

Rural Banking for Rural Development in Zimbabwe

Jephias Matunhu¹ and Stephen Mago²

¹*Midlands State University, Department of Development Studies, Zimbabwe
E-mail: jephiasmatunhu@yahoo.com*

²*University of Fort Hare, Department of Development Studies, Republic of South Africa
E-mail: stepmago@gmail.com*

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ABSTRACT Rural poverty and underdevelopment in Zimbabwe are a result of colonialism, which emphasized urban development at the expense of rural development. The new political dispensation in the country has shifted towards improving the lives of people who reside in the rural areas. Despite a positive policy shift by President Mugabe's government, the lack of finance remains one of the fundamental issues in rural development. The study investigated the opportunities and challenges for establishing rural banks in the country. This desktop research collected data from literature on rural development and financial intermediation. The findings of the study are that opportunities and challenges for establishing rural banks in Zimbabwe are social, political and economic in nature. Despite the challenges, rural banking deserves support from civil society, government and non-governmental organizations.

INTRODUCTION

In Africa, rural areas suffer from financial exclusion. This is vindicated by very little or non-existence of rural banking facilities. For sub-Saharan Africa, about 70% of the population lives in rural areas and the majority are poor. Robinson (2001) and Vincent (2004) note that about 90 percent of the population in developing economies lack access to financial services from formal financial institutions. The situation is succinctly articulated by Herald The, which reports that in Zimbabwe, rural areas are hardly serviced by formal banks hence people rely on informal financial institutions. Commercial banks continue to shun rural areas, preferring urban areas, and this constrains efforts to bring the poor and marginalised into the mainstream economy (Reserve Bank of Zimbabwe in The Herald 2011). Apparently, traditional banks shun establishing branches in rural areas because of high information, transaction and monitoring cost, inaccessibility due to poor infrastructure, dispersed and intermittent demand for financial services, seasonality deposits and lack of collateral (The Herald 2011).

With this backdrop, rural underdevelopment remains a painful challenge in the Zimbabwean economy. The rural areas remain excluded from participating in the mainstream of the economy; their inability to mobilise cheap financial resources makes it difficult for them to improve their livelihoods (Adams et al. 1984; Chen and Ravallion 2007; Matunhu 2012). Since indepen-

dence, Zimbabwe has been resolute in addressing the socio-economic inequalities in the country. Programmes such as the Growth With Equity (GWE) in 1981, the three-year Transitions National Development Plan in 1982, and the First Five-Year national Development Plan in 1986 were implemented. The policies failed to eradicate rural poverty and underdevelopment in the country. The failures of the reform programmes coupled with the debt crisis of the 1980s attracted the Economic Structural Adjustment Programme (ESAP) in 1990 (for the 1991-1995 period). The ESAP was a package of policy prescriptions administered by the IMF and World Bank and imposed on the debt ridden countries. The elements of the ESAP were; trade liberalization, price decontrols, currency devaluation, public deficit reduction, subsidy reduction or elimination and privatization (Bond 1998; Chipika et al. 2000; Moyo et al. 2000; Ncube 2003; Mago 2010). Developing economies that adopted Structural Adjustment Programmes (SAPs) during the 1980s suffered from market shrinkage and near collapse. In Zimbabwe, the effect of SAPs was unprecedented poverty in the rural areas.

The adoption of ESAP coincided with severe droughts of the 1992-1993 agricultural season. Most of the people who were retrenched from their employment headed to their rural areas, to join a stream of people suffering income poverty. Chimhowu et al. (2010) noted that ESAP increased the dropout rate in schools. To mitigate the effects of ESAP, government introduced

the Basic Education Assistance Module (BEAM) for children whose parents could not afford school fees. Kujinga et al. (2007) noted that the BEAM failed to meet the demand for financial assistance from needy children. In a bid to mitigate the effects of the ESAP, in 1997, the Zimbabwe Programme of economic and Social Transformation (ZIMPREST) was adopted as the successor to the ESAP. ZIMPREST was a 'homegrown' programme for poverty reduction in the country. The programme was short-lived because of funding constraints, and it did not reduce the poverty levels in the rural areas.

The Problem

Rural development initiatives in Zimbabwe suffer lack of financial intermediation. Traditional banks are either unwilling or unable to penetrate the rural areas for the provision of banking services to the majority of the rural population. Yet, Levine (1997) posits that financial sector development (FSD) has a positive impact on economic growth and development. An improvement in economic growth will have an effect on rural development. The situation in Zimbabwe is succinctly expressed by the Fin Mark Survey (2011:1), 40 percent of Zimbabweans are financially excluded, while 22 percent rely on informal financial services. 38 percent of Zimbabweans are formally served (of which 24 percent use bank services, and the remaining 14 percent use non-bank formal services). In terms of an urban/rural split, the survey shows that 47 percent of the urban population is presently banked; while a mere 12 percent of the rural population (where 65 percent of the total population resides) are banked. Rural banking is capable of providing finance to support development in the country. The questions that remain to be addressed include; are there any opportunities for rural banking in Zimbabwe? Can the 'underbanked' population benefit from rural banking? And what are the challenges facing the development of rural banking in Zimbabwe?

Rural Banking: Conceptual Overview

Rural banking is an area that suffers from little research in Zimbabwe. The notion of rural banking refers to the provision of banking services to the rural areas. It is classified by Helms

(2009) as part of rural finance. Los Banos (2007:1) points out that "Rural Banks are primarily created to play a special role in regional economic development." A number of concepts have been used to refer to rural banking and these include village banking (FINCA's model), community banking, rural microfinance or rural credit. Whatever terms are used, small credits facilities are needed to support rural development. In India, Roy (2007) states that rural banking has managed to provide credit for the emancipation of the peasantry from the clutches of private money-lenders (or "loan sharks"). The same could be true in Zimbabwe.

Significance of the Study

The study stimulates debate on rural banking in Zimbabwe. It is timely in that it is carried out in the context of two historical epochs of Zimbabwe. First, the study is carried out during the era of Indigenisation and Economic empowerment of indigenous Zimbabweans. One of the goals of the indigenisation and empowerment policy is to empower rural communities to heave themselves out of poverty and underdevelopment. Second, the study is carried out at a time when the banking sector in the country is failing to modify their operations to meet the specific financial intermediation needs of the rural residents in the country.

Contributions of the Study

The study contributes knowledge and insights on the possibilities of establishing rural banks in Zimbabwe. The above view is premised on the assumption that traditional and contemporary arguments point to the fact that the rural economy is underdeveloped mostly because of poor access to finance. The study seeks to motivate the rural residents in Zimbabwe and policy makers to put in place a sustainable financial intermediary scheme to support rural development. By so doing the rural residents will have been empowered to fight poverty and underdevelopment.

RESEARCH METHODOLOGY

This is a desktop research. Data were collected from literature on rural development and rural banking in Zimbabwe and in other de-

veloping countries. The obvious limitation of desktop researches is that they may rely on data that was collected for purposes that are different from the one that is study seeks to achieve.

RESEARCH FINDINGS

Five themes emerged from the data collected through literature search. The themes are rural banking situation in Zimbabwe, financial inclusion, opportunities, and possible challenges for rural banking in Zimbabwe. The findings are presented in respect of the five major themes.

Rural Banking Situation in Zimbabwean

The Zimbabwean rural economy is mainly agricultural driven and the majority of people in these areas are peasant farmers. The peasantry was developed by the historical land grabs by the white minority. This also led to the development of a peasantry culture against commercial farming strategies. Even after the recent land reform programme, the new black farmers can hardly commercialise their agricultural activities. Many researchers point to lack of credit as the main barrier to the commercialisation of agricultural activities in the rural economy. Farmers cannot use their land as collateral security because they do not have title deeds. Thus, de Soto (2001) rightly asserts that land is 'dead capital' if it cannot be used to acquire loans from the bank.

Rural communities in Zimbabwe have increasing demand for financial intermediation which can be supplied through rural banking. Rural communities demand the same banking services that are supplied to their urban counterparts (Von Pischke et al. 1983). They need to save (through bank deposits), borrow, do money transfers, insurance, get banking advice, and many other banking services. As pointed out earlier on, financial intermediation is a lubricant of economic activities. The availability of credit for access by rural communities is likely to improve rural economic development and social transformation. Consequently, the livelihoods of the people will be enhanced and ultimately, poverty will be reduced or eliminated. Rural farmers should be able create a balance between savings and credit so as to avoid detrimental deficits. Poor financial management has caused domestic violence and other social ills in cotton growing areas like Gokwe (Mago

2010). This calls for financial management, which is essential for rural development. Since the rural financial sector in Zimbabwe is not developed, the rural residents have no access to financial advice that will enhance their financial management capabilities.

Financial Inclusion in Zimbabwe

Financial inclusion is important for rural development. Yet, financial inclusion is low in Zimbabwe (FinMark 2011). According to the Rangarajan Committee in Agarwal (2010:3), financial inclusion is "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". FinMark (2011) found out that financial exclusion is at 40% in Zimbabwe; and this percentage excludes those who are informally served (41%). Those who are financially excluded use neither formal nor informal financial services to manage their finances. FinMark's definition of inclusion takes the informal financial system into the picture, which means those that are served by the informal sector are regarded as financially included. If we disregard the informal sector then financial exclusion in Zimbabwe would reach a peak of 81%.

Comparatively, the financial exclusion rate of 40% is relatively low when compared to other African countries. Mozambique has the highest of 78% followed by Zambia (63%), Tanzania (56%), Malawi (55%), Rwanda (53%) and Nigeria (47%) (FinMark 2011). Lesotho shows the lowest exclusion rate of 19%. In Zimbabwe, poor rural financial sector development has had negative effects on savings. About 31% of Zimbabweans do not have savings, 49% had not borrowed in the last 12 months of the FinMark survey and 69% were found to be uninsured. The scenario keeps the rural communities in Zimbabwe in poverty and underdevelopment. New ways of providing cheap financial services to the rural areas are required, and rural banking is one of the most promising option.

OPPORTUNITIES ATTACHED TO RURAL BANKING IN ZIMBABWE

The land reform programme in Zimbabwe has availed a critical resource for rural development. This facility increases the probability

of rural farmers increasing agricultural productivity in the areas. In Ghana, rural banks enhance cocoa productivity by the rural farmers (Asiedu-Mante 2011) and in Bangladesh; the Grameen Bank has been successful in supporting rural agriculture,

The Government of Zimbabwe's (GoZ) indigenisation and empowerment policy provides an opportunity for the success of rural banking in Zimbabwe. The policy requires that foreign-owned companies transfer 10 percent of their stake to indigenise Zimbabweans. In this context an indigenous Zimbabwean is any person who, before 18th April, 1980 was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of members or hold the controlling interest (Matunhu 2012). In line with the policy, local communities should benefit 10 percent of the shares. Remittances from the indigenized companies could be deposited into rural banks to increase their viability.

The other opportunity for rural banking is that present GoZ is rural-development oriented. This political focus gives reason for the Reserve Bank of Zimbabwe (RBZ) to be involved. The role of the Reserve Bank in the initial stages of the rural bank would be to; provide suitable banking premises, office furniture and equipment, stationery, appoint board directors, recruit and train staff. The funds could be availed in the form of "redeemable preference shares" (Matunhu 2012). Preference stock is an investment that has characteristics of a debt. The idea of preference shares serves as a morale booster to the people in a rural locality. In Ghana, the idea of preference shares was able to send a clear message that if the Central Bank of Ghana (CBG) was a part-owner of a rural bank, then it was an activity worth supporting (Asiedu-Mante 2011). The RBZ would be expected to off-load its shares unto the local people for subscription as a rural bank showed signs of growth, liquidity, profitability and sound management.

By holding ordinary shares in a rural bank, members of a local community automatically become true owners a bank. The importance of share holding in business ventures has been emphasised in sustainable development conferences like the Rio Earth Summit in 1992 and the Johannesburg World Summit on Sustainable

Development in 2002. Hence, Sir Moody-Stuart argues that all the best examples of the application of principles of sustainable development involve partnerships/shareholding (Matunhu 2012). The downstream effect of rural financial sector development (RFSD) has a potential to boost the rural economy. It involves mobilization of savings, management of risk, management of investment opportunities, borrower management and control. Ultimately, rural poverty reduction will be achieved.

CHALLENGES FOR RURAL BANKING IN ZIMBABWE

Rural banking is likely to face a number of challenges in Zimbabwe. The most pronounced of these challenges are those related to liquidity, loan recovery, poor staffing, weak managements, poor service delivery, and lack of adequate communication facilities and inadequate training (Asiedu-Mante 2011). The challenges above have motivated Littlefield (2003) to incorrectly conclude that rural banking offers an illusion of poverty reduction; as in any lottery or game of chance, a few in poverty do manage to establish microenterprises that produce a decent living. Littlefield's view is opposed by Prof. Yunus' study which demonstrated that micro-credit supports rural development.

The rural bank concept involves change in the manner and sources of rural finance. Fear of the unknown might compel people to resist the rural bank concept. In Ghana, the Central Bank of Ghana requires communities to apply for a licence to operate a rural bank. The thinking is that if the local people owned the bank, then they would subscribe to its shares and do all that was necessary to get a rural bank operational (Asiedu-Mante 2011). Just as is the case in Ghana, the rural banks in Zimbabwe would be expected to float shares that are subscribed to residents of a rural locality.

The major challenge that the rural bank system in Zimbabwe is likely to face today is that of liquidity of the RBZ. The bank is facing liquidity problems, which came as a result of the 2000 to 2009 economic recession in the country. The bank could link up with rural development financial institutions like the African Rural Agricultural Credit Association (AFRACA), which is an association of banks and financial institutions that offer financial support to rural development. In order to increase the viability

of rural banks, the RBZ would need to relax its statutory reserve for the rural banks until they have reached financial independence, which come with increased viability.

Non-recovery of loans is one of the institutional challenges that the rural bank system would be concerned about. The experience of Ghana is that many rural banks were good at disbursing loans but poor at recovery. The assumption was that once loans were disbursed, the beneficiaries would automatically service their loans. Using the court system to recover the sunk funds would be advisable. In Ghana, the method did not yield the required results. In this regard Asiedu-Mante (2011:177) reports, *Reliance on the court system to collect outstanding loans was ineffective. This was because most . . . rural properties, be they land or buildings did not have documents of title. In instances where there were documents, the slowness of the court system made that option unattractive. Where . . . a default on repayment had resulted in a repossession of the item financed . . . a rural bank was unable to resell the items seized because no one in rural Ghana would like to buy an item seized from a neighbour. It is either a taboo or an unforgivable act on the part of the one who bought that type of property.*

Training and retraining on business ethics and principles would help the people of Zimbabwe realize that there is nothing wrong in auctioning bank repossessed assets. Instead, it is wrong for a person to borrow money from a bank and fail to service his/her debt.

Agreeing on the structure of a board of directors could be a challenge too. A legislation governing the structure of board of directors in rural banks would be required. People, who are not shareholders, but possessed exceptional qualities or expertise, could be co-opted into the rural boards. The co-opted members would normally be people who possessed special knowledge, skills and expertise in the operations of a rural bank. Co-opted members would not have voting rights but would be allowed to participate fully in the deliberations of a board.

The success of the rural banks would depend on the skills level of their employees. Rural banks in Ghana did not attract good quality staff in the initial stages of the scheme (Asiedu-Mante 2011). Two major factors are linked with the shortage of competent staff in rural banks. First, rural banks are cited in rural areas which most people consider to be hardship posts. Second,

the remuneration of an average rural bank worker is likely to be below that of his/her counterpart in a traditional bank. Training is indispensable in preparing people to run their rural banks. Accordingly, Confucius claimed that knowledge is power.

The challenge of viability of the rural banks is real. In this regard Matunhu (2012) provides the following analysis of the situation in the country, "Zimbabwe is just moving out of a decade of financial crisis, many people lost their investments as the economy shrunk. In some cases banks liquidated, resulting in many people losing their deposits. Resuscitating depositor confidence might be a problem." The GoZ could increase the viability of rural banks by making sure that all civil servants operating in the rural areas receive their incomes in rural banks.

CONCLUSION

Financial intermediation in the rural areas will help to lubricate rural economic activities for the stimulation of rural development. In Zimbabwe, the rural economy faces a dearth of financial resources, and yet they are vital for economic growth and development. The development of rural banks will provide access to finance by the rural people, not as "easy money" but money that is generated through their savings and investments. This paper explored the opportunities and challenges for establishing rural banks in the country. The rural bank initiative subscribes to the empowerment policy of Zimbabwe. The role of the RBZ in the initial stages of the rural bank would be to provide the finances, monitoring and supervision that are required to establish a rural bank. The opportunities for establishing rural banks in the country include the land reform, and the current indigenization and economic empowerment policy. The expected operational problems of rural banks include non-recovery of loans, poor loans recovering, and viability challenges. Despite all these challenges, the rural bank initiative is a noble idea for rural development in Zimbabwe.

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