprecedented levels of unemployment and high poverty. Against this backdrop, the growth of small- to- medium enterprises (SMEs) has been seen as a practical measure to help Zimbabwe's ailing economy address the complex macroeconomic challenges. However SMEs only receive 5% of total loans despite contributing 50% to GDP. This led to high levels of financial exclusion among the owners of SMEs, as banks cite credit risk as major challenge. Empirical evidence highlighted that 60% of the SMEs were financially excluded. This study explored the factors that influence financial inclusion of SMEs in Zimbabwe.

This study analysed demand-side, supply-side and infrastructural constraints that inhibit financial inclusion. Demand-side factors of high transaction costs, financial illiteracy, and lack of confidence in the financial system and low levels of education resonated as issues among SMEs. On the supply side and infrastructural challenges: lack of widely accessible branches, information asymmetry, irrelevant financial products and service and high risk levels were the main deterrents within the financial sector.

The population for the study was the Zimbabwean banking sector that comprised of 10 financial institutions and 50 SMEs that had been in operation from 2010 to 2015. The study collected primary data using semi-structured numerically coded questions and used descriptive statistical measure such as mean and standard deviation to analyse data. The results indicated that all demand-side, supply side and infrastructural factors were significantly related to the financial inclusion of SMEs. Evidence that their lack of confidence in the banking sector and prohibitive requirements including high bank charges were some of the key determinants negatively impacting financial inclusion. The smaller operators cited low incomes and the unavailability of savings as another deterrent. Evidence from financial institutions revealed absence of credit history, low-income levels, inadequate infrastructure, weak consumer protection regulations, and limited information on SME operations were inhibiting factors to financial exclusion.

Based on the findings, the study recommended that government introduce financial education and introduce a policy that mandates financial institutions to provide relevant products and services to SMEs as an incentive to poverty reduction and economic development.

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GLOSSARY OF TERMS

ATM	Automated Teller Machines
BAZ	Bankers Association of Zimbabwe
EC	European Commission
EFTPOS	Electronic Funds Transfer Point of Sale
GDP	Gross Domestic Product
GOZ	Government of Zimbabwe
IFI	Index of Financial Inclusion
KYC	Know Your Customer
MFI	Micro Finance Institute
OECD	Organisation for Economic Co-operation and Development
POS	Point of Sale
RBZ	Reserve Bank of Zimbabwe
ROSCA	Rotating Savings and Credit Association
SME	Small-and- medium enterprises
SMEA	Small-and- medium enterprises association of Zimbabwe
USD/\$	United States dollars

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1 CHAPTER 1: INTRODUCTION

1.1 Research Background

It has become apparent globally, that small-to-medium enterprises (SMEs) have not only added to the volume of nation's' gross domestic product (GDP), but are by far the leading source of employment in many economies. Small-and -medium enterprises (SMEs) have evolved into important agents for raising the economic efficiency of a country. They are known for creating employment and an opportunity to grow entrepreneurship. Sustainable jobs create income, which in turn reduces the level of poverty.

Access to financial services is a key constraint for SMEs in developing countries and there is need to develop credit access indicators from an individual firm borrower's point of view. Many Sub-Saharan African countries, including Ghana, are lagging behind when it comes to financial deepening and economic reforms. This can be seen in both developed and developing economies. Economic growth in developing economies has been low due to lack of financial access and credit (Beck et al., 2007).

Two billion people worldwide are deprived of access to regulated financial services (Ardic et al., 2011). Because increased financial resources are dedicated toward financial inclusion, there remains a permeable opportunity for development. Despite this, banks and financial institutions seem to prefer to serve the upper echelons of businesses. As such, banks are neither motivated nor prepared to serve those SMEs that operate in poor infrastructures, scattered far from their branches and situated in marginalised areas (Kokate & Nalawade, 2015). Notwithstanding the grave risks that SME lending presents, banks also find SME loan management rather ultra-expensive with insurmountable supervision costs. Commercial banks are not interested in financing SMEs because of the unavailability of comprehensive credit ratings that signal credit worthiness of SMEs. Regulatory bottlenecks have also been a cause of concern within this sector. Under these circumstances, SMEs find it difficult to get credit for inputs procurement and other expenses. SMEs also have to sell their produces on credit often, further burdening their precarious finances (Ardic et al., 2011).

Of further significance, the World Bank report (2011) also indicates that the amount of loans from the financial sector made available to SMEs in developing countries was about 13% of the total loans advanced by banks to the productive sectors. Also, only about 3% of the GDP is available to SMEs in developing countries. These figures are far below what is made available to SMEs in developed countries. This shows that, despite having the potential to stimulate economic growth and development in developing countries, SMEs growth has not been provided with the much-needed support by both the financial sector and the government.

If the growth and development of SMEs is to be promoted, it is critical that factors that have affected the financial inclusion of SMEs are evaluated and strategies that may ensure that SMEs have access to financial resources developed. Issues inhibiting the growth of SMEs need to be understood critically if frameworks to support the growth of SMEs are to be developed.

1.2 Problem statement

The objective of this study is to investigate the extent to which SMEs in Zimbabwe have been financially included. With the ongoing reviews of legislation in Zimbabwe to incorporate the evolution of the SME sector, it is imperative to investigate SME financial inclusion or lack thereof. The aim is to learn from other emerging economies' SME financial inclusion sustainability mechanisms and replicate these in Zimbabwe.

According to the Reserve Bank of Zimbabwe, SMEs account for 60% of overall employment and 80% of industrial jobs. SMEs make up 90% of the total industrial units, thereby contributing nearly 50% of the country's GDP (RBZ Monetary Policy Statement, 2015). As such, the Reserve Bank of Zimbabwe identified SMEs as important drivers of sustained broad-based output, employment and income generation. Against this backdrop, the Reserve Bank of Zimbabwe created a National Financial Inclusion Strategy (NFIS) (2016) identifying SMEs as one of the targets for financial inclusion. The NFIS was created to encourage financial institutions to recognise the informal SMEs as a sector that significantly contributes to GDP.

SMEs argued that a lack of confidence, appropriate products, rigid policies and requirements as well as very high bank charges and interest rates in most financial institutions were the main influences for their failure to transact through the formal channels (Hassan, 2014). Financial institutions also cited that a strict regulatory framework and ethical practices affected their

ability to serve SMEs. In addition, banks have argued that the majority of SMEs lack the minimum requirements, with some not even having bank accounts (Barua et al., 2016). Banks therefore perceive credit risk to be high in the SME sector and are visibly unwilling to avail funding. Evidently, there is a relationship gap between SMEs and financial institutions. This is exacerbated by a general lack of confidence in the financial sector that then causes SMEs to avoid depositing their proceeds of the day.

Because about 2 billion people across the globe are financially excluded, research is still required on approaches that enhance financial inclusion. Despite the contribution of the SME sector to economic growth, development and employment creation, the growth and expansion of SMEs in Zimbabwe has remained constrained and limited. Notwithstanding the fact that the SME sector presents much-needed opportunities for the Zimbabwean population, it continues to encounter several challenges that are obstacles to a smooth transition and growth into better-managed and formal organisations (Mashingaidze, 2013). It is noted that, despite their considerable efforts, total loans extended to SMEs by the various financial institutions amounted to a paltry US\$164,4 million, accounting for just above 5% of the total loans, despite the SME sector contributing 50% towards GDP (RBZ, 2015).

More financial inclusion of SMEs requires a more active role of government in putting up direct policies to enhance financial inclusion of SMEs. The effective financial inclusion of SMEs requires innovative ideas and policies to ensure that all the business environments provide enough structural elements that enhance easy access to credit and financial services by the SMEs. With a record unemployment rate of around 90% and higher poverty levels, the growth of SMEs seems one of the most practical policy measures that may help Zimbabwe grow and cope with the multitude of macroeconomic challenges. However, to achieve such growth of SMEs, there is need to develop strategies of enhancing financial inclusion of the SMEs. Strategies to promote SMEs growth, however, will depend on the nature of constraints that have affected the financial inclusion of SMEs. This study attempts to fill this gap by exploring constraints that have limited the financial inclusion of SMEs in Zimbabwe. A number of models to promote SMEs' financial inclusion have been developed in other countries. These include the Grameen Bank of Bangladesh. Each country has its own unique circumstances that require empirical research and the development of a relevant model of financial inclusion (Ghosh, 2013). This study attempts to fulfil this gap in knowledge by undertaking an empirical study of

constraints affecting financial inclusion and then providing suggestions that will enhance the financial inclusion of SMEs in Zimbabwe.

Researchers have however agreed that, despite a number of countries calling for effective financial inclusion, there has been little scientific research to develop the base on which strategies and policies for financial inclusion can be anchored. This shows that there is need to undertake a study to explore both regulatory, demand-side and supply-side constraints on financial inclusion of SMEs. A study of this kind will, therefore, provide a basis on which effective financial inclusion policies, frameworks and programmes may be developed.

1.3 Purpose and significance of the research

The purpose of the study is to understand why the prospects of SME growth has been declining. Research, has shown that greater access to finance by SMEs in developing countries is one of the most significant strategies to be used in reducing poverty, promoting economic growth and development. Enhancing the financial inclusion of SMEs is one of the areas that have been neglected in most developing countries, including Zimbabwe. An evaluation of macroeconomic policies in Zimbabwe as well as its monetary policies indicates limited deliberate efforts by the government to directly enhance financial inclusion of SMEs in general. While policies do mention the importance of SMEs in the growth matrix of Zimbabwe, no policy has been developed and enforced to enhance financial inclusion of SMEs.

SMEs play an important role in the socio-economic developing of a country (Morgan & Pontines, 2014). A number of policies and support initiatives from the Zimbabwean government, like NFIS, private sector and non-governmental organisations are being directed towards the development and growth of the sector (Ramanathan, 2013). Evidence reveals the prevailing liquidity challenges in the Zimbabwean economy are caused by unbanked funds circulating in the informal sector, particularly SMEs (RBZ, 2015).

Zimbabwe is currently experiencing serious economic challenges that range from high levels of poverty, unsustainable levels of unemployment, a liquidity crisis and a huge debt of around US\$ 10 billion (RBZ, 2016). To address these challenges the growth of the SME sector needs to be stimulated. Thus, in line with the indigenisation strategy, the Government of Zimbabwe (GOZ) introduced *Statutory Instrument 64 of 2016, Control of Imported Goods* to promote the growth of the SME manufacturing sector. However, this explosive growth in the informal sector

has exacerbated the flow of cash circulating in the informal sector, thereby circumventing the banking sector. This greatly surprised the GOZ, as the statutory instrument was meant as a mechanism to increase financial inclusion of SMEs (RBZ, 2016).

Because this study suggests that a growing SME sector will not only address the employment challenges, but will also contribute to economic growth, economic development and poverty reduction, it is hoped that the GOZ will greatly benefit from the findings of this study in a number of ways. With an understanding of factors that have impeded financial inclusion of SMEs in Zimbabwe, it is important to consider the foundations for the development of appropriate policies to promote financial inclusion of SMEs in Zimbabwe. This study has the potential to help the government and other policy makers — such as the Reserve Bank of Zimbabwe — to gain a better understanding of variables that have contributed to the current high levels of financial exclusion among the SMEs.

The Reserve Bank of Zimbabwe will also benefit from the findings of this study, in that it will shape the regulatory framework of the central bank regarding the promotion of financial inclusivity in the country. The findings of this study will indicate obstacles to financial inclusivity that in turn will inform monetary policies in the country. The Reserve Bank of Zimbabwe will gain a deeper knowledge regarding financial inclusivity. There were not many empirical reports on financial inclusion in Zimbabwe, the study would then extract information to contribute towards policy formulation at central bank level. This study will also be value adding to the current studies in Zimbabwe (RBZ, 2016).

1.4 Research questions and scope

The broad objective of this research was to establish factors influencing financial inclusion of SMEs in Harare. In order to ascertain the determinants, the following research questions were formulated:

- a) What are the demand-side factors that affect financial inclusion of SMEs?
- b) What are the supply-side factors that affect financial inclusion of SMEs?
- c) What are the infrastructure-side factors that affect financial inclusion of SMEs?

In pursuit of this objective, the study considered the following objective:

- a) to determine demand-side factors that affect financial inclusion of SMEs;

- b) to determine supply-side factors that affect financial inclusion of SMEs; and
- c) to determine infrastructure-side factors that affect financial inclusion of SMEs

The researcher focused on Harare as a great population of SMEs operate within the confines of the city. The research focused on small SMEs that had been operating between 2010 and 2015. With the limited timeframe a snapshot of events will be captured focusing on this period.

1.5 Research assumptions

The research assumed that all SMEs operating in Harare experience unique financial exclusion challenges. Secondly, the study assumed that the respondents chosen provided information necessary to answer the research questions.

Summary

The research is divided into five (5) chapters. The remainder of the paper is as follows: Chapter 2 provides the literature review, which includes definition of financial inclusion, aspects of financial inclusion and the status of financial inclusion across the globe. The chapter concludes by providing an insight of the Zimbabwean banking sector and the status of financial inclusion.

Chapter 3 gives a description of the research methodology. This chapter discusses the research methods used to collect and analyse the data, and introduces the research hypothesis. It also provides the data sources.

Chapter 4 covers research findings, analysis and discussion. Research findings are discussed within the context of what other similar researches quoted in literature review found. Chapter 5 is a discussion of the research conclusions, policy implications; and concludes by proffering recommendations for future research.

2 LITERATURE REVIEW

2.1 Introduction

This chapter highlights the theoretical foundations and determinants of financial inclusion that many developed and developing countries are pursuing to reduce poverty and stimulate economic growth. The chapter also reviews the evidence from countries that have implemented financial inclusion strategies. Section one of the chapter discusses the various definitions and theories of financial inclusion. Literature on the principles underlying the definitions and factors influencing financial inclusion is discussed.

2.2 Definitions of financial inclusion

The Reserve Bank of India defines financial inclusion as ‘the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players’ (Joshi, 2011:2).

The Banking Association South Africa (2015) further defines financial inclusion in a broader sense as access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with the requisite consideration to client protection. Accessibility should be accompanied by usage, which should be supported through the financial education of clients.

Financial inclusion, therefore, can be regarded as the process of promoting equitable access to an affordable and unbiased distribution of financial resources, products and services. All programmes related to financial inclusion are meant to facilitate access as well as to encourage a deepened use of relevant financial products and services for the benefit of all individuals (United Nations, 2006). Financial inclusion can be broadly defined as the proportion of individuals and SMEs that use formal financial services, and is essential for economic development (Rojas-Suarez & Amado, 2014).

An all-inclusive definition of financial inclusive is given by Chakravarty and Pal (2013) described as a process of promoting or ensuring access to appropriate financial products and

services needed by all sections of the society and the vulnerable groups such as the lower income groups, the SMEs. Chakravarty and Pal (2013) viewed an inclusive financial sector as one that ensures access to credit for all bankable people and firms.

In this study, financial inclusion is viewed as all actions, policies and programmes that seek to ensure easy and affordable access to financial services and products, especially with regard to the marginalised sections of society, such as SMEs. This study argues that promoting the financial inclusion of the SMEs will naturally and eventually lead to the financial inclusion of the majority — in view of the linkages and integration between the SMEs and the rest of society. This study, therefore, is based on the premise that SMEs' financial inclusion is a framework that developing countries may use to attack poverty and increase financial access across greater society (Centre for Financial Inclusion, 2011).

Theoretical and empirical studies have indicated the importance of financial inclusion. Yoshino and Morgan (2016), for example, indicate that greater financial inclusion assists the poor who are generally cost constrained. In order to access financial services, an efficient financial system that is inclusive should be able to assist poor households, who receive social benefits. It can be deduced, thus, that when poor people are able to manage their limited financial resources, the result will be the reduction of absolute poverty. This can be achieved only if banks help poor people to manage their finances by

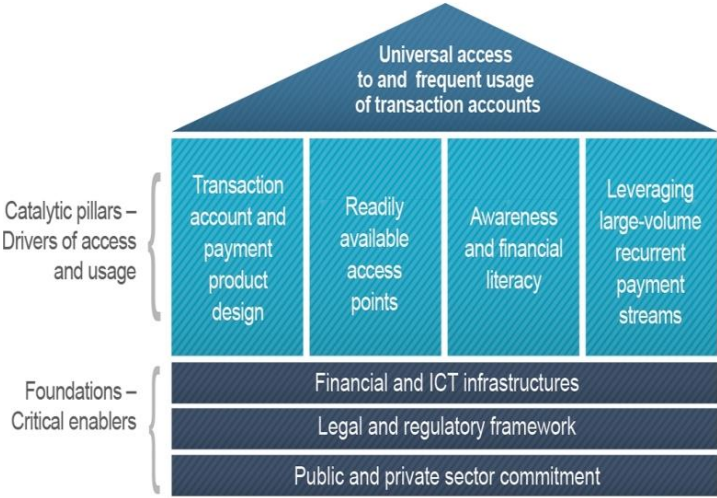
With the benefits in mind, Demirgüç-Kunt and Klapper (2013) highlighted that the yield on financially oriented SMEs is higher. Furthermore, if banks were to assist this sector, SMEs' owners would be able to move up the social ladder. Yoshino and Morgan (2016) allude that greater financial inclusion reduces income inequalities by raising the incomes of the poorest members of society. Cognisant of this, banks could diversify their products and services to include SMES, thereby promoting financial stability as well as income distribution. In the process, banks will also boost their deposit base, which resultantly leads to financial deepening (Morgan & Pontines, 2014).

2.3 The Determinants of global financial inclusion

The World Bank (2012) has classified three critical foundations for financial inclusion, namely private and public sector commitment, a conducive legal and regulatory framework and

sufficient financial information and communications technology (ICT) infrastructure. As noted in Figure 2-1, these critical foundations would then create a base for critical drivers of access and usage, that is, a wide range of financial products and services, access points, awareness and financial literacy and leveraging large-volume recurrent payment streams.

Figure 2-1: determinants of financial inclusion



Source: CGAP/World Bank. *Financial Inclusion 2012* <http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020>

Figure 2-1 illustrates that in order to achieve universal access, financial and ICT infrastructure is critical in promoting financial inclusion. Spatial population and geographical distances to points of transactions such as banks and ATMs, influence the extent of the concept (Kumar 2014). Financial institutions grapple with the costs of establishing branches in lowly populated areas, yet lack of physical access to a bank is a potential barrier to financial inclusion (Demirgüç-Kunt et al., 2014 and Shankar, 2013). Countries that are sparsely populated will have physical barriers to financial inclusion as the number of branches and ATMs against the population will be limited.

Infrastructure related barriers are a major concern in emerging economies. To compound the situation, the literature has emphasised that the absence of reliable fixed and mobile telephone communication, as well as a convenient transport network to bank branches and ATMs is hindering financial inclusion. Financial inclusion cannot be achieved if there is lack of access

to secure and reliable payment and settlement systems. It can thus be deduced that lack of convenient transport is an important barrier to financial access (Miethe & Pothier, 2016).

In a study done in China, Fungacova and Weill (2015) studied the areas that provide essential support for financial awareness and financial literacy and observed that the richer, more educated and older were more financially included. According to Allen et al. (2016), whilst there is a great deal of knowledge about financial inclusion globally, it is critical that emerging nations are able to understand and apply financial inclusion principles if they are to take advantage of the SME sector. In South Africa, a study by Kotsov et al. (2015) revealed that aspirations and financial literacy are important determinants of financial inclusion to influence decision-making. Interestingly, the probability of owning an account at a formal financial institution is higher for richer, more educated, older, urban, employed and married or separated individuals. The likelihood of having saved in a formal institution is also higher for the same demographic. Early modern development theories argued that for nations to develop and grow there was need for more money to be in the hands of the higher income groups. With its insatiable appetite to invest, this income group would fuel growth and development as more resources were channelled toward a saving culture. Income and financial inequality was therefore necessary to promote development (Barr, 2004). It was assumed that once development was achieved, then financial inclusion would be endorsed. Thus it was argued that financial exclusion was rather a result of the inability of the poor to save instead of development (Karpowicz, 2014).

This setup however excludes the SMEs that operate in grassroots levels, as they do not have money to save and become part of this inclusive group. Yoshino and Morgan (2016) indicated that deeper financial systems reduce poverty, raise income and promote economic growth, as greater financial access to the majority increases financial efficiency and reduces corruption associated with cash transfers. As banks provide access to credit to SMEs, this in turn enhances their ability to be innovative, create jobs and grow their branches. Financial access to households increases their per capita GDP. The income levels of SMEs also improve with increased access to financial products and services (Yoshino & Morgan, 2016). In accordance with the minimalist theory, credit access is the means to success of SMEs. These theorists argue that growth of SMEs can only be promoted by access to short term credit (Ledgerwood et al., 2013).

The theory further indicates that credit provision is however restricted to those with tangible collateral. The demand for collateral implies that many SMEs are unable to access credit from financial institutions. Because of this barrier, most SMEs adopt the group-based model to accumulate financial resources that they can then use to finance their operations. If SMEs work together, such collaboration helps them to mobilise enough resources to meet their credit requirements (Ghandi, 2014).

However, Kuznets (1955) argues that inequalities in terms of income and access to financial services and products was necessary in the early stages of development in order to promote investment in the proactive sectors of the economy. Once development was achieved, efforts were put in place to facilitate income re-distribution to the poor. According to modern development theories, there is a positive relationship between growth of economies, relative income inequalities and their persistence in amalgamated models (Berger & Udell, 2006). According to these theories, financial market imperfections have caused serious distortions in the distribution of resources and access to financial resources leading to serious inequalities (Kuznets, 1955).

Allen et al. (2016) note that legal names, laws and political situations influence financial inclusion. In countries with a more efficient legal system, strong contract enforcement and political stability, broader financial inclusion is more likely. Regulation also impacts greatly the process of financial inclusion. Excessive government regulation and state intervention leads to underdeveloped financial systems, which reduces financial inclusion (De Koker & Jentzsch, 2013). Banks in some countries face costly procedures including regulatory procedures, all of which contribute to low access and availability of banking services and products.

According to Zins and Weill (2016), the main determinants of financial inclusion are information availability, income levels and infrastructure, as well as the regulations governing the financial sector. Regulatory factors that impede financial access for SMEs includes capital adequacy and supervisory rules that make it less attractive to receive deposits and give small loans to many SMEs. Strict requirements regarding the installation of ATMs and opening bank branches may restrict banks from extending their services to remote areas (Demirgüç-Kunt et al., 2015). Thus, difficult procedures and requirements by banks is another inhibiting factor to financial inclusion (Zins and Weill, 2016). It was also noted that characteristics of the banking sector determine the extent of financial inclusion. Higher costs of opening accounts lead to

subdued financial inclusion. Furthermore, longer distances to closest banking facilities, many disclosure requirements reduce formal inclusion (Demirgüç-Kunt et al., 2013).

MFIs known to serve SMEs also face daunting regulatory requirements for operating, and this laborious process discourages the establishment of MFIs (Yoshino & Morgan, 2016). The development of deposit insurance schemes and tax incentives to banks that promote financial inclusion leads to enhanced financial participation. A sample of 65,000 people from Muslim countries showed how religion is a significant determinant of financial inclusion. Muslims use less formal accounts and savings and they are less likely to borrow because of cultural practices (Hassan, 2014).

Financial market imperfections, such as information asymmetries and transaction costs, create barriers to financial access for the majority of SMEs. Financial market imperfections are likely to be especially binding on the talented poor and those individuals working in the SMEs sector that lack collateral, credit history, and connections, thus limiting their opportunities and leading to persistent inequality and slower growth. To stimulate financial inclusion, there is need, therefore, to reduce market failures and foster transparency in the flow of information (Demirgüç-Kunt et al., 2013). Without inclusive financial systems, poor individuals and SMEs' owners tend to rely on their personal wealth or internal resources to invest in their education, become entrepreneurs, or take advantage of promising growth opportunities (Kokate & Nalawade, 2015). This access dimension of financial development has often been overlooked, mostly because of serious gaps in the data about who has access to which financial services and about the barriers to broader access. Kumar (2014) and Kapoor et al. (1997) indicated that the imperfect information theory is based on the assumption that banks can differentiate between low and high risk loan applications.

Formal financial institutions are more competent than informal lenders because they have access to better information about credit applications. This theory argues that attracting established financial institutions to provide financial services and products is difficult because they have strategically assessed and acknowledge the multitude of risks associated with the SMEs (Flamini et al., 2013). Banks also lack information about the nature of projects operated by SMEs (Morduch, 1999). This means that they are not able to design relevant services and products for the SMEs. The market failure and 2008 financial crisis increased scrutiny on banks by regulatory authorities, with banks being requested to be accountable for their clients'

business transactions to avoid money laundering, terrorism financing and loan defaults. This turned out to be a costly process for banks, further creating a trust gap between them and the SMEs (De Koker, 2011 and Barua et al., 2016).

In most developing countries, SMEs' owners have limited income levels that make it difficult for them to save or process their transactions through the banking system (Rojas-Suarez & Amado, 2014). SMEs operate on a cash transaction basis because the volumes of funds that circulate among SMEs are limited. Furthermore, SMEs have irregular incomes and hence their incomes are unpredictable, and this discourages them from seeking formal financial savings methods, which in most cases are systematic and require consistent repayment structures. Bank requirements in terms of repayments are formal and structured yet income flows to SMEs are irregular (Yoshino & Morgan, 2016)

Banks conducting customer due diligence has also been an impediment to financial inclusion. SMEs then turn to non-bank institutions, like mobile banking, Moneygram and Western Union (Durner & Shetret, 2015 and Zins & Weill, 2016) where no account is required to transact. The demand for collateral security has also affected access to financial services and products. Most banks regard SMEs as risky and thus they place a premium in terms of requirements for opening bank accounts (Mago, 2014). To counter this, SMEs may have low confidence in the financial sector and may be reluctant to save with banks or acquire loans from banks (Kokate & Nalawade, 2015). Limited confidence in the banking sector may reduce the interaction between banks and SMEs, thus creating a gap in terms of information flow (Gopalan & Rajan, 2015).

In summary, the determinants of financial inclusion can be classified as:

- Demand-side factors that are low income levels; irregular income streams; failure to meet minimum account opening requirements; inadequate information on financial services and products; lack of confidence in financial system; financial illiteracy and inflexible implementation of anti-money laundering measures. These demand-side factors affect mainly the SMEs (De Koker, 2011 and Barua et al., 2016)..
- Supply-side factors are the absence of robust credit information systems; poor infrastructure in rural areas leading to financial institutions' reluctance to establish branches; lack of skill to understand the dynamics of projects of SMEs (Demirgüç-Kunt et al., 2013).

- Infrastructural barriers such as the absence of an extensive branch network, ATMs and point-of-sale machines, a coordinated national policy and strategy on financial inclusion; weak consumer protection regulatory framework; and capacity and resource constraints (Zins and Weill, 2016).

As these factors were present both globally and in emerging countries, it was important to test these determinants. This influenced the structure of the design of the questionnaire and interview guide. In line with the literature reviewed, it was important to ask the questions that resonated with the conclusive theory that demand-side factors, supply-side factors and regulatory barriers alike were homogeneous among SMEs (Demirgüç-Kunt et al., 2013). The supply-side factors questionnaire was to be used to test the financial inclusion strategies of the banks while the demand side factors questionnaire was to be administered to seek out banking behaviours of SMEs and get a better understanding of their perceptions towards the financial sector. Regulatory factors were to test how government policies impacted both SMEs and banks.

2.4 Financial Inclusion in developed countries

Sarma (2008) developed an Index of Financial Inclusion (IFI) that he suggested could be used to assess the financial inclusiveness of a country. The IFI consists of elements that are critical to promote the financial inclusion in a country. According to the European Union (2008), Gormley (2007) and Zins and Weill (2016), there are three basic dimensions or elements used to measure financial inclusiveness of a country. These factors are accessibility, availability and usage of banking services and products. Accessibility refers to the number of bank accounts per given population. Availability refers to the bank branches, Automated Teller Machines (ATMs) and point-of-sale facilities available to the population. Usage refers to the volume of credit and deposits. The empirical studies on the measurement of financial inclusiveness show that Austria is the country that has achieved the highest financial inclusiveness index. Belgium is second, followed by Denmark. Madagascar is the country with the least financial inclusiveness, preceded by Armenia (World Bank, 2010).

Financial institutions have also not taken up the initiative to inform and market their products to SMEs (Sarma & Pais, 2008). This is because the financial institutions consider the SME sector risky and are reluctant to venture into it. Banks tend to assess client profitability as an

important determinant for risk or for maintaining a certain client base. A study conducted by the British Financial Services Authority (2011) notes that banks were reluctant to take on risky clients if the business was not profitable. With the thin profit margins provided by SMEs this relationship will not work. SMEs tend to have low volumes of transactions that do not offset the costs that banks incur when serving them (Demirgüç-Kunt et al., 2015).

According to Zins and Weill (2016), low financial inclusion has been a result of failure by the countries to consider regulatory, demand and supply factors. According to Buckland et al., (2005) only 11 out of 49 countries are classified as having higher financial inclusion. Carbo et al., (2005) further suggest that countries with a high IFI are generally higher income countries. Such countries have enough income to provide all the elements that promote financial inclusiveness. Albania, Peru and Mexico are countries with higher income levels but lower financial inclusiveness. Despite these expectations, empirical studies show that correlation coefficient between IFI and the level of development or income is positive and significant. This means that, countries with a higher level of income and development have a relatively higher level of financial inclusion. Studies have also shown that in the industrialised and high- income countries, the banking system is well developed and thus such countries have a higher financial inclusion index (Barr, 2004).

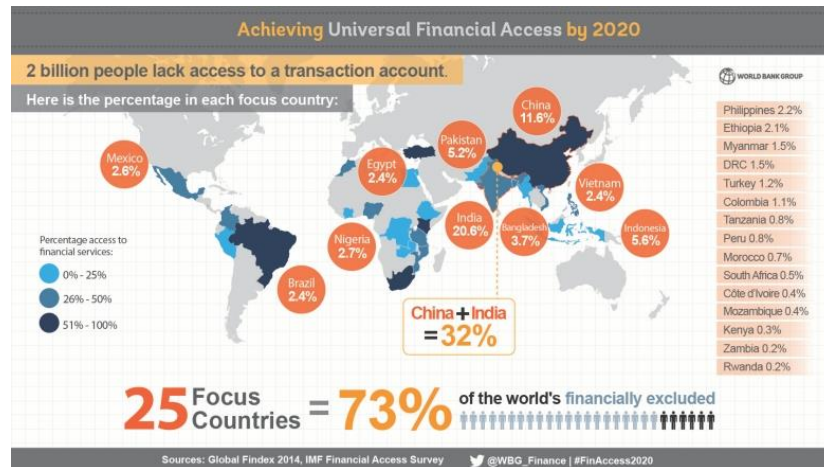
Goodwin et al. (2000) indicated that the level of employment in a country influences financial inclusion. Studies have found that payment of wages and salaries through automated cash transfers is seen to influence financial inclusion in the United Kingdom. Other studies have also shown that payment of social security benefits, pensions and other cash transfers through cash system significantly promotes financial exclusion. According to the International Labour Organisation (ILO), the nature of employment in a country determines the degree and extent of financial inclusion. In countries where most people are employed formally, the level of financial inclusion is high. Formal employment means that all payments to workers are done through the banking system (Djankov et al., 2008). This also supports the point that infrastructure such as roads, telephone, television network, newspapers, radio and internet may significantly influence the level of financial inclusion. These facilities enhance mobility and an awareness of financial services and products. Good road networks promote the setting up of bank branches and ATMs, which in turn augment financial inclusion.

2.5 Financial inclusion in emerging economies

A number of models have been developed, adopted and implanted to promote the financial inclusion of SMEs around the world. Despite such models and funding by the donor community, most SMEs in developing countries continue to be excluded from the formal financial services. About 70% of SMEs in developing countries lack access to basic financial services, such as credit. Accordingly, the United Nations and the World Bank (Demirgüç-Kunt et al., 2012) recognised the limited financial inclusion of SMEs in developing countries. They regarded them as a neglected area that required urgent solutions. They then facilitated a meeting between leaders of G20 countries and financial inclusion experts that was aimed at providing solutions to enhance the financial inclusion of SMEs in developing countries (Makina et al., 2014 and Durner & Shetret, 2015). This was meant as a measure to promote sustainable development in emerging countries.

The World Bank (2016) has also noted that around two billion people cannot access or use established financial services and more than 50% of adults in the poorest households are unbanked. The financial inclusion of all adults will also translate into SMEs accessing financial services. Once this is achieved, it would be a great mechanism to reduce poverty and enhance prosperity. The World Bank, President Jim Yong Kim, called for Universal Financial Access (UFA) by 2020 by targeting one billion people, including SMEs, as they rely on family and friends for loans (World Bank, 2016). All these strategies are meant to increase financial inclusion across developing countries, especially those in Sub-Saharan Africa, including Ghana. As shown in Figure 5 below, global access to financial services currently stands at 27%. The combined figure for China and India is 32%. It thus seems that they have achieved increased levels of financial inclusion as compared with other emerging economies.

Figure 2-2: global access to financial services



Source: <http://www.worldbank.org/content/dam/photos/780x439/2016/jan/25Countries-MapJan16.jpg>

Globally, most adults are financially excluded and inadequate funds are cited as a key reason for this. This implies that financial services are not within the reach or extended to low income earners. The following percentages show how low financial inclusion has been in emerging nations, for example Mexico and Nigeria with only 2.6%, Egypt, Vietnam and Brazil at 2.4%, Bangladesh 3.7% and Indonesia and Pakistan at 5.2%. This translates to ~ 73% of the world's population that is unable to enjoy financial services. In the light of developments in today's world, access to a bank account is deemed essential to financial sustenance in developed countries, yet this phenomenon is but only a dream in developing countries. With only 54 % of adults in developing countries said to maintain a bank account, compared to 94 % in Organisation for Economic Co-operation and Development (OECD) countries, this outlines the magnitude of financial exclusion in developing countries (Demirgüç-Kunt et al., 2015). The situation seems rather worse for developing nations, as financial access mechanisms have not been fully employed. The key features of the global financial index will make them ideal as a benchmark. Other emerging economies can learn from India as the country has managed to increase its financial inclusion indicators.

In terms of international regions, East European countries have a medium level of financial inclusion in line with their levels of economic development (Sarma, 2008). For similar reasons, Latin American, South Asia and Sub-Saharan countries (with the exception of South Africa) have low financial inclusion indices. Most people in emerging economies who live in rural areas that are remote from urban financial centres are more financially excluded (Buckland et

al., 2005; Zins & Weill, 2016). Since Zimbabwe has been in economic stagnation for a while, there is need to test if the economic environment has had an impact on the financial inclusion of SMEs. This explains the need to interview SMEs that have been in operation since 2010 as it provides a view of the varied economic landscapes that have been experienced.

Sarma (2008) indicated that the proportion of foreign banks in the country determines the extent of financial inclusion. In countries such as Madagascar, Armenia and Jordan with a higher share of foreign banks, the financial inclusion is very low. In another study by IMF, Detragiache et al. (2006) indicate that the presence of foreign banks reduces credit availability to the private sector, which also reduces financial inclusion, because there is less access to credit and other financial services. Gormley (2007) also noted that the presence of foreign banks in India reduced overall credit to the SMEs and the majority of the population. Beck et al. (2007), went a step further and observed that foreign banks prefer to serve wealthy borrowers because they are less risky. It can be seen that foreign banks are hesitant to deal with SMEs, but are in the country to serve rather the large businesses and those with a proven credit history. It would be expected that stable foreign banks would have the ability to serve SMEs as they already have the experience of dealing with SMEs in their home countries. However, literature suggests countries with indigenous banks such as Denmark and France, seem to have a higher financial inclusion index.

Small developing countries with a large emigrant worker population like Jordan, Guyana and the Dominican Republic have higher levels of financial inclusion. It is noted that migrant workers tend to use the banking system to remit funds to their countries. However, far less developed countries, with higher migrant populations do not necessarily improve financial inclusion because most of the remittances are executed through informal channels (COMPAS, 2005; El Qorchi et al., 2003). It can thus be concluded that there is no relationship between remittances, income and financial inclusion.

Some of the determinants of financial inclusion in Ghana were also identified. These include low financial literacy levels, the social class of individuals, a lack of confidence in financial institutions, inadequate information about financial products and services, high transaction costs, distance to financial institutions, lack of documentation and low-income levels and social networks. Ghana has recognised the need for a financial framework to address these inadequacies, and this can be said for most developing nations, as financial literacy levels are

quite low. SMEs do not have the confidence to request for the right products but feel they are being excluded by banks. Financial inclusion in emerging countries is viewed as a solution to some of the challenges, such as poverty, high rates of unemployment and limited economic growth.

A review of the literature from developed and emerging economies indicates that there are several demand, supply and regulatory factors that influence financial inclusion in an economy. At a macro level, financial inclusion can be affected by a country's level of development, gross domestic product per capita, income inequalities, adult literacy and urbanisation. A review of the current levels in Zimbabwe provides certainty to the claim that barriers to financial inclusion are consistent among developed and developing countries.

2.6 The financial sector in Zimbabwe

There is need to define financial inclusion in the Zimbabwean context before reaching an understanding of the determinants of financial inclusion. 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). It can therefore be concluded that financial inclusion refers to programmes, policies and activities undertaken to draw upon the unbanked part of the population. Despite concerted efforts and resources put into this endeavour, the majority of the Zimbabwe's poor remain unserved by the formal financial intermediaries.

It is against such an assessment that the RBZ (2016) introduced a National Financial Inclusion Strategy (NFIS) placing great emphasis on alleviating poverty and improving the welfare of the SMEs. The strategy was assigned six targets to improve access to financial services. These targets were based on the following:

- Financial institutions would be required to provide financial products and services within close proximity of the majority of the population.
- In the process of empowering consumers (SMEs) through financial education, marginalised sections of the population were to be treated fairly and in a transparent manner.
- Provision of financial services was to be formalised to reduce abuse of SMEs. This was an important target to protect SMEs from turning to informal service providers

for services. Eventually availability of financial services would create a stable financial system.

- Strengthening of the financial system is what would stop SMEs from turning to money laundering agents to access credit.
- It is critical that SMEs are able to understand and use the financial products available. But at the same time financial institutions are to provide suitable financial products
- Financial inclusion means that a wide range of products has to be available to the population. These include banking, insurance, pensions, remittances, credit and investment products, which when used, have the potential to improve the welfare of consumers (RBZ, 2016).

All these targets are meant to tap into the usage of financial products. RBZ adopted the strategy to ensure they had measures to establish if SMEs were being served. However, the problem with the strategy was that it was introduced in 2016 and by the time of this study, it had not yet been implemented. Financial institutions, however, have been encouraged to adopt the strategy. Because it is not a policy, enforcement by the central bank seems rather ambitious, considering the financial landscape in Zimbabwe, thereby making the achievement of the targets quite an arduous task (RBZ, 2016).

In the Zimbabwean context, financial inclusion is defined as the effective use of a wide range of quality, reliable and appropriate financial services. In order for these services to be accessible, there is need for financial products to be affordable to SMEs. In a study by Finscope Survey (2014), it became apparent that about 23% of the total population remains financially excluded. The financial inclusion gap between the large businesses and SMEs has further increased because of the instability in the financial sector in Zimbabwe, which has adversely affected the operations of most financial institutions. This has resulted in a number of institutions being shut down, thereby leaving a void in the sector. Individuals and corporates alike were adversely affected by the forced closures and significant losses were suffered. This resulted in a loss of confidence in the banking sector, a spectre that still haunts existing banks to date, with huge sums circulating informally.

The Reserve Bank of Zimbabwe (RBZ, 2016) recently announced the introduction of bond notes, believed to be the equivalent to the United States dollar, in an apparent bid to ease the

liquidity crunch. However, this has created anxiety and has further dissuaded SME owners and the general public from banking, further eroding the already decimated confidence in the banking sector. Analysts have attributed the failure of banks to their inability to serve the unbanked SME sector, considering that they contribute excessively to the employment in Zimbabwe. This creates a vicious cycle, one that ends up affecting all parties, for it is clear that businesses and individuals prefer to retain their cash and, as a result, banks see a decline in depositor funds to further lend to SMEs. The few deposits entrusted with banks are of a short-term nature (RBZ, 2016). Zimbabwe’s population of 13 million is underserved by the banking sector, as can be seen in the table below.

Table 2-1: composition of the Zimbabwean banking sector

Type of Bank	No.	Name of Bank
Commercial	13	<ul style="list-style-type: none"> i. Agricultural Development Bank of Zimbabwe (Agribank) ii. BancABC Zimbabwe iii. Barclays Bank of Zimbabwe iv. CBZ Bank Limited v. Ecobank Zimbabwe vi. FBC Bank Limited vii. MBCA Bank Limited viii. Metbank ix. NMB Bank Limited x. Stanbic Bank Zimbabwe Limited xi. Standard Chartered Zimbabwe xii. Steward Bank xiii. ZB Bank Limited
Merchant	1	<ul style="list-style-type: none"> i. Tetrad Investment Bank Limited
Building Societies	4	<ul style="list-style-type: none"> ii. CABS iii. FBC Building Society iv. National Building Society v. ZB Building Society
Savings	1	<ul style="list-style-type: none"> i. People's Own Savings Bank
Total	19	

Source: RBZ (2016)

The table clearly reveals the inadequacies of financial services in Zimbabwe. This has been worsened by the growing liquidity crunch that has resulted in restrictions on cash withdrawals

and international fund transfers. New entrants are also reluctant to venture into the once lucrative sector due to the cloud of uncertainty hovering over it. The absence of a savings culture creates a void in the availability of long-term funds that banks require for lending. This impacts the availability of business loans negatively, thus affecting growth of SMEs, which have limited options of raising capital. It is important to define those regarded as SMEs as each country adopts a different definition dependent on the level of development. It will also help put things into perspective as the data collected from banks will reveal whether their understanding of an SME matches that of the GOZ RBZ (2016).

Financial institutions tend to mitigate their risk by evaluating the following five components (5Cs) of each SME to determine their credit worthiness. The capacity of the SME to repay the loan based on the proposed terms, conditions and amount. The lender will consider the cash flows of the SME before advancing a loan. The second factor is capital currently invested by the owner. Banks review the personal financial risk used to establish a business. A measure adopted to mitigate against complete loss, in the event the SME's business failed. The third factor was collateral that would guarantee a loan on behalf of a SME. The fourth factor was the conditions for the purpose of the loan and the overall economic environment. Character as a fifth factor, was used to determine if SMEs were trustworthy. Banks would assess educational background, experience in business and relevant industry, references and credit history. This in itself was a major stumbling block for most SMEs as most barely had bank accounts, credit history and had not accessed bank loans in the past. However, SMEs seemed to be precluded by these measures, as most earned meagre profits, if any and would operate without formal bank accounts (Allen et al., 2016).

In Zimbabwe, microfinance institutions (MFIs) play an important role in improving livelihoods of the poor by providing financial services to the unbanked and underbanked households. Since attainment of independence in 1980, several MFIs have been registered in Zimbabwe to assist marginalized communities access capital to start business projects such as SMEs. However, in the early 2000's the growth and expansion of microfinance programs and increasing attention to microfinance as a poverty reduction strategy raised multiple questions about the sector's viability in Zimbabwe. Robinson (2001) reveals that microfinance was thought of as an indicator of unemployment, which exposed gaps in the structure and growth rate of a formal economy struggling to absorb the national labour force. In Zimbabwe microfinance institutions provide an alternative to formal banking which includes some commercial banks, Post Office

Savings Bank (POSB), microfinance institutions (MFIs), associations (ROSCAs) and non-governmental organizations (NGOs). The Zimbabwean government provided limited microfinance to the rural poor, mainly for agricultural inputs. However the support was often politicised and failed to reach all intended beneficiaries (Mago, 2014). Microfinance tends to thrive in developing countries where there is an increase in unemployment and poverty. Unbeknown to the clients, MFIs emerged to address market failure of the economy as the poor were constantly excluded from financial systems. However, most MFIs collapsed and some were continuing to collapse due to the unsustainable interest and default rates (Robinson, 2001).

2.7 Definition of SME

The World Bank (2005) argued that there was no generally agreed operational or numerical definition of what constitutes a small scale enterprise. Beck et al., (2007) concurred that there was no universally agreed definition of the small scale business in Zimbabwe either. The general definition of SMEs often varied upon who was defining and the purpose of their definition. However, the World Bank (2005), also stated that any organization with less than 99 people was defined as a SME.

The European Commission (2003) suggested an economic rather than legal definition of ‘Small and Medium Enterprises’ (SMEs) using metrics such as staff headcount, turnover and/or annual balance sheet total as indicated in Table 2.2 below:

Table 2.2: The EU Commission’s Definition of SMEs

Company Category	Staff Headcount	Annual Turnover	Or Annual Balance Sheet Total
Medium sizes	< 250	≤ €50 m	≤ €43 m
Small	< 50	≤ €10 m	≤ €10 m
Micro	< 10	≤ €2 m	≤ €2 m

Source: *European Commission (2003:14)*

Similarly, the International Finance Corporation (2012) defined SMEs as a businesses managed by owners in a personalised way, and not through the medium of a formalised management structures. IFC’s preferred to use three indicators: number of employees, annual sales and total assets to classify SMEs.

In Ghana various definitions were used to quantify SMEs, but the most commonly used criterion was the number of employees of the enterprise (Demirgüç-Kunt & Klapper, 2013). South Africa further classifies SMEs in accordance with legislation. The National Small Business Amendment Act (26 of 2003) defines SMEs using indicators related to the type of business sector in which the SME operates namely: agriculture, manufacturing, retail, construction and transport. Metrics such as equivalent of paid employees, turnover and asset value – excluding fixed property tend to define small and medium enterprises (Banking Association of South Africa, 2015).

SMEs in Zimbabwe were classified according to the number of employees and average annual turnover (Chitokwindo et al., 2014). The GOZ defined SMEs as those enterprises that make use of family as well as hired labour of up to five workers. The RBZ (2012) preferred to use the SME definition quoted in section 2b of the Finance Act (Chapter 23:04). This considered employment levels, annual turnover and asset value to determine the differentiated categories. However, in this study of SMEs in Harare, they are defined as those that operate with less than 5 employees.

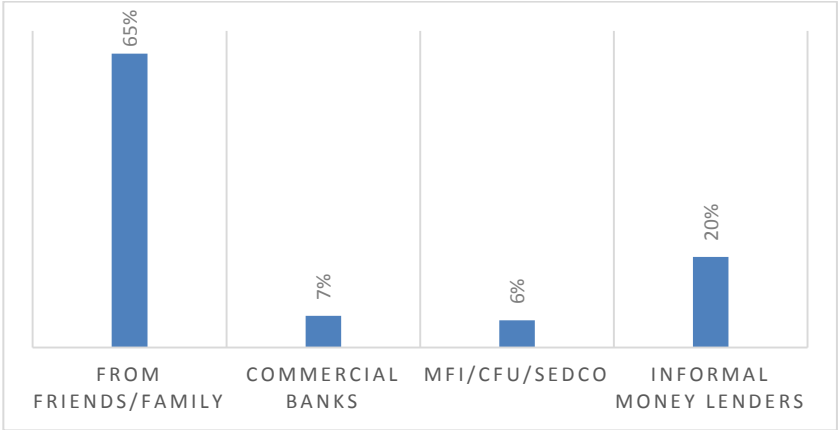
2.8 Status of financial inclusion in Zimbabwe

The Zimbabwean SME sector plays a crucial role in addressing the unemployment level in the country, where it employs about 5.7 million people. As the backbone of the employment sector, SMEs have contributed significantly to poverty reduction by ensuring access to basic goods and services to the marginalised. These SMEs did not emerge by accident. The majority of the entrepreneurs managing the SMEs are males and, given the unprecedented unemployment rate in Zimbabwe, their motive to undertake business activities has been driven more by the need for survival and the upkeep of families (Finscope, 2012). There is need to provide financial support to the greatest employer in Zimbabwe.

While it is important to include this sector, about 43% of the owners of SMEs are financially excluded, i.e. they do not use any financial products or services. This translates to about 1.2 million people financially excluded. About 50% of the SMEs (1.2 million people) use informal mechanisms to manage their operations. A mere 18% of the SMEs are formally served by the financial sector and only 14% are banked. The Finscope (2012) study notes that SMEs tend to use credit obtained from family and friends, while 65% of SMEs preferred to keep the money at home, which further explains the relationship gap between SMEs and the financial sector.

Informal moneylenders capitalise on this situation and charge exorbitant interest rates because they know SMEs are unwilling to transact with financial institutions (Finscope, 2012). Only 6% of the funds find their way to MFIs, which are also responsible for widening the financial inclusion gap, as they too require numerous documents to transact with SMEs.

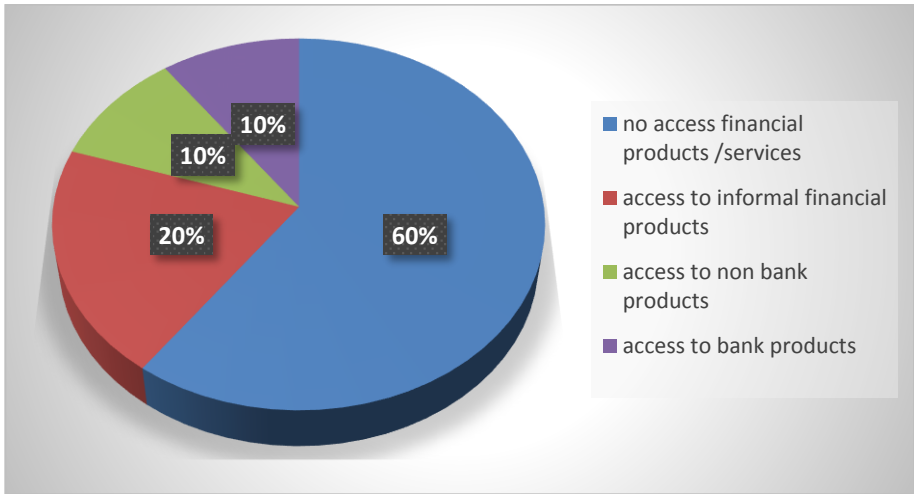
Figure 2-3: main borrowing mechanisms for SMEs



Source: *Finscope 2013* http://www.finmark.org.za/wp-content/uploads/2016/01/Broch_FSZimbabwe_Consumer2014.pdf

Figure 2-3 shows that the majority of SMEs borrow mainly from their friends and family members. This reflects limited access to financial services and products. It also shows a high level of financial exclusion.

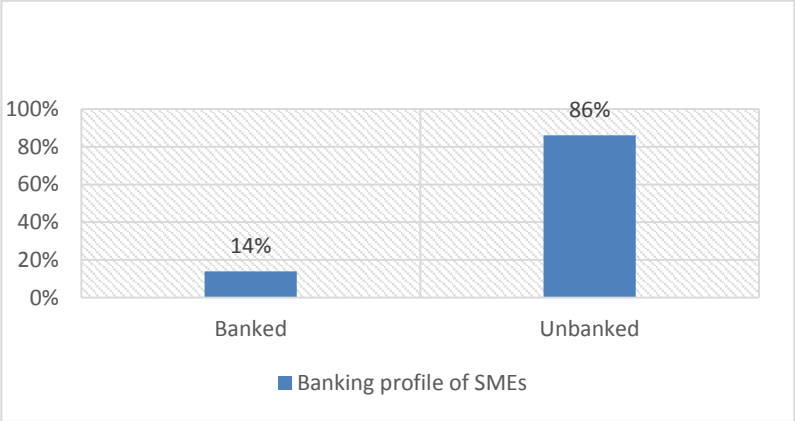
Figure 2-4: access strands for SMES to financial products and services



Source: *Finscope 2013* http://www.finmark.org.za/wp-content/uploads/2016/01/Broch_FSZimbabwe_Consumer2014.pdf

Figure 2-4: indicates that the majority of SMEs are financially excluded from a number of financial services and products. This highlights the limited financial inclusion of the sector. Most SMEs are outside the formal financial systems and, consequently, have no access to products and services offered by the financial institutions.

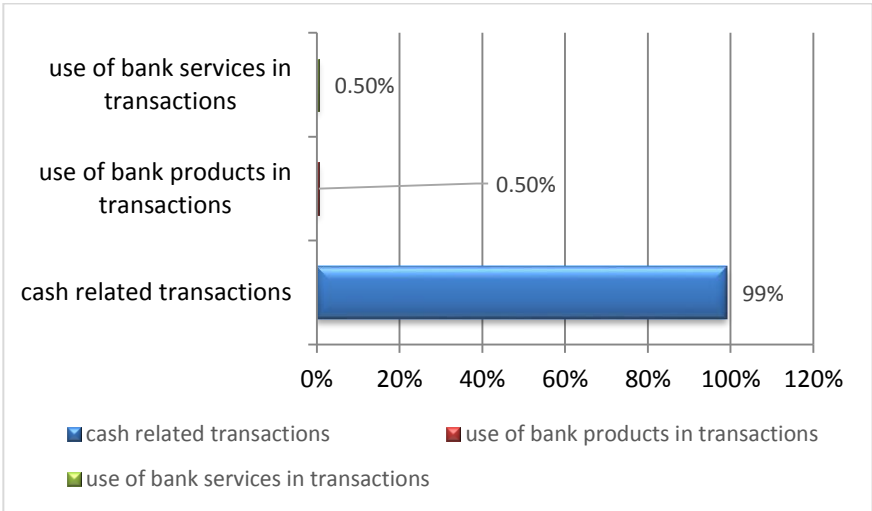
Figure 2-5: banking profile of SMEs



Source: Finscope 2013 http://www.finmark.org.za/wp-content/uploads/2016/01/Broch_FSZimbabwe_Consumer2014.pdf

Figure 2-5 reveals that about 86% of the SMEs remain unbanked, despite a number of policies put in place by the Reserve Bank of Zimbabwe.

Figure 2-6: bank product and services uptake by the banked SMEs



Source: Finscope 2014 <http://www.finmark.org.za/finscope-zimbabwe-consumer-survey-2014/>

Figure 2-6 indicates that 99% of transactions by the unbanked SMEs are executed on a cash basis. The SMEs do not utilise other formal banking products and services. It is clear that there is a need to review the issues that should be addressed by financial institutions in order to encourage financial inclusion, as SMEs seem to be utilising cash services. In order to understand the products that are relevant to SMEs, it is worthwhile to review financial mechanisms other than the registered financial institutions that exist in Zimbabwe to serve this sector. Because SMEs cannot use cash for all their transaction, reviewing the different mobile money services would help formulate financial inclusion strategies.

2.9 Components of the financial services sector that must promote financial inclusion

Financial inclusion is not valuable unless it becomes useful when applied to specific sectors. Below are the components that can be utilised to increase financial access.

2.9.1 Mobile financial services

Nearly all banks are making use of the mobile network systems to reach out to the majority. Banks have found it easy to leverage on the high mobile network penetration rate of over 100%. Although banks have partnered with mobile providers to ensure that their services reach out to the majority, it seems this has not resulted in accessibility. This issue helped to formulate the questionnaires, as the study sought to understand why ICT infrastructure was not being used to reach a wider SME population. While the services between mobile service providers and banks are now linked, SMEs seem inclined to continue using informal mobile cash transactions as their preferred method of transacting (RBZ, 2013). Mago (2014) highlights the importance of having effective partnerships between mobile service providers and financial institutions in order to serve the nomadic SME population. Having an agreement with a mobile service provider is insufficient to serve an SME, and thus banks had to market their products. Since financial literacy was low among this sector, without a different intervention SMEs would not know of the possibilities of linking their bank account to their mobile phone.

2.9.2 Electronic Funds Transfer Point of Sale (EFTPOS)

About 16 000 point of sale facilities are available in retail shops and banking halls. However, most of them are located in the central business district, whereas about 70% of the urban population operates from the high density suburbs. This means that the majority

of the SMEs have no access to this means of payment (RBZ, 2013). Since EFTPOS were available in most businesses, SMEs have utilised these services in most transactions. A review of the transaction costs would enable the study to understand if these could be considered a barrier to financial access and whether their location would better serve the SME sector if they were closer to their operations in high-density areas.

2.9.3 Payment systems access points

For an efficient retail payment system to be adopted, there is a need to analyse the relevance to the SME sector. Retail payment systems allow people to make purchases. Although the figure for the urban population has doubled in recent years, most of the payment system access points are used by the high-income population only. Most of the clients of the SMEs do not use this facility, as they tend to operate on a cash basis (RBZ, 2013).

2.10 Status of financial inclusion in the banking sector

There are currently 19 operating banks, including the People's Own Saving Bank, which primarily serve most SMEs as their collateral requirements are less stringent compared with the traditional banks. There are about 147 micro-finance institutions serving a total of about 205,282 clients (RBZ, 2016). Despite this number of both banks and microfinance institutions, a large number of SMEs remain financially excluded. A number of SMEs — even those in Harare — remain excluded from financial services and products because the banks prefer to operate from the central business districts. There is need for government to reward those banks that open branches in high-density areas to reach the SMEs.

The Finscope survey (2014) was meant to interrogate the extent of financial inclusion in Zimbabwe and also to determine whether the situation had improved since 2012. Details reveal that 23% of the population remain financially excluded. This number, however, is larger in the SMEs sector, where about 76% are excluded. To remedy this situation, the RBZ is currently working on the establishment of a credit registry. This is meant to improve the availability of credit information that in the future will improve credit risk management processes of banks and MFIs. This, in turn, will offer comfort to the latter and increase their willingness to engage, thereby enhancing the relationship between SMEs and the financial sector (RBZ, 2013). In other words, SMEs become more attractive due to known risk profiles, a subject any bank considers seriously.

2.11 Empirical Studies on Zimbabwe

There is an existence of an extensive body of literature on the financial inclusion across European, Asian, American and African economies, however, there is no significant relationship between these studies and the current multicurrency economic environment in Zimbabwe and the impact on SMEs. Studies that have attempted to consider this have been done on Zimbabwe, albeit did not focus on SMEs as the economic growth drivers. The paragraphs that follow provide findings from the studies.

Chitokwindo et al. (2014), conducted an overview of financial inclusion in Zimbabwe. The study focused on the rural banking sector for local resource mobilisation and business development. Evidence revealed that rural communities were financially excluded due to bank specific causes which included poor credit policy, weak credit analysis, poor credit monitoring, and inadequate risk management. Chitokwindo et al, (2014) suggested the use of alternative forms of banking like mobile money implemented by mobile phone companies. The RBZ (2016) was hesitant to fully adopt mobile money as mobile companies fall out of the jurisdiction of the central bank (RBZ, 2016).

Mago (2014) conducted a case study of Masvingo province to review the impact of mobile banking on financial inclusion. The study focused on another set of rural population. The results revealed the Central Bank (RBZ) was not supervising non-bank led mobile banking models which had a direct implication on the mobile money operations. Despite this, rural communities preferred to adopt mobile banking as it was considered easily accessible, convenient, cheaper, easy to use and secure.

2.12 Summary

According to Yoshino and Morgan (2016), the determinants of financial inclusion are broadly classified as supply side, demand side and regulatory and market driven factors. Literature has revealed that lack of credit data among SMEs is a serious constraint. Because of SMEs' transient nature, the unavailability of usable collateral has significantly reduced access to financial services and products. SMEs thus are financially excluded due to high maintenance costs and high costs of providing loans. Overall homogeneity of financial products is not suitable in a financial system. The value and purpose placed on financial inclusion and products differ according to perspective. It can be concluded that limited credit data and availability of reliable financial records leads to information asymmetry, which is a significant barrier to

financial inclusion. This has discouraged banks from extending credit facilities to SMEs and poorer households (Kumar, 2014).

The demand-side and supply-side factors that impede financial access include inadequate funds, inadequate knowledge of financial products, financial literacy and lack of trust (Yoshino & Morgan, 2014). This lack of trust originates from the inadequate supervision and regulation of financial institutions as well as consumer protection mechanisms. Among all these obstacles, the absence of regulations governing disclosure by banks, regulation of collection procedures and systems for dispute resolution lessens the trust of consumers. Lastly, there has been no known research that has studied financial inclusion policies and the factors that affect the unbanked SMEs.

3 RESEARCH METHODOLOGY

In the previous chapter literature reviewed helped the study define and identify issues regarding financial exclusion among SMEs and factors that influence financial institutions to offer services to SMES. Over and above this, the study looked into the nature of operations and banking tendencies of SMEs in Glen View provided important data to help meet the aim of the study, thus providing an insight into the reasons for financial exclusion. As such, selection of an appropriate method was important to collect data that could help answer the research questions.

This chapter provides a synopsis of the deductive approach. What follows is an outline of the criteria used in selecting research participants. Thereafter a discussion on the data collection tools and analysis methods used ensues. Limitations of this method are also discussed.

3.1 research approach and strategy

Research strategy refers to the plan that has been adopted to conduct the entire research process. It is a plan that defines how the study is conducted (Creswell, 2014). Before delving into the approach, it is important to understand the meaning of research. Saunders et al., (2012) define research as a process of systematically examining and analysing information around a research problem. There has to be a logical way of gathering the data sources bearing in mind the researcher's skills and audience.

Saunders et al. (2012) highlights that surveys can be descriptive, exploratory or explanatory. This study adopted an exploratory survey strategy to clarify and define the determinants of financial inclusion. This method was relevant to identify the pillars of financial inclusion; universal access to banking facilities; importance of financial literacy; provision of basic banking accounts; access to micro credit and provision of micro insurance (World Bank, 2016). In order to explain the factors that have affected the financial inclusion of SMEs in Zimbabwe a descriptive research design was adopted to understand the general patterns (Saunders et al., 2009). This study approach enabled the researcher to gather quantitative and qualitative data needed to accomplish all the research objectives.

The previous chapter revealed the numerous factors that influence financial inclusion like a robust infrastructural system, a conducive environment for financial access, awareness of

financial products and services, an encouraging legal and regulatory environment as well as the importance of financial literacy among users of financial services. However, there was no straightforward link between financial exclusion and financial access among SMEs. For example, there is empirical evidence that suggests that SMEs shun financial services due to low education levels and a failure to understand financial services offered by banks (Fungacova & Weill, 2015).

3.1.1 qualitative approach

Using a qualitative approach enabled the study to obtain a ‘deep’ understanding of the research area as it exists in literature. While addressing the research questions associated with the how and why. Qualitative approaches tend to bring out the human perspective, as engaging with society helps bring out the institutional memory and tends to focus on social dynamics of their area, It also offers the opportunity to understand the study area in a natural setting (Saunders et al, 2012). A qualitative approach tends to focus on a small number of respondents who express their understandings and relationships about how they view improved levels of financial inclusion when interviewed in their own space. However, qualitative research has limitations, as the few respondents involved in the research process may not present the views of the majority of the population (Williams, 2011).

3.1.2 quantitative approach

Building on the qualitative approach, it is noted that positivism holds that empirical evidence obtained through the senses is good firm foundation for knowledge. Positivism postulates that knowledge can only be valid if all observers are the same. It requires measurable uniformity across all observations. This was achieved by providing a description of phenomena as it existed without manipulation or control of some of the elements of the demand and supply side phenomena (Saunders & Rojon, 2014).

The positivist view, in this study, allowed the researcher to see fairly clearly the causes of financial inclusion and turnaround strategies implemented by other countries and was able to question the relationships, if any existed, between supply and demand side factors which caused financial exclusion in the SME sector (Saunders et al., 2012). Resultantly the positivist view enabled the study to describe both the characteristics and the financial environment of the SMEs operating in Harare.

3.1.3 surveys

Surveys are data collecting tools that can be administered to a large group of people, by means of questionnaires and interviews. They measure a respondent's behaviours and seek answers to the 'what, when, where and how often' questions about a research phenomenon (Saunders et al., 2012; Bhattacharjee, 2012). They are a valuable tool for assessing opinions and trends. This method allows for simultaneous data collection and can generate standardized information at the same time (Williams, 2011).

3.1.4 chosen method

The survey approach was selected mainly because a survey provides more realistic responses than a case study to the problem (Saunders & Rojon, 2014). Therefore, the researcher sought to answer the "how" or "why" questions (Saunders et al., 2012), and these questions are best answered through a survey. The study will also test current theory on the research topic.

As the research question calls for the findings to be testable, the researcher chose the positivist ideology, with quantitative and qualitative data being the primary sources of data to facilitate descriptive statistical analysis. Self-administered questionnaires and in-depth interviews facilitated the collection of empirical evidence.

Thus, in order to gain a better understanding of demand side factors affecting SMEs development in Glen View, quantitative research using an analytical approach seemed the most reasonable methodology. The survey method was chosen as it involved a comprehensive understanding of the business context of SMEs using multiple sources of probing (Williams, 2011). As revealed by Saunders et al., (2012), survey methods help to digest and absorb real life situations with the belief of questioning the subjective perceptions of social phenomena. To create the detailed evidence necessary for the research conclusion, surveys allow evaluation of namely, the descriptive nature ('what happened'), interpretive nature and also the process of probing of data collected. These facets of the descriptive dimension make it suitable for this study (Creswell, 2014).

Therefore, in this study, the qualitative and quantitative research by survey is used. In addition to exploring what is happening in a certain circumstance, surveys help to gain understanding

and concentrate on a specific issue (Saunders & Rojon, 2014). The research used by surveys also effectively allows observation of the individual's feelings, motivations, and attitudes which help guide the study (Williams, 2011).

Based on the reasons above, an understanding of the real reasons why SMEs encounter financial constraints in a developing country like Zimbabwe impelled the study. Saunders et al., (2012) noted that in-depth interviews with the different respondents has the advantage of giving real-time information regarding current situations as they exist in both the financial and SME sectors. Moreover, the study tends to gravitate toward a narrative nature, suggesting the researcher interprets the information collected rather than test a hypothesis.

3.2 population and sample of the research

To examine the conditions of the financial and SME sectors in Zimbabwe, numerous SMEs and financial institutions were included in the sample in order to understand the nature of their various operations. Harare is the main business centre, and the capital city of Zimbabwe, where there is a flurry of activity by both banks and SMEs. Thus, it seemed reasonable to choose respondents from Harare to participate in the study. This study comprised of a two part process, this was to obtain a different perspective, firstly from financial institutions that supplied the financial products and services and secondly a discussion with the SMEs who demanded financial services.

3.2.1 sampling

A sample reflects the characteristics of the population from which it is drawn (Saunders et al., 2012). To allow for a more holistic insight of the research topic from the vital groups in the financial sector, systematic sampling was used. For the financial sector, out of the nineteen banks in Zimbabwe, the study classified the banks according to type. For the commercial banks, one in every two were selected to come up with seven, for merchant banks the only one existing was chosen and for building societies one in every two resulting in a total of ten banks. A list of managers was provided by the banks with at least four managers selected per institution. In total, the sample size comprised of forty respondents. To ensure relevant information was collected, executive and senior management in the SME

credit department was targeted for questionnaires because they have the pertinent issues at their fingertips.

To get started a set of questionnaires was sent to the bankers to establish their role in promoting the development of SMEs in Harare. Once the completed questionnaires were collected from the banks. The second part involved face to face interviews with the Bankers Association of Zimbabwe (BAZ) to understand if banks designed their products and services with the SMEs in mind. Resultantly, meeting BAZ assisted to inform the study on how to compare the data from the different banks. Each bank provided an interesting perspective.

The second part was concerned with discussing financial exclusion among the SMEs who are in business to get a better view of their business characteristics and perceptions of funding in Harare. SMEs in the Harare metropolitan are more formal in that they are registered with the Harare City Council, hence their physical locations are known and they belong to an established association. Glen View area was selected as it has the largest concentration of SMEs in Harare; followed by Mbare and Mufakose (which were excluded as the nature of business at these markets tended to be one dimensional). It was also noted that most of the furniture, steel manufacturing and carpentry in the city comes from Glen View market offering the study a cross sector opportunity to help when making inferences from the sample and concluding results. It was, therefore, felt that they would be easy to identify and be willing to participate in the study. An accurate and updated list of registered SMEs was provided by Harare City Council.

Systematic random sampling to select respondents at regular intervals was then adopted because it was felt that SMEs in the Harare metropole are well organised and therefore were able to provide more structure and relevant responses to the issues under investigation. Each SME was given a unique number with the first SME allocated the number 0. Thereafter, the first SME was selected randomly then a sampling fraction was calculated representing one quarter of the population. A systematic method selecting one in every fourth SME was adopted, arriving at a total of 60. From all the SMEs selected, 10 provided unclear or incomplete questionnaires. This method ensured issues related to SME financial exclusion were obtained.

Bhattacharjee (2012) states that data triangulation is a type in which the researcher investigates whether the data collected with one procedure or instrument confirms data collected. Validity checks are achieved when data uses multiple methods. Williams (2011) postulates that triangulation increases the validity of data. As such, an interview was set-up with the Small and Medium Enterprises Association of Zimbabwe (SMEA) to corroborate the data collected from SMEs.

3.3 sources of data

According to Williams (2011), secondary data sources involve data already published or collected for other purposes. Secondary data can be accessed easily and is not expensive to acquire (Saunders et al., 2012).

The data sources are financial releases and public statements, Reserve Bank of Zimbabwe economic bulletins and monetary policy statements, World Bank financial statistics database, National Financial Inclusion Strategy, ZEPARU and Finscope policy reports, studies and publications. The data includes financial inclusion pillars, drivers, access and infrastructural enablers. The choices of these were based on their authority and reliability.

Primary data, unlike secondary data, can be defined as raw data collected through first-hand investigation for an intended purpose (Williams, 2011; Saunders et al., 2012). With primary data the researcher tends to be at the source and can verify data accurately. However, data collection is time consuming and requires more resources. In this study, primary data was collected from bank management and SMEs using questionnaires and interviews thereafter.

3.4 data collection methods

The study intended to generate primary data by using a quantitative method (surveys) coupled with the longitudinal study (literature review) and the qualitative method (interviews); to provide a balance between precision and depth in the data (Creswell, 2014). These were based on two respondent dimensions of banks and SMEs. The plausible data collection methods chosen therefore included self-administered questionnaires and in-depth interviews (Williams, 2011).

3.4.1 questionnaires

A questionnaire is an instrument that allows the researcher to collect primary data from respondents. A questionnaire was administered through electronic channels to reach more respondents and the feedback were transcribed immediately by the researcher (Saunders et al., 2012). Because of the use of identifiers the respondents remained anonymous.

In order to capture the attention of the respondents the questionnaire was designed with concise and relevant questions. Care was taken to ensure each respondent would not spent more than 15 minutes completing the questionnaire. The questions in both the questionnaires were of a structured format to ensure research objectives were achieved. Saunders et al. (2012) proposes that a questionnaire should be 6-8 pages in order to make it simple and understandable. The researcher physically obtained details and consent of respondents prior to administering the questionnaires and timelines were set.

3.4.2 components of the questionnaire

A combination of open and closed rating questions were used to collect opinion data. A Likert-style rating was used where the responded was asked how strongly they agree or disagree with a statement (Saunders et al., 2012). The first set of questionnaires used in this study comprised of five sections (see Appendix 1) and this was administered to SMEs. In section A, the respondents were asked demographic questions to understand the respondent characteristics. Questions posed were number of years the respondent has been working in the SME sector, age and level of education. Section B was meant to question the SMEs on their industry characteristics to find out if financial exclusion was tied to a particular sector instead of the SMEs as a whole. Section C of the questionnaire was to test the financial literacy of SMEs and understand their awareness and accessibility of bank products as well as services. This section contained basic questions on the different types of products that the banks offer on the market, products that were new initiatives/enhancements like mobile and agent banking, if the SME had a bank account and if they serviced it regularly and also to enquire whether there were branches and ATMs in their area of operation. Sarma (2011) and Ghosh (2013) emphasise that financial literacy, numerous documentation requirements, insufficient or irrelevant products and services added to the reluctance of the SMEs to enjoy the benefits of financial inclusion.

In order to address the demand side factors Section D of the questionnaire contained items measuring factors that influence the operation of a bank account as well as performance of bank products and services namely traditional and value creation benefits to SMEs. This section wanted to probe the reasons why SMEs prefer to use cash; and whether their incomes were a challenge preventing them from accessing banking services. The study also sought to identify the major constraints affecting SMEs, among them being collateral issues and an understanding of their confidence levels with products and service provided by the banks; and questioning their appreciation of financial access and availability of credit. To also get an appreciation of the relationship between the banks and SMEs, Section E of the questionnaire covered factors that influence enhancement of infrastructure that was alluded to prevent SMEs from accessing financial products and services, performance and financial inclusion strategies that can be implemented to increase SME awareness and access to banking products. Finally questions pertaining to SMEs opinions of foreign or locally owned banks were posed to understand if there were differences in operation modalities and improvements SMEs would like to see in order to be considered bankable. There was also a question to find out if the SMEs were not voluntarily excluding themselves from banking.

The second set of questionnaires was administered to banks and also comprised of five sections (see Appendix 2). The questions were based on Ardic et al. (2011) who spoke to the issues of financial inclusion from a committed leadership perspective, i.e. governments, central banks and financial institutions. They also encouraged competition among financial institutions. In section A, the respondents were asked demographic questions such as number of years the respondent has been working in that particular bank as well as characteristics of the bank; if the bank was foreign, domestic or government owned. Section B addressed the general respondent characteristics like level of education. Section C of the questionnaire was meant to address the supply side factors and contained questions on whether the banks were marketing their products to SMEs and to understand if banks could measure product awareness among SMEs. This section also investigated if banks had specific departments to serve this unbanked population. Questions also focused on the ability of banks to provide innovative products like mobile and agent banking as well as inquiring if banks understood the operations of SMEs to be able to better serve them. In addition banks were asked to provide details on whether they were providing educational tours to enlighten SMEs on the importance of banking and increase their financial literacy.

Section D of the questionnaire sought to drill a bit deeper to understand whether banks had the motivation to serve SMEs and ability to create products that were relevant to tap into the SME sector. There were questions that sought to address the challenges of collateral and numerous documentation requirements that banks required of SMEs even though their operations tended to be informal. Banks were also quizzed on their understanding of the SME operating environment. Issues arising from the SME interviews were also addressed as banks had to provide information on whether SMEs had confidence in their ability to handle their funds. Section E of the questionnaire had items covering infrastructural matters. Banks were questioned on whether their branches, ATMs and point-of-sale services were located in areas where SMEs could easily access these services. The also study sought to understand if the banks had a tactical plan for implementing the national financial inclusion strategy as announced by the RBZ in 2016. These questions were meant to probe if the banks had a good relationship with the government and if banks were willing to implement government policies. It was equally important to determine the extent of the support provided by government and central banks to financial institutions to ensure there was a conducive environment to include SMEs.

In accordance with the World Bank framework (2016), banks should provide the necessary facilities that encourage deepening of the financial sector. Banks are supposed to provide universal access to SMEs by providing branches in the areas which SMEs operate in order to encourage their participation. Questions posed ranged from whether the banks had adequate technological infrastructure as well as existence of supportive regulatory reforms where contract enforcement was plausible and if credit facilities were available at reasonable rates. Finally questions were posed on whether banks were given tax incentives and government quotas for serving SMEs. Banks were also questioned on their views on whether they knew the confidence levels the SMEs had in them and whether the trust issues were real.

3.4.3 interviews

In order to learn more from BAZ and SMEA interviews were set up to establish rapport, ask concise questions and get an understanding of the strategies banks and government had adopted to include the unbanked SMEs into the financial mainstream. Face to face interviews

lasting one hour each were preferred in order to gain situational perspectives from the BAZ and SMEA's point of view and corroborate information provided by SMEs. Face to face interviews gave the researcher an opportunity to assess verbal and non-verbal communication (Williams, 2011) and observe the actions and expressions when discussing a certain topic. The interview guide was based on semi-structured questions to explore and explain the themes that had emerged in the questionnaires. Questions (see Appendix 3) addressing financial access impediments, financial products and infrastructural capacity were posed to help with data analysis. The researcher recorded answers on a note pad.

3.5 data validity and reliability

The qualitative and quantitative measurement for this study required a validation and reliability assessment. Saunders et al. (2012) suggest that validity is the extent to which a particular measure is free from systematic and random error. Validity is measured in the context of content and construct. Wherein, content validity looks at the nature of the questions in the research instrument and if they cover the objectives adequately. On the other hand, construct validity refers to the clarity of the questions in the research instrument to ensure respondents understood the information required of them. A pilot study helped collect initial thoughts of the respondents and assessed if the questionnaire was relevant. A month before data collection, the researcher administered the same questionnaire to a small group of SMEs in Mufakose to ensure the population was relevant but not part of the final sample (Glen View) to be interviewed during data collection. The pilot study was meant to address limitations with design, assess time and cost constraints. Resultantly, the pilot provided valuable insights into potential results to be obtained during data collection. The study revealed that 30 minutes was required per interview and completion of questionnaires had to be completed in the presence of the researcher (Saunders et al. 2012).

Saunders et al., (2012) highlight that internal consistency correlates responses to each other. Thus a Cronbach's alpha internal consistency measure of above 0.7 indicates that the questions were measuring a particular concept reliably. Reliability refers to the level of accuracy of the data. It is the consistency with which a measuring instrument yields a certain result when the entity being measured has not changed that is the extent to which the measure is free from random error (Creswell, 2014).

3.6 ethical considerations

According to Bhattacharjee (2012) it is imperative to think about the research implications where research disciplines involve human beings who have potential to think, feel and experience physical or psychological distress. The study took into account the right to privacy and disclosure policy.

An ethical clearance letter was obtained from University of Cape Town prior to commencing the study. Banks and SMEs were requested to provide written consent prior to data collection in order for the study to proceed. Respondents were made aware their participation was voluntary and if they felt they were not willing to continue with the process they had the right to decline at any point in the study (Saunders et al., 2012).

The researcher assured the respondents that the research was approved by the university. Subsequently respondents were informed that the coding of data was meant to protect their identity. For example each participant was assigned a non-identifier and assured that research papers would be stored in a lockable file cabinet. Respondents were also notified that the researcher would destroy all documents upon endorsement of course results (Saunders et al., 2012).

The researcher adhered to the disclosure policy regarding the purpose and nature of the study as guided by the university. Participants were informed about the general nature of the study as well as any potential risks the study may have. An informed consent was obtained in writing from participants. The researcher made sure to communicate to the respondents that all results will be treated with confidentiality.

3.7 data presentation and analysis

Data presentation and analysis plays a pivotal role in the research process. The analysis allowed the researcher to make inferences from the collated data using content analysis. During the interview data was interpreted using notes. In Zimbabwe due to the financial hardships, respondents were sensitive while discussing financial issues and the researcher ensured they understood the notes were simply for capturing data for the study. This allowed open discussions to flow. A coding technique was used to categorise the raw data and this way

the study was able to analyse the data (Saunders et al., 2012). Thereafter the data was collated into the demand side factors from the SMEs, the supply side factors from the banks and the infrastructural issues that cut across both sectors. This allowed the researcher to make comparisons based on answer given by each respondent (Williams, 2011). Information collected from the questionnaire was summarised and presented in the form of visual diagrams such as tables, graphs and histograms.

A Statistical Package for Social Science (SPSS) and Microsoft Excel was used to analyse and process the data analysis and findings were interpreted using descriptive statistics (Saunders et al., 2009). Elementary statistical inferential techniques were applied such as frequency tables, mean, standard deviation, variance and other descriptive statistics showing the main constraints to financial inclusion. SPSS was chosen because of its ability to handle large amounts of data and perform all the analysis required. Various measures of central tendency were applied to an ungrouped set of data to include the mean, median, and mode. The mean helped the study define the average responses and inclination of both banks and SMEs.

The variance and standard deviation were also applied to determine if the respondents were within a close range to the average and by what magnitude. This helped to understand whether there was variability and if the mean was a true representation of the determinants of financial inclusion (Saunders et al., 2012). The mean was also used to infer the measure of central tendency and describe the spread of numerical data. The study used the descriptive statistics to determine how various factors (listed below) were constraints to financial inclusion of SMEs (Christopoulos & Tsionas, 2004). The statistical analysis was adopted to establish the relationship between business environmental factors and SMEs-related factors as potential constraints to financial exclusion of SMEs (Shankar, 2013). The questionnaires were coded in relation to the research questions established in chapter 1; this was done to simplify the compilation process. In this way, the researcher remained focused on the research questions and made sure both banks and SMEs articulated their issues and was also trying to find ways of improving the needs as well as relationship of both parties.

Empirical studies have also indicated that constraints to financial inclusion may be from the supply side, demand side and regulatory factors (Demirgüç-Kunt et al., 2013 and Gopalan & Rajan 2015). These are the main categories of factors that constrain the financial inclusion of SMEs and were the factors considered in this study:

Demand-side factors include low-income levels; irregular income streams; failure to meet minimum account opening requirements; inadequate information on financial services and products; a lack of confidence in financial systems; financial illiteracy and unyielding ways of implementing anti-money laundering measures.

Supply-side factors ranged from an absence of robust credit information systems; poor infrastructure in rural areas leading to financial institutions' reluctance to establish branches; and a lack of skill to understand the dynamics of projects of SMEs.

Infrastructural barriers assessed where an absence extensive network of branches, ATMs and a coordinated national policy and strategy on financial inclusion; weak consumer protection regulatory framework; and capacity and resource constraints.

Summary

This chapter provided an overview of the research design, study population and data collection instruments used during the research. The research methodology used in the study was presented. The survey approach of banks and SMEs was considered to be the most appropriate for the study. All executive and senior managers from the selected banks and owners of SMEs were considered to be the research population and the sample constituted of all the one hundred which participated in the study. A questionnaire and interview guide were developed to solicit views on what strategies banks employed to increase financial inclusion on the Zimbabwean market. In addition the validity and reliability of the statistical measurement, the ethical considerations and data presentation and analysis was considered. The objective of the study was to determine demand side, supply side, infrastructural limitations and tease out ideal inclusive strategies that could be employed to mirror the application of the World Bank financial inclusion framework to the Zimbabwean environment. A descriptive statistical method was employed to analyse the findings from questionnaires and interviews.

The following chapter provides a detailed presentation, discussion and analysis of the results.

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 chapter outline

This chapter presents the findings of the study from the qualitative and quantitative data obtained through questionnaires with the ten banks and fifty SMEs as well as a discussion of the same in line with the objectives of the study. The findings were gathered by applying structured questions in the questionnaire and semi-structured interviews which focused on the levels of financial inclusion of SMEs in Zimbabwe. The chapter reveals the descriptive findings of the study. The chapter lays the foundation on which the conclusions and recommendations of the study may be derived. Walliman (2011), cited in Saunders, Lewis and Thornhill (2012:4) noted that important notions should be revealed in research outputs that contribute ‘something new’ to the area studied.

Five main sections of both data collection tools are presented, in which the first section was a basic description of the demographics and characteristics of the respondents. Section C and D of the demand-side factors questionnaires delved into the issues SMEs face when attempting to access financial services and credit facilities. In this section opinions of SMEs provided an insight into their financial literacy levels, awareness and usage of financial products, trust levels, their credit requirements and other difficulties experienced when opening bank accounts.

Section C and D of the supply-side factors identified the banks motivations to serve SMEs, assessed the relationship of the bank and SMEs and obtained insight into the ability of the banks to provide relevant products to this transient population.

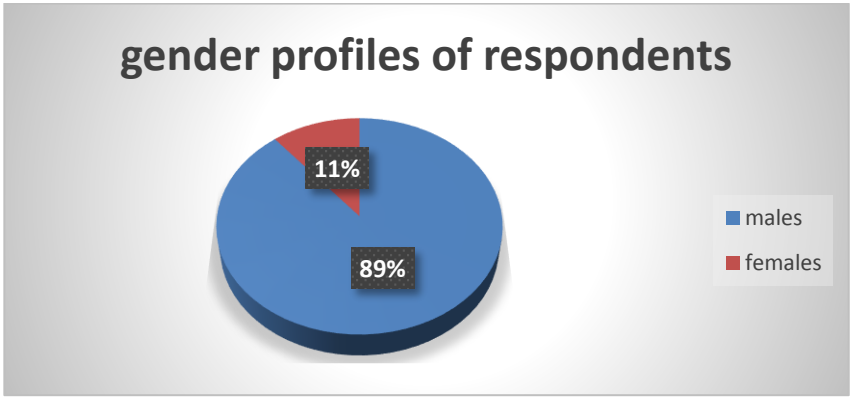
Section E combined views from both bank and SME respondents in order to assess the strategies both hope for. Infrastructural issues were addressed in this section as well as government policies to that relate to financial inclusion. The study used a rating scale of 1 = strongly agree to 5 = strongly disagree to define the responses. A summary of salient points from the questionnaires and interviews are included.

4.2 insightful ideas from banks and SMEs

This study used structured and open-ended questions in order to define the objective of the study using questionnaires and interviews to obtain data. These questions are shown as sub-headings of the sections that follow.

4.2.1 section A: gender profiles of respondents

Figure 4-1: gender profile of respondents



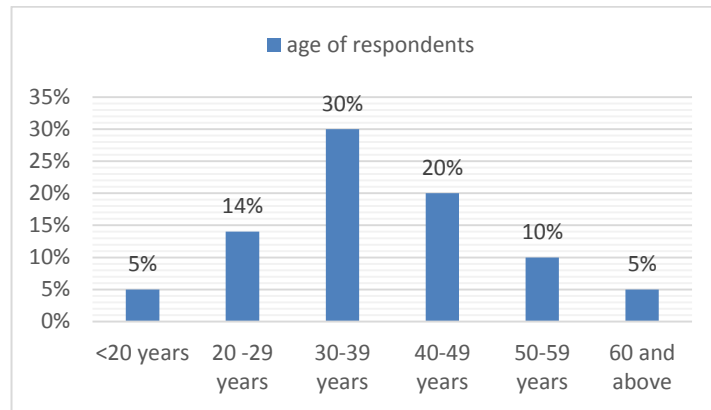
Number of observations = 50
Source: *Study primary data (2016)*

Figure 4-1 above indicates that 89% of the respondents were males and 11% were females. Women highlighted that they preferred to operate from their homes as their business were concentrated on activities that enabled them to continue with their domestic chores. Women were more financially excluded as they lacked routine income, very few had bank accounts and they tended to concentrate on business that required less capital (Demirgüç-Kunt et al., 2014).

4.2.2. section B: demographics of respondents

Figure 4-2 indicated that the majority of the workers were from 30 to about 49 years of age which they noted was the economically active category. They also highlighted that particular age group had faced the harsh realities of economic meltdown in Zimbabwe and turned to SME operations for employment (Mago, 2013).

Figure 4-2: age categories of respondents

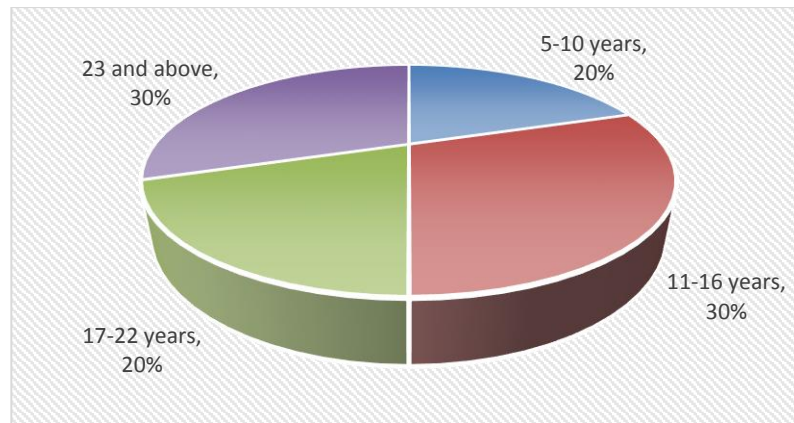


Number of observations = 50

Source: Study primary data (2016)

4.2.3. section b: characteristics of respondents

Figure 4-3: work experience of respondents



Number of observations = 50

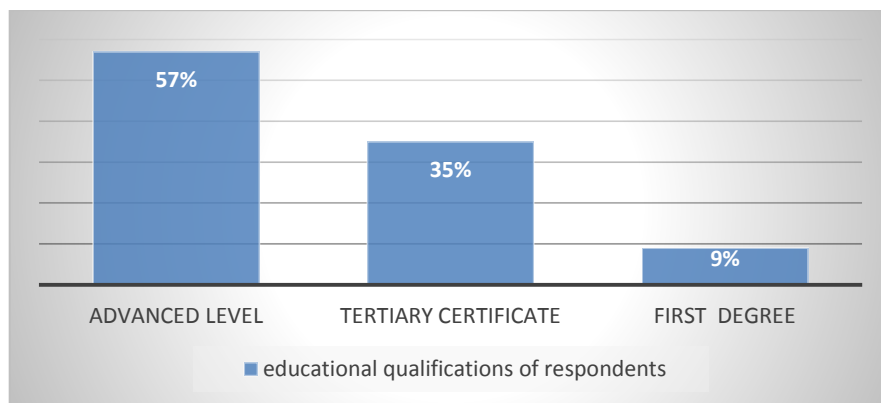
Source: Study primary data (2016)

Figure 4-3 indicates that most of respondents were well experienced in terms of their work profiles. As this indicator was applied to both SMEs and banks, it revealed that most respondents had about 15 years of experience on average. Most of the owners of SMEs and senior managers at the banks had more than 15 years of experience. Because of their varied levels of experience, SME owners were able to chronicle how they adapted to the products

provided by banks. The less experienced respondents concluded that low levels of experience had affected their incorporation into the financial mainstream. The banks, however, noted that the experience they obtained enabled them to identify the risk profiles of the various SMEs. Because the default rate was as high as up to 80% (RBZ, 2016), this created their negative opinions regarding SMEs.

4.2.4. section b: level of education of respondents

Figure 4-4: level of education of the respondents



Number of observations = 50

Source: *Study primary data (2016)*

Figure 4-4 indicates that the majority of the respondents used in this study had at least attained formal education: 57% of SMEs' owners had basic high school education, and 35% tertiary level certificate. Only 9% had at least a first degree. It was noted that SMEs' owners who have higher levels of education were more likely to be financially included as compared to their financially illiterate colleagues (Ghosh, 2013).

4.3 small to medium enterprises demand-side factors

The first set of questionnaires, sixty respondents were chosen to represent a selection of SMEs in Harare metropolitan, which is the capital city of Zimbabwe. Ten SMEs did not fully complete the questionnaires as they were uncomfortable to answer all questions, which reduced the number fifty. A summary of the questions are shown as sub-heading below and table 4-1 below shows that all the factors on the demand side are significantly associated with financial inclusion.

Table 4-1: demand-side factor findings

section c variables: banking awareness, access and usage	mean	std. deviation	N
1. I do not believe it is important to operate a bank account	2.54	1.204	50
2. I do not use my bank account frequently	1.84	1.106	50
3. no knowledge of products offered by banks	2.08	1.175	50
4. no training on access and use of bank products or services	1.94	1.284	50
5. no training on loan management and utilisation	1.54	1.216	50
6. I have been denied a loan from the bank	1.96	.699	50
7. low Income so prefer cash	2.06	1.038	50
8. I do not use my bank account frequently	1.84	1.106	50
9. low Income so prefer cash	2.06	1.038	50

4.3.1. section c: I do not believe it is important to operate a bank account or use it frequently

80% of respondents stated that they did not think it was necessary to open and operate a bank account because it was not affordable as they did not have a steady stream of income. SMEs highlighted that transaction costs were too high rendering bank accounts useless. Monthly user fees of \$5 per account were prohibitive for SMEs. With a mean of 2.54 most respondents tended to agree because they could not afford to transact banks would then close the accounts of users because of disuse or if the account balance had been reduced to zero. Eighty per cent of banks also indicated that SMEs were hesitant to subscribe to banking products and services due to low and inconsistent income levels. This was prevalent in the strict terms and conditions of banks that were not suitable for SMEs' owners with low income levels.

4.3.2. section c: financial literacy

With a mean of 2.08 it reveals that many of the respondents are unaware of financial products at their disposal. Financial literacy was a major concern among SMEs with 85% indicating that they had limited information on the existing financial system in terms of its benefits to their business. 90% respondents were not aware of the products or services provided by banks. 90% of the respondents revealed that personal assets and savings were

the main sources of finance for their start-up capital. 90% respondents mentioned they were intimidated by the lending procedures from banks which they considered were beyond their reach. However, the respondents mentioned that informal lending sector were perceived to be risky because of exorbitant interest rates ranging from 10% up to 40% per month but was an alternate solution because there were no lengthy administrative procedures to comply with. Ten respondents also indicated that the short-term nature of banks loans discouraged them as they may not be able to service loans within the contractual date resulting in them being blacklisted. With a standard deviation of 1.1.75 it was noted that the data values are typically close to the mean which basically agrees with the statement of low levels of financial literacy.

4.3.3. section c: accessibility of products or services

All respondents noted that there were no automated teller machines or branches or agents in the Glen View area or areas close to their business operations. Respondents had to travel to the nearest branch which would warrant an additional transport cost to access the banking facilities. 20% of respondents highlighted they had resorted to using mobile banking facilities provided by mobile telephone operators. They also mentioned that a few banks had linked their bank accounts to respondent mobile numbers which resulted in disuse of bank accounts. All respondents highlighted that because there was no formal training on available financial services and products so there was no knowledge of what banks were offering in terms of credit facilities for SMEs, it was difficult for this sector to be part of the financial system.

4.3.4. section c: have you accessed loans from banks?

With a mean of 1.96 respondents strongly agreed that inadequate collateral, lack of financial statements, lack of credit history and erratic incomes were cited as denial for accessing loans from banks. Respondents' alternative was to use cash for ease of transacting. Respondents preferred to use cash to pay their suppliers and also demanded cash from their customers. Three respondents further revealed that the practice of using cash payments encouraged businesses' to avoid following formal business accounting standards. In addition, five respondent presented a different view by saying that the short term nature of credit provided was a major financial constraint which made them prefer cash.

4.3.5. section d: summary of reasons for financial exclusion among SMEs

Table 4-2: findings of factors that influence account maintenance

section d variables: constraints of financial access	mean	std. deviation	N
1. high transactions costs and monthly bank service fees	1.88	.982	50
2. low income with no savings	1.46	1.124	50
3. lack of confidence, since SMEs lost deposits in 2008 — no more trust	1.58	.982	50
4. hyperinflation caused uncompensated losses	2.20	1.010	50
5. limited operating times and SMEs have no or limited credit history	2.40	1.294	50
6. cumbersome documentation required by banks is too demanding	1.90	1.329	50
7. no formal financial training or knowledge of bank products	2.04	1.212	50
8. distances to travel to bank are inconvenient	1.48	1.202	50
9. we cannot raise minimum deposit required to maintain an account	1.64	1.045	50
10. introduction of bond notes will increase chances of loss of income	1.48	1.098	50
11. ignorance of banks' ability to loan	1.84	1.283	50
12. a bank account is not necessary for a small business	1.96	1.124	50

All respondents cited high transaction costs, lack of credit history, cumbersome documentation and collateral as reasons for not having a bank account. They felt banks could not serve them because of the low profit margins and potential default risks. Furthermore, they indicated that lower income levels also meant that they could not meet some of the bank minimum deposits and collateral for loans (Barua et al., 2016). This also means that the lower the income levels of SMEs, the more likelihood of financial exclusion. With a mean of about 1.90, most respondents strongly agree that they were being financially excluded due to their low income levels and inability to provide tangible collateral.

All respondents highlighted that they mistrusted and lacked confidence in the financial system (World Bank, 2016). With a mean of 1.58 most respondents strongly agree their situation was exacerbated by the introduction of bond notes (RBZ, 2016), as SMEs' owners felt they would lose the little income that was transacted through the banks. All respondents recounted the hyperinflationary period of 2008 where funds were decimated due to

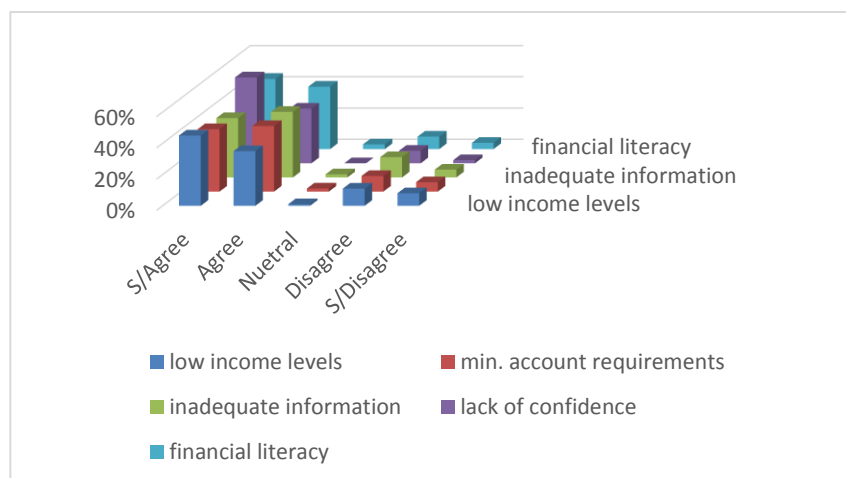
inflation. Respondents noted that banks did not take the time to explain to SMEs that the funds held in their accounts were converted to United States dollars when the government introduced the multicurrency regime. All respondents explained that the lack of confidence in the existing financial has promoted the use of cash. All respondents indicated that they had lost significant amounts of savings during the 2008 hyperinflation period and thus had lost confidence in the whole financial sector and thus, would not save again in banks.

85% of respondents cited the ever-present liquidity challenges and the announcement of bond notes as legal tender, has created despondency and further eroded the little confidence SMEs had in the banking sector. Therefore, most respondents had negative perceptions about the banking system.

4.3.6. interview with Small and Medium Enterprises Association of Zimbabwe

As figure 4-5 below highlights, the results identified low financial literacy levels, lack of confidence in financial institutions, inadequate information of financial products and services, lack of documentation, and low-income levels as the determinants of financial exclusion. 85% of SMEs reported that they were financially excluded due to low financial literacy levels. Results revealed that 90% of SMEs were sceptical about dealing with the banks because they lacked confidence in their systems. 80% of SMEs highlighted that they had no collateral, low income levels and inadequate documents that enable them to open bank accounts.

Figure 4-5: summary of demand-side factor key findings



Number of observations = 50
 Source: Study primary data (2016)

4.4 financial institutions supply-side factors

The second set of questionnaires and interviews, was distributed to ten banks with a total of forty respondents chosen to represent a selection of banks in Harare metropolitan, which is the capital city of Zimbabwe. Table 4-3 below shows that all the factors on the supply side. A summary of the questions are also shown as sub-headings below.

Table 4-3: supply side factors affecting financial access and usage

section c variables: bank and SME relationship with regard to financial access and usage	mean	std. deviation	N
1. banks market all products to SMEs	3.88	1.172	40
2. banks have information on SME production	3.88	.982	40
3. banks have departments dedicated to SMEs	4.14	1.355	40
4. banks understand the nature of SME businesses	4.24	1.094	40
5. banks have availed innovative products like mobile/agent banking	3.96	1.126	40
6. banks have availed all loans and product information to SMEs	4.00	1.178	40

4.4.1. section c: does the bank market its products and services to SMEs?

All respondents highlighted that they had not done much in terms of marketing their products to SMEs because the profitability margins were thin. They also noted that the non-performing loan ratios were high amongst this population. With a mean of 3.88 this confirms that limited information on the financial services and products contributes to lower financial inclusion of SMEs.

4.4.2. section c: does the bank have a department to serve SMEs?

With a mean of 4.14 this shows that all respondents indicated that they did not have specific department to serve SMEs. In order to minimize costs, banks used one channel of entry. 90% of the respondents confirmed that SMEs were not accessing their products hence there was no need for a dedicated department.

4.4.3. section c: banks understand the nature of SME operations

All respondents did not understand the businesses SMEs operate which resulted in banks quantifying the resultant risk as high and determined it was not within their level of risk appetite. From their past experience it was emphasized that SMEs would constantly change trades without notifying the bank and this made the bank weary to deal with them. Banks preferred to deal with SMEs with an established trading and financial record. With a mean of 3.88, it reveals that most respondents disagree with this question.

4.4.4. section c: banks have provided mobile banking in response to the growth of SMEs

85% of respondents mentioned that they were unable to quickly adopt mobile banking due to challenges with information technology infrastructure. The banks mentioned they needed to upgrade their systems to be able to provide this service. Most respondents also mentioned that SMEs have a tendency to change their mobile numbers depending on the network with the cheapest rates. This causes an administrative burden on the banks which comes at a cost that will need to be pushed down to the SMEs.

4.4.5. section c: banks have availed loans to SMEs

From the bank point of view, most respondents revealed that the majority of SMEs were small type family businesses and mostly with a limited knowledge of managing a business. With a mean of 4, most respondents indicated that the limited financial knowledge hindered SMEs from preparing business plans and simple financial statements. All respondents mentioned that because of the limited financial knowledge, documentation submitted for loans was hard to evaluate and decide on the SMEs operators' trustworthiness.

Two respondents further indicated that as far as poor financial knowledge is concerned, banks have to work even harder in order to evaluate the business's trustworthiness. They went on to state that the other major deterrent was the limited or lack of credit history due to incomplete information availed to banks by SMEs. Most respondents noted that banks may be unwilling to finance projects they do not understand, that is in terms of viability and the bankability of the projects.

4.4.6. section d: summary of reasons why banks provide limited access to SMEs

Table 4-4: supply side factors, constraints of financial access

section d variables: financial access the status quo	mean	std. deviation	N
1. transaction costs are sustainable with SME low incomes	4.48	1.092	40
2. banks are motivated to serve SMEs	4.20	1.046	40
3. government tax policies support SME funding	4.44	1.146	40
4. banks have capacity to fund SME projects with less stringent conditions	4.04	1.277	40
5. banks documentation requirements and collateral are reasonable for SMEs	4.28	1.098	40
6. banks refunded SMEs their deposits during the hyperinflationary period of 2008	4.05	.986	40
7. lack of confidence with banks since 2008 crisis	2.04	1.088	40
8. banks implement anti-money laundering policies / "know your customer"	1.66	.860	40

98% of respondents revealed that in order for the bank to remain viable they needed to recover costs. They further mentioned this resulted in high transaction costs which excluded SMEs, who have low income and cannot afford the costs of maintaining a bank account. Most respondents revealed that as banks are private entities with a mandate to make profits, it became difficult to provide mechanisms that would reach out to SMEs alone especially when the margins were thin.

88% of respondents highlighted that although government has mentioned their support of SME lending, there were no tangible policies or tax incentive for serving this sector. They also revealed that with high default rates in this sector the lending policies were made stringent in order to offer loans only to those SMEs that provide the necessary documentation. Most respondents also mentioned that the government had not provided incentives to banks to be able to recover their funds once the SMEs default.

90% of respondents also mentioned that the collateral and documentation required was pretty standard and SMEs could not meet these requirements. Most respondents acknowledged that the central bank introduced a national financial inclusion strategy that

was still being deliberated in the banking sector and they were yet to receive a mandate from management instructing them to put this into effect.

98% of respondents could not explain the reason why funds deposited by SMEs when unavailable for withdrawal citing government policies. They mentioned that banks were under pressure to comply with central bank policies and could not avoid these in order to provide preferential treatment to SMEs. On another note most respondents confirmed that the banks did not handle the 2008 financial crises very well and it had caused concerns among SMEs. Respondents mentioned that they could not explain how the Zimbabwe dollar deposits were converted to United States Dollars as they were waiting for an instruction from the central bank. This information had not been relayed to depositors. However, they also indicated that banks were working to boost their trust and confidence in this sector. Most respondents revealed that the banks were under pressure from the central bank to comply with the new anti-money laundering activities like “know your customer”, where SMEs were required to constantly update their records held with the bank and provide recent documentation regarding their identity and financial status. This move seems to have unnerved the SMEs.

All respondents noted that SMEs were resorting to micro finance institutes, savings clubs or loan sharks to access loans because they did not require cumbersome documentation from them. 30% of respondents indicated that their banks have registered micro finance departments where the interest rates were quite high to compensate for the risk and also have them the ability to tap into the SME sector.

4.4.7. interview with Bankers Association of Zimbabwe

Results identified the following supply side factors as constraints to financial inclusion respondents were not marketing their products to SMEs resulting in low product awareness among SMEs, although specific SME departments existed to serve this unbanked population bank staff were not forthcoming, banks were also hesitant to provide innovative products like mobile and agent banking and regarded SMEs as a risky population. In addition BAZ highlighted that it was not profitable to provide providing educational tours to enlighten SMEs on the importance of banking and increase their financial literacy. BAZ classified the main issues that have resulted in low financial inclusion among SMEs as low financial literacy levels, high transaction costs, absence of credit history, deficiencies with

infrastructure, introduction of mobile money operators, government policies like KYC¹ and inadequate capacity to deal with SMEs (Makina et al., 2014). Interview responses indicated that with limited or no information on credit ratings of SMEs and absence of financial records, it was difficult for most financial institutions to provide the right type of services and products to SMEs. Interviews with BAZ also specified that most projects operated by SMEs were too informal and not structured and that it was difficult to measure risk in these projects. Furthermore, they argued that SMEs do not keep records of their transactions. This further compounded the situation and hence made it difficult to measure the riskiness of SME operations as well as determine a measure to quantify loans that could be extended to SMEs.

4.5 section e: infrastructural factors leading to financial exclusion

To ensure financial inclusion the following infrastructural sub-questions were posed to both SMEs and banks. This was meant to seek feedback on the pivotal role of government in terms of addressing policy gaps and ensuring there were attempts to assist the SMEs.

4.5.1. adoption of the national financial inclusion strategy

All respondents indicated that the RBZ strategy had been introduced by was yet to be adopted. This was a mechanism that could be used to help bring SMEs into the financial mainstream. Most respondents highlighted that the effects of inclusion strategy would take some time to be felt in the market as management needed time to address the issues raised.

4.5.2. government policy on minimum quota for lending to SMEs

75% of respondents indicated the government had not put in place a coordinated regulatory policy on SME financial inclusion. Respondents also noted that this implies that limited financial inclusion within the SMEs sector could be a result of restricted policies. Banks indicated that although Zimbabwe had developed a strategy for financial inclusion this had not been translated into a policy and thus there is inadequate support for the process of financial inclusion, especially among SMEs.

¹ Know Your Customer (KYC). As predicted, 2015 saw a continued rise in regulatory pressures concerning Anti-Money Laundering ('AML'), with a number of high profile fines and investigations. Compliance with AML, Know Your Customer ('KYC') and sanctions requirements continues to be a key focus area for management, and firms must ensure they are following appropriate compliance procedures to meet the increasing regulatory demands. <http://www.pwc.com/gx/en/industries/financial-services/publications/anti-money-laundering-know-your-customer-quick-reference-guide.html>

4.5.3. banks have adequate ICT infrastructure

All respondents revealed that there are limited facilities such as ATMs and bank branches closer to SMEs' points of operation which have also contributed to the lower financial inclusion of SMEs. Most respondents also highlighted that limited facilities in the areas where SMEs operate tend to detach them from potential benefits that the financial services offer. SME owners indicated that there are no ATMs in their area of operations and hence they had to travel to get access to financial services. This they noted discouraged a number of SMEs from opening bank accounts and thus they were more comfortable with the cash environment, despite the risks associated with it.

4.5.4. are there adequate regulations

Most respondents indicated that the weak consumer protection regulatory framework in Zimbabwe has an adverse effect on accessing credit. They also emphasised that the prevalence of a weak regulatory framework has contributed to insufficient protection against defaulters within SME sector in Zimbabwe. Most respondents indicated that banks were not confident enough to avail various financial services and products because there were no regulations to protect them in the event that SMEs defaulted on loans. SME respondents also indicted that getting loans from banks was a great risk because they felt they may lose all their assets if they fail to service the loans.

Finally, all respondents from SMEs also indicated that the limited capacity of banks and the government to structure relevant financial services for SMEs has left the SMEs to compete with well-formalised companies in accessing financial resources and products. This has affected their chances of getting loans, given that they are naturally risky. Banks also echoed that this as a serious constraint to promote and support SMEs financial inclusion efforts.

Table 4-5: summary of infrastructural factor findings

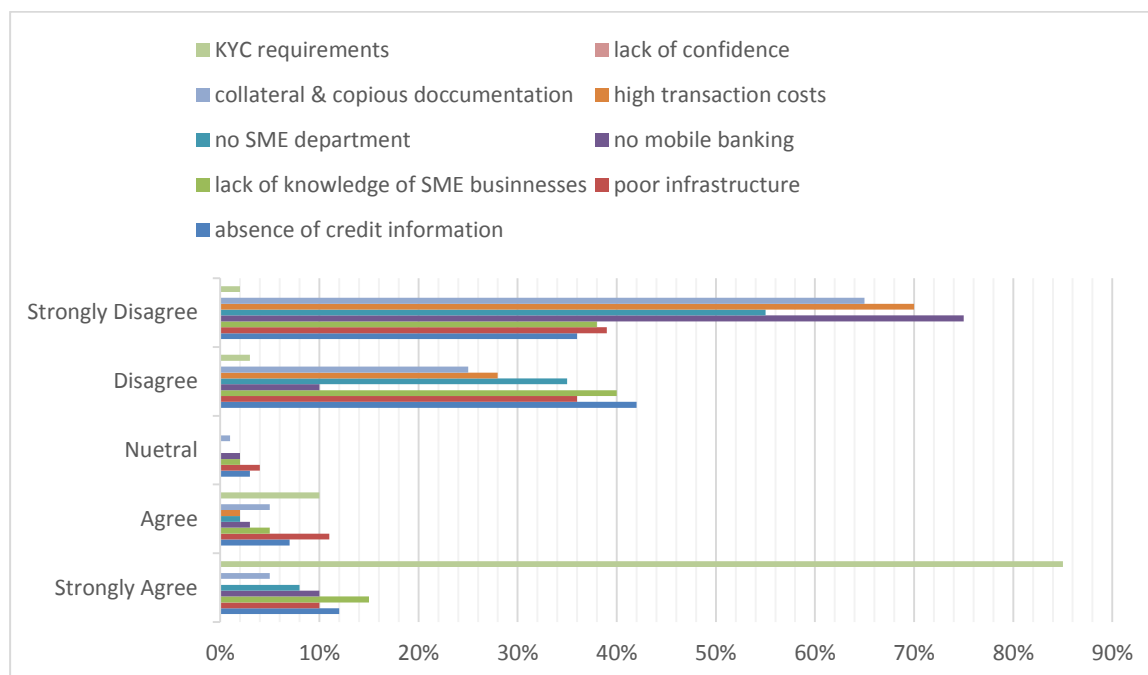
section e variables: infrastructural constraints		mean	std. deviation	N
1.	banks have adopted the national financial inclusions strategy	4.32	1.266	50
2.	RBZ has a government policy on minimum quotas for lending to SMEs	3.88	1.094	50
3.	banks have adequate ICT infrastructure to support SMEs	4.66	.982	50
4.	RBZ has provided adequate credit enforcement regulations	3.72	1.088	50
5.	branches have been opened where SMEs operate	3.74	1.084	50
6.	ATMs have been installed in SME areas	3.96	1.106	50
7.	mobile banking has closed gap with SMEs	3.96	1.245	50
8.	training and seminars have been organised by banks to educate SMEs	4.36	1.120	50
9.	central bank policies support SME funding	4.22	1.266	50
10.	banks provide timely information to SMEs	4.00	1.178	50
11.	government provides Incentives for supporting SMEs			

Chapter summary

The broad objective for this study was to investigate, gain perspectives and descriptive results from respondents. The chapter indicates that the main constraints of financial inclusion of SMEs in Zimbabwe are a combination of regulatory factors, demand-side factors and supply-side factors.

In summary Figure 4-5 illustrates that at least 90% of the respondents in the survey either strongly agree or agree that insufficient effort is being channelled towards creating a conducive environment to be included in the financial mainstream. SMEs lack the financial knowledge and collateral to access financial service. Most SMEs strongly agreed that demand side factors were barriers to financial inclusion. With a standard deviation of approximately 1.1 it can be concluded that the demand-side factors were affecting most SMEs. This is corroborated by the reliability statistics illustrated in the appendix.

Figure 4-6: summary of supply-side factors



Number of observations = 40

Source: Study primary data (2016)

In summary over 90% respondents either disagreed or strongly disagreed that banks were exerting sufficient pressure or making remarkable efforts to lure SMEs' owners. It was concluded that supply side factors related lack of marketing of products and services, insufficient infrastructure, and absence of educational tours to increase financial literacy among SMEs. It was also noted that banks have not bothered much to probe the operations of SMEs in order to tap into the risky but lucrative market. The survey also confirmed that banks have not invested much in branch networks and other convenient facilities like ATMs and other infrastructure, in a bid to serve the SME market. The findings concur with earlier studies by Gormley (2007) and Barr (2004) who postulates the supply side factors affect financial inclusion. The reliability of the collated information is illustrated in the appendix.

The following chapter presents recommendations and conclusions of the study.

5 RESEARCH CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusions of the study. The chapter also provides policy recommendations based on the findings of the study. Results revealed that existing government policies should focus more on promoting the financial inclusion of the SMEs, as they contribute 50% to GDP (RBZ Monetary Policy, 2015).

Having analysed the theoretical foundations of financial inclusion in general and those of SMEs in particular and the benefits of universal access of financial services in chapter two, the study then tested the extent to which such benefits were realised in the SME sector in Zimbabwe.

5.1 Main findings of the study

In summary, the study found that SMEs' financial inclusion is affected by three main categories namely demand side, supply side and regulatory factors.

The study found that on the demand side, the main variables that have negatively affected financial inclusion were the low-income levels of most SMEs, which have reduced the need to transact through the banking system. Innumerable requirements by banks in the process of opening bank accounts has acted as deterrent to financial inclusion of SMEs as they contend with mere sustainability issues. The prerequisite and obligatory minimum amounts required by banks has affected the rate of financial inclusion of SMEs (Finscope et al., 2012). The low-income levels and unpredictability of income flows of SMEs make it difficult for their owners to meet the minimum requirement of opening a bank account and maintaining it (Sarma & Pais, 2008). Low-income earners usually find themselves excluded from financial services due to their circumstances. Those who are not formally employed and who do not earn an income have a higher chance of being excluded. The argument is that those who are employed and have their salaries accessed through banks have a greater chance of being part of the financial system. Therefore, the greater the informal sector the greater the exclusion rate. Those in the informal sector receive cash payments and hence their use of the financial systems, services and products are limited (Gopalan & Rajan, 2015).

Supply-side factors have also contributed significantly to the current financial exclusion of SMEs. Banks acknowledged that SMEs are perceived to be risky and thus they were not willing to offer a number of services to the sector. Banks acknowledged that a lack of proper credit

rating information on SMEs has reduced their desire to advance loans to the sector. With limited information on the credit worthiness of the SMEs, banks are generally reluctant to provide financial services and products to the sector. This has contributed significantly to the current financial exclusion of the SMEs.

The study found that infrastructural factors constrain the financial inclusion of SMEs. The study noted that there are no specific policies and programmes instituted by the government to enhance and promote financial inclusive of SMEs. There is no coordinated policy framework targeting the financial inclusion of SMEs. Although the Reserve Bank of Zimbabwe has developed a financial inclusion framework and strategy, this has not been converted into a policy document for implementation. The current rules and legislation is not protecting consumers from being exploited by the banks. This implies that customers such as SMEs do not feel protected in their engagement with banks. Limited customer protection by the existing legislation has discouraged most SMEs from getting financial products and services from banks. Banks also lack enough resources to increase the density of branches as well as purchasing and transaction infrastructure. Limited infrastructure by banks in terms of ATMs, point-of-sale and other related support systems has affected the rate and capacity of SMEs to achieve full financial inclusion.

5.2 Research conclusions

All the identified barriers to financial inclusion are operational in the SMEs in Zimbabwe. Given the importance of financial inclusion to Zimbabwe in terms of poverty reduction and contribution to GDP, there is a great need for the government of Zimbabwe, SMEs and banks to work together towards promoting financial inclusion. Therefore, recommendations to government, banks and SMEs are provided. It can also be concluded that the distance to the bank or ATMS influences financial inclusion, which the study noted is a multidimensional concept influenced by a variety of factors.

In line with the findings highlighted, a number of conclusions can be deduced. Limited financial inclusion of SMEs in Zimbabwe is caused by demand-side, supply-side and infrastructural factors. Low-income levels of SMEs and irregular income flows, which are uncertain, have contributed to the low financial inclusion of SMEs.

The level of literacy also influences the capacity of financial inclusion. According to (Ghosh, 2013), a higher level of literacy implies that individuals can access information on the available financial services and products and hence may influence their decisions.

In term of loans offered by banks, most of them require solid collateral before granting loans. Most SMEs' owners lack the required collateral security and thus are generally not able to get a bank loan (Morduch, 1999). The tedious paperwork required to open a bank account is another factor that has discouraged SMEs owners, whose low income makes it difficult for them to comply with of the requirements, some of which are expensive (Ghandi, 2014).

The study also noted that SMEs do not have accurate, appropriate and reliable information on the financial services and products offered by banks. SMEs respondents indicated they were not aware that some banks had set-up SMEs departments to offer relevant financial services and products for SMEs. Limited information on the available financial services and products has therefore also reduced the rate of financial inclusion of SMEs.

The 2005 to 2008 hyperinflationary period negatively affected the perception of SMEs of the banking system. A number of SMEs lost substantial sums of money that had been entrusted with banks. A number of SMEs' owners had to start afresh after losing thousands or millions of Zimbabwe dollars. This resulted in their having a negative perception of the banking sector. This has forced the majority of SMEs' owners to keep their money at home and only transact through cash and using informal means. A limited understanding of and a lack of confidence in the banking system is therefore one of the factors that has affected the financial inclusion of SMEs in a negative way (Makina et al., 2014).

An inadequate infrastructure that does not provide access to financial services has contributed to the limited financial inclusion of the SMEs. The number of bank branches located within in areas where SMEs are working are limited. ATMS are not also located in areas where SMEs are situated. Point-of-sale facilities are also limited in number. The absence of these facilities makes it difficult for SMEs to make use of them. Finally, as noted in the results of the descriptive statistics, because financial institutions are hesitant to incorporate SMEs into the financial mainstream, it is up to the government to resolve the high levels of financial exclusion.

5.3 Recommendations for future research

The study provides an opportunity for in-depth research on the barriers to financial inclusion among SMEs. In order for financial inclusion to be improved from its current low levels, there needs to be engagement across all sectors to include government, central bank, financial institutions and the SMEs.

The government of Zimbabwe has to ensure the NFIS is a policy mandate which widens the range of securities acceptable as collateral, which in turn may boost lending to SMEs. Once SMEs have acceptable collateral, the banks can afford to lend to them. In the same manner banks should be adopt infrastructural programmes that improve financial deepening among SMEs. Introduction of ATMs and point-of- sale machines in the high density and rural areas in which most SMEs operate would help extend financial services to SMEs. Another mechanism that would help with accessibility would be if the central bank enhanced policies that promote branches opening in remote parts of the country to capture SMEs (Assunção et al., 2012) (Alem & Townsend, 2013). If this is not feasible another influential strategy would be a policy that encourages the placement of banking agencies representing larger banks in remote areas which is a similar to mobile banking.

The government should find ways of reducing the cost of participating in the financial system, lower interest rates on borrowers which are pegged at between 18% - 24% and increase interest rates on savings that are currently less than 1% per annum (RBZ, 2016). The government and the central bank must reduce borrowing constraints, allow SMEs to borrow from banks and thus increase financial inclusion.

Legislation to protect the SMEs from being exploited by large banks must be put in place. Protective policies will ensure that SMEs' owners' confidence in the financial system of the country can be restored. They will be able to take up financial services and products that will ensure their financial inclusion. The Reserve Bank of Zimbabwe must develop a consumer protection legal and regulation framework. In this regard, the Reserve Bank must start working on consumer protection guidelines.

In view of the conclusions given, this study recommends that the Reserve Bank of Zimbabwe must encourage banks and other financial institutions to introduce new products and services

that are aligned to the needs of the income streams of SMEs. This will enhance financial inclusion.

As an area of future research, it would be useful if data were made available to enable an assessment of indigenous banks (primarily served SMEs) that collapsed during the economic downturn to obtain some insight into the factors that led to their collapse and to assess the factors associated with making available financial products and services to the SME sector.

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APPENDICES

APPENDIX I – Demand-side Questionnaire

QUESTIONNAIRE

**Factors that Influence Financial Inclusion among SMEs:
*the Case of Harare Metropolitan –Demand Side Factors***



Thank you for completing the informed consent form. The questions herein require some specific rating and will take a few minutes to complete. You are kindly requested to give sincere and honest responses, to the best of your knowledge. Please note that the collected information will be treated confidentially and will only be used for the purpose of this study. For further clarification, please do not hesitate to contact the Researcher, Hanifa Noor, on the email: hanifa.noor@yahoo.com. Your cooperation in completing the questionnaire is greatly appreciated. I thank you.

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

SECTION A: Demographics and Respondent Characteristics

The type of Ownership of my SME is

- Family owned
- Self Employed
- Co-operative Owned
- Other

Our business was incorporated in the year

The sector of my industry is

- Furniture
- Manufacturing
- Agriculture
- Steel
- Other

The number of permanent employees in my organisation is

- Less than 5 Employees
- 6-10 Employees
- 11-15 Employees

Our business has an average annual turnover (US\$) of:

SECTION B: Respondent Characteristics

- My gender is
- Male
 - Female
- My position in the organisation is:
(Multiple selection)
- Owner
 - Manager
 - Employee
- My age is
- Less than 20 Years
 - 20-29 Years
 - 30-39 Years
 - 40-49 Years
 - 50-59 Years
 - 60 Years and above
- My highest level of education is
- Secondary Education
 - Certificate
 - Diploma/HND
 - Undergraduate
 - Master's Degree
 - Other
- I have been working with the organisation for
- Less than 5 Years
 - 5-10 Years
 - 11-15 Years
 - 16-22 Years
 - 23 Years and above

SECTION C: Banking awareness, accessibility and usage

- I do not believe it is important to operate a bank account
- Strongly Agree₁
 - Agree₂
 - Neutral₃
 - Disagree₄
 - Strongly Disagree₅

My justification to the above response is:

As a company, we operate a bank account

- yes
- No

If yes, the frequency of use as an SME/individual is

- Everyday
- A few times a week
- A few times a month
- After several months
- Seldom to never

I am aware of financial products and services offered by banks

- Strongly agree
- No
- Savings
- Micro credit/Loans
- Micro insurance

There are ATMs and/or branches/agent close to Glen View

- Strongly agree₁
- Agree₂
- Neutral₃
- Disagree₄
- Strongly disagree₅

Payments from customers are received
(multiple response)

- Through the bank
- As cash
- Through mobile payments e.g. Ecocash

Payments to suppliers and service providers are processed
(multiple response)

- Through the bank
- As cash
- Through mobile payments e.g. Ecocash

Our salaries are processed
(multiple response)

- Through the bank
- As cash
- Through mobile payments e.g. Ecocash

SECTION D: SME Financial Access - The Status Quo

Other businesses service bank accounts

- Everyday
- A few times a week
- A few times a month
- After several months
- Seldom to never

I believe the reasons why some SMEs choose not to service bank accounts are:

	Strongly Agree ₁	Disagree ₂	Neutral ₃	Agree ₄	Strongly Disagree
High bank service charges unsustainable with low incomes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cannot raise collateral/minimum deposits required by banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The meagre revenues are not worth banking, so prefer cash	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cumbersome documentation/paperwork required	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inaccessibility of funds from the banks when required	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The lengthy processing time involved/no credit history	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Limited operating times of banks and withdrawal limits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fear the need to <u>formalise</u> business and report taxes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hyperinflation caused uncompensated losses in 2008	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lack of confidence with financial sector since 2008 crisis	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No training on access or use of bank products or services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No Knowledge or non-availability of loans from banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bond notes will increase chances of loss of income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The distance from banks is not convenient	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is just not necessary for small businesses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Our main source to finance the business are:

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Bank loans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Microfinance institutions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Friends and relatives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Savings clubs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shareholders	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Government agencies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Development agencies and NGOs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SECTION E: Infrastructural Factors and Strategies for Financial Inclusion

I believe my perceptions on the role of the banking sector towards SMEs are:

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Banks play a role in SME growth	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks always have funds to assist SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks need SMEs to survive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have failed to provide essential products/services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To ensure financial inclusion the following infrastructural issues need to be addressed by banks and government

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Adoption of the National Financial Inclusion Strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Government needs to put in place a min. quota for SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should have a credit quota for SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If banks trust SMEs, then we are able to build credit history	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks need to understand the nature of our business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Foreign-owned banks different from locally-owned bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do you get loans from foreign or local banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

To ensure financial inclusion among SMEs

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Banks and government should educate SME owners	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in establishing more branches	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in agent banking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in enhancing mobile banking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should tailor make SME banking products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should avail loans to SMEs with limited conditions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should reduce their service charges	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should ensure the 24/7 availability of money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should reduce the transaction processing time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should not be strict when opening SME accounts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should improve the way they handle SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other strategies that can be implemented by banks to ensure financial inclusion among SMEs include:

I believe the following bank characteristics are important in ensuring a deepening of financial inclusion of SMEs

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Confidence and trust with the bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer privacy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank reliability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank dependability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank assurance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Affordability of bank services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank accessibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer relationship	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank innovativeness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overall quality of service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

I rate the existing banking sector in the following respects as

	Very Poor	Poor	Neutral	Good	Very Good
Confidence and trust with the bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer privacy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank reliability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank dependability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank assurance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Affordability of bank services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank accessibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Customer relationship	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bank innovativeness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overall quality of service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

THANK YOU FOR TAKING TIME TO COMPLETE THIS QUESTIONNAIRE

APPENDIX II – Supply-side Questionnaire

QUESTIONNAIRE

**Factors that Influence Financial Inclusion among SMEs:
*the Case of Harare Metropolitan –Supply Side Factors***



Thank you for completing the informed consent form. The questions herein require some specific rating and will take a few minutes to complete. You are kindly requested to give sincere and honest responses, to the best of your knowledge. Please note that the collected information will be treated confidentially and will only be used for the purpose of this study for ~~future~~ clarification, please do not hesitate to contact the Researcher, Hanifa Noor, on the email: hanifa.noor@yahoo.com. Your cooperation in completing the questionnaire is greatly appreciated. I thank you.

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

SECTION A: Demographics and Bank Characteristics

The type of Ownership of Bank is

Government owned |

Locally owned

Foreign Owned

Other

Our bank was established in the year

Sectors we tend to provide credit

Large Business

Medium Business

Small Registered

Small

Other

The number of permanent employees in the bank is

Less than 5 Employees

6-10 Employees

11-15 Employees

Our bank has an average annual loan portfolio (US\$) of:

SECTION B: Respondent Characteristics

My gender is

- Male
- Female

My position in the bank is:
(Multiple selection)

- Executive
- Manager
- Employee

My age is

- Less than 20 Years
- 20-29 Years
- 30-39 Years
- 40-49 Years
- 50-59 Years
- 60 Years and above

My highest level of education is

- Secondary Education
- Certificate
- Diploma/HND
- Undergraduate
- Master's Degree
- Other

I have been working with the bank for

- Less than 5 Years
- 5-10 Years
- 11-15 Years
- 16-22 Years
- 23 Years and above

SECTION C: Bank and SME relationship with regard to product awareness, accessibility and usage

I believe it is important for SMEs to operate a bank account

- Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
-

My justification to the above response is:

As a bank, we encourage SMEs to operate a bank account yes
 No

SMEs receive payments from customers through this bank Through the bank
 (multiple response) As cash
 Through mobile payments e.g. Ecocash

SME process their payments to suppliers through this bank Through the bank
 (multiple response) As cash
 Through mobile payments e.g. Ecocash

Are you providing educational tours to SMEs to help educate them on financial products? Yes
 No

I believe banks have considered the following to increase financial access:

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Banks host marketing fairs to educate SMEs on products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have dedicated divisions to serve SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks understand the nature of SME business	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have innovative products like mobile banking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have availed loans to SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral requirements are relevant to SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No training on access or use of bank products or services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SECTION D: Financial Access - The Status Quo

The bank has provided a conducive environment for SMEs to access financial products and services, however, they shun the services because:

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
High bank service charges unsustainable with low incomes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have tax incentives for dealing with SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The documentation/paperwork required is essential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks are motivated to serve SMEs in view of low profits	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ease of transacting/funds available banks when required	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lack of confidence with financial sector since 2007 crisis	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hyperinflation caused uncompensated losses in 2008	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks policies/KYC are easy to understand	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have ATMs/branches/agents close to Glen View	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks assume SMEs have high literacy levels	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks implement policies that support SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SMEs have adequate education to understand bank services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
SMEs trust the bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SECTION E: Infrastructural Factors and Strategies for Financial Inclusion

To ensure financial inclusion the following infrastructural issues need to be addressed by banks and government

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Banks have a tactical plan to implement NFIS	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
RBZ has a government policy for min. quota for SME loans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have adequate ICT infrastructure to support SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have opened branches where SMEs operate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have departments dedicated to serve SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks serve SMEs in their areas of operation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have installed ATMs in Glen View/surrounding area	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks have capacity of fund SME projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mobile banking has closed the banking gap among SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

I believe that SMEs can eventually be financially included, if appropriate strategies are put in place:

	Strongly Agree	Disagree	Neutral	Agree	Strongly Disagree
Banks and government should educate SME owners	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in establishing more branches	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in agent banking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should invest in enhancing mobile banking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should tailor make SME banking products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should avail loans to SMEs with limited conditions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should reduce their service charges	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should ensure the 24/7 availability of money	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should reduce the transaction processing time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should not be strict when opening SME accounts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Banks should improve the way they handle SMEs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Other strategies that can be implemented by banks to ensure financial inclusion among SMEs include:

THANK YOU FOR TAKING TIME TO COMPLETE THIS QUESTIONNAIRE

APPENDIX III

Table I-1: Demand-side factor findings - awareness

Reliability statistics

Cronbach's Alpha	Cronbach's alpha based on standardised items	N of items
.942	.940	50

Also the Cronbach's alpha value (0.942) is quite high implying that there is internal consistency hence we can trust our data for decision making.

section c variables: banking awareness, access and usage		mean	std. deviation	N
1.	I do not believe it is important to operate a bank account	2.54	1.204	50
2.	I do not use my bank account frequently	1.84	1.106	50
3.	no knowledge of products offered by banks	2.08	1.175	50
4.	no training on access and use of bank products or services	1.94	1.284	50
5.	no training on loan management and utilisation	1.54	1.216	50
6.	I have been denied a loan from the bank	1.96	.699	50
7.	low Income so prefer cash	2.06	1.038	50
8.	I do not use my bank account frequently	1.84	1.106	50
9.	low Income so prefer cash	2.06	1.038	50

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item means	1.984	1.540	2.540	1.000	1.429	.007	9
Item variances	1.330	.488	1.765	1.277	3.616	.118	50

The average is two, implying that all respondents agree with all the indicators above.

APPENDIX IV

Table I-2: Demand-side factor findings – constraints to financial access

Reliability statistics		
Cronbach's Alpha	Cronbach's alpha based on standardised items	N of items
.942	.940	50

Also the Cronbach's alpha value (0.942) is quite high implying that there is internal consistency hence we can trust our data for decision making.

section d variables: constraints of financial access		mean	std. deviation	N
1.	high transactions costs and monthly bank service fees	1.88	.982	50
2.	low income with no savings	1.46	1.124	50
3.	lack of confidence, since SMEs lost deposits in 2008 — no more trust	1.58	.982	50
4.	hyperinflation caused uncompensated losses	2.20	1.010	50
5.	limited operating times and SMEs have no or limited credit history	2.40	1.294	50
6.	cumbersome documentation required by banks is too demanding	1.90	1.329	50
7.	no formal financial training or knowledge of bank products	2.04	1.212	50
8.	distances to travel to bank are inconvenient	1.48	1.202	50
9.	we cannot raise minimum deposit required to maintain an account	1.64	1.045	50
10.	introduction of bond notes will increase chances of loss of income	1.48	1.098	50
11.	ignorance of banks' ability to loan	1.84	1.283	50
12.	a bank account is not necessary for a small business	1.96	1.124	50

Summary Item Statistics							
	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item means	1.822	1.460	2.400	.094	1.429	.090	12
Item variances	1.330	.488	1.765	1.277	3.616	.118	50

The average is two, implying that all respondents agree with all the indicators above.

APPENDIX V

Table I-3: Supply-side factor findings – bank and SME relationship

Cronbach's Alpha ^a	Cronbach's alpha based on Standardised Items ^a	N of Items
.789	.781	40

The Cronbach's alpha value (0.789) is quite high implying that there is internal consistency hence we can trust the data for decision making

section c variables: bank and SME relationship with regard to financial access and usage		mean	std. deviation	N
1.	banks market all products to SMEs	3.88	1.172	40
2.	banks have information on SME production	3.88	.982	40
3.	banks have departments dedicated to SMEs	4.14	1.355	40
4.	banks understand the nature of SME businesses	4.24	1.094	40
5.	banks have availed innovative products like mobile/agent banking	3.96	1.126	40
6.	banks have availed all loans and product information to SMEs	4.00	1.178	40

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item means	4.017	3.880	4.240	.360	1.187	.020	6
Item variances	1.392	.965	1.837	.872	1.904	.055	40

The average is four, implying that all respondents disagree to all the items.

APPENDIX VI

Table I-4: Supply-side factor findings – financial access status quo

Reliability statistics		
Cronbach's Alpha ^a	Cronbach's alpha based on Standardised Items ^a	N of Items
.789	.781	40

The Cronbach's alpha value (0.789) is quite high implying that there is internal consistency hence we can trust the data for decision making

section d variables: financial access the status quo		mean	std. deviation	N
1.	transaction costs are sustainable with SME low incomes	4.48	1.092	40
2.	banks are motivated to serve SMEs	4.20	1.046	40
3.	government tax policies support SME funding	4.44	1.146	40
4.	banks have capacity to fund SME projects with less stringent conditions	4.04	1.277	40
5.	banks documentation requirements and collateral are reasonable for SMEs	4.28	1.098	40
6.	banks refunded SMEs their deposits during the hyperinflationary period of 2008	4.05	.986	40
7.	lack of confidence with banks since 2008 crisis	2.04	1.088	40
8.	banks implement anti-money laundering policies / "know your customer"	1.66	.860	40

Summary item statistics							
	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item means	3.650	4.04	4.480	.440	1.187	.034	8
Item variances	1.392	.965	1.837	.872	1.904	.055	40

The average is four, implying that all respondents disagree to all the items

APPENDIX VII

Table I-5: Infrastructural-side factor findings

Reliability statistics		
Cronbach's Alpha ^a	Cronbach's alpha based on Standardised Items ^a	N of Items
.789	.781	50

The Cronbach's alpha value (0.789) is quite high implying that there is internal consistency hence we can trust the data for decision making

section e variables: infrastructural constraints	mean	std. deviation	N
1. banks have adopted the national financial inclusions strategy	4.32	1.266	50
2. RBZ has a government policy on minimum quotas for lending to SMEs	3.88	1.094	50
3. banks have adequate ICT infrastructure to support SMEs	4.66	.982	50
4. RBZ has provided adequate credit enforcement regulations	3.72	1.088	50
5. branches have been opened where SMEs operate	3.74	1.084	50
6. ATMs have been installed in SME areas	3.96	1.106	50
7. mobile banking has closed gap with SMEs	3.96	1.245	50
8. training and seminars have been organised by banks to educate SMEs	4.36	1.120	50
9. central bank policies support SME funding	4.22	1.266	50
10. banks provide timely information to SMEs	4.00	1.178	50
11. government provides Incentives for supporting SMEs	3.94	.982	50

Summary item statistics							
	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item means	4.070	3.720	4.660	.440	1.187	.008	11
Item variances	1.392	.965	1.837	.872	1.904	.055	50

The average is four, implying that all respondents disagree to all the items