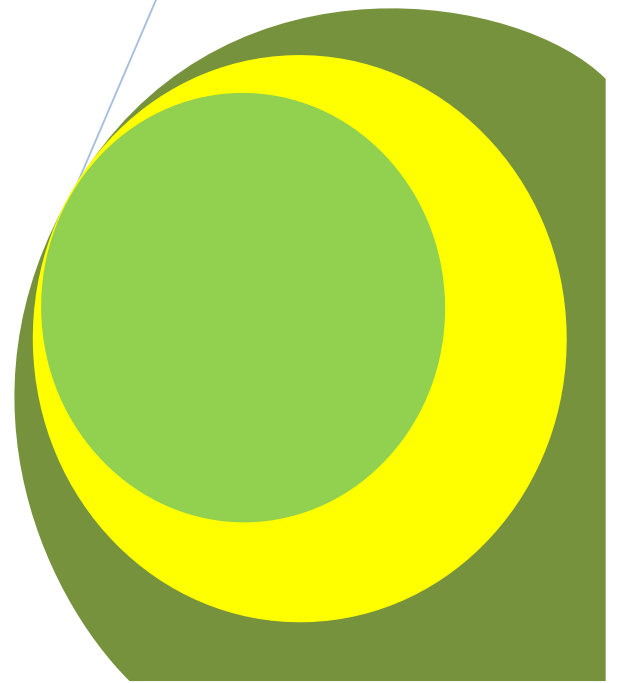


# Greener Journal of Banking and Finance

## **“Banking the Unbanked”: Is Financial Inclusion Powered by Ecocash a Veracity in Rural Zimbabwe?**

By

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*Research Article*

# “Banking the Unbanked”: Is Financial Inclusion Powered by Ecocash a Veracity in Rural Zimbabwe?

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## ABSTRACT

There has been an increase in the uptake of mobile phones in the Sub-Saharan Africa and this has laid a foundation for the revolution of mobile money transfer systems. Empirical and theoretical literature has proved that mobile money transfers are a significant promoter of financial inclusion. This paper sought to investigate whether the mobile money transfer platform in Zimbabwe, EcoCash has managed to foster financial inclusion in the rural areas. Through a cross sectional study of the study population, results showed that there is an increase in the access to financial services hence improved financial inclusion. The study was carried out in Chivi District.

**Keywords:** mobile money transfer, EcoCash, financial inclusion, Zimbabwe, mobile phone.

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## 1. INTRODUCTION

One device that has transformed the way people and businesses interact has been the mobile cellular phone. The phone, which was primarily a voice and short message service device, has evolved spectacularly over the years, increasing convenience while reducing communication costs. Much transformation has been in the Sub-Saharan Africa where the technology has allowed millions of Africans to leap-frog the landline technology enroute to 21<sup>st</sup> Century connectivity (Jack et al., 2010). The distinct characteristics of mobile phones compare to fixed phones communication is that information is real time instead of being static and therefore many new e-commerce applications are possible. The business world, cashing in on the convenience of the mobile phone has come up with numerous services that have been well received in the market. Hung et al. (2003) says the widespread access to mobile phones and the opportunity to develop real time and measurable marketing outcomes is a bonanza for business.

Gross et al. (2012) state that increased use of mobile devices coupled with the evolution of technologies has enabled customers to conduct financial transactions, fostering financial access and inclusion. One such vehicle that has improved access to banking services, filling the void left by traditional, conservative and 'slow moving banks' has been mobile money transfer schemes. According to the World Bank, mobile money transfers have expanded to 16% of the total population in the Sub Sahara (Business Week Africa, 2012). The Kenyan based SafariCom, pioneered the introduction of the innovative payment service with their highly successful M-Pesa (Ariguzo and White, 2011). Despite the social, cultural, political and regulatory hurdles, M-Pesa witnessed rapid take up and growth. Other success stories in the mobile money transfer arena have been Smart Money and G-Cash in the Philippines and MTN Banking in South Africa.

## 2. CONCEPTUAL FRAMEWORK

In Zimbabwe mobile money transfer scheme have taken toll in the past decade. Such services on the market include, Kingdom Bank's Cell Card available for all networks, FBC Bank's Mobile Moola and Central Africa Building Society's Text-a-Cash both powered by Telecel Zimbabwe and Net One's One Wallet. Evidently Econet Wireless' EcoCash has been the fastest and widely adopted mobile money transfer scheme in Zimbabwe. Launched in August 2011, EcoCash has grown to more than 1,7 million subscribers by November 2012 (The Zimbabwe Independent, 2012). Econet Wireless Chief Executive Officer, Douglas Mboweni, was quoted by the weekly newspaper as saying that the EcoCash facility with hit the US\$1 billion mark by the end of 2013. To support the growth of the EcoCash facility, the company has acquired a 100% shareholding in the Zimbabwe Stock Exchange listed TN Bank, prompting its de-listing.

Zimbabwe, like the majority of Africa, has the larger population living in the rural areas. A sizeable segment of the rural areas is characterised by poor road and transport networks, infrastructure problems and high level of poverty. Because of the inaccessibility of most rural areas, traditional banks have shunned these

areas, leaving a glut of unsatisfied banking needs. POSB Bank, which for years, has been at the service of most rural areas, partnering with its snail mail postal services have in recent years closed several branches citing viability problems especially with the snail mail facility largely doable. Other banks have tried to establish satellite and mobile banks in rural areas but by and large, this has proved to be unsustainable. Currently only 11% of the banks' total branch network service the rural areas, despite the fact that 70% of the total population live in the rural areas (The Herald, 2011). Among the reasons cited by banks are high information, transaction and monitoring costs, poor infrastructure, dispersed and intermittent demand and seasonality of deposits.

Mobile networks have in recent years made significant inroads into rural areas. With Econet Wireless currently targeting 100% mobile coverage in Zimbabwe, EcoCash availability to rural populace is undisputed. However the deep-seated question that needs to be answered is whether the availability of mobile money transfer in rural areas has provided a cure-all solution to the banking needs of the populace promoting financial inclusion.

Seventy percent of Zimbabwe's population live in the rural areas and require banking services for business and personal transactions. With the majority of the rural areas largely inaccessible and unbanked, access to banking services has remained limited in these areas. Financial exclusion, caused by continued absence of banks in the rural areas could stifle rural development initiatives by government and communities as well as hinder the attainment of Millennium Development Goals by the world's leading nations, who committed to reduce poverty by 50% by 2015.

Being unbanked in today's financial market place can be problematic (Gross et al, 2012), and non-participation in the formal financial sector can perpetuate poverty (Radha and Denise, 2006). Mobile money transfer facilities, like Econet Wireless' EcoCash have made inroads into the rural areas to service the glut of banking needs available. In addition the rate of mobile phone adoption in Africa is predicted to grow exponentially (Buys et al., 2009; Howard and Mazaheri, 2009; The Economist 2009). Could the mobile money transfers systems be the ultimate solution to the banking needs of the rural areas and will it surpass the test of time?

This paper sought to establish whether the mobile money transfer facility, EcoCash, brought about financial access and inclusion in the rural areas of Zimbabwe. It is an in depth study to be done on the outcomes of EcoCash on the rural populace, drawing conclusions from Chivi Rural District in Zimbabwe and detailing the manner and extent in which mobile money transfer has transformed the welfare of rural businesses and individuals fostering financial inclusion.

### 3. LITERATURE REVIEW

Investments in infrastructure such as power, roads and landlines have remained limited in the sub-Saharan Africa (Aker et al., 2011). As a result in countries like Niger, there is less than one bank for every 100,000, making it one of the most "unbanked" countries in the sub-Saharan Africa (CGAP, 2010). People are regarded as unbanked when they have no transaction account in the formal banking sector (Bucks et al., 2006). As Radha and Denise put it most of the unbanked rely on "under the mattress" saving channel.

Mobile phone adoption experienced a strong growth in African countries, reaching 28,5 mobile phones per 100 inhabitants in 2007 from a low level of 4,5 phones per 100 in 2002 (Andrianaivo and Kpodar, 2012). Mobile telephones allow expansion and access to financial services to previously underserved groups in developing countries. Financial inclusion has been defined as the delivery of financial services at affordable cost to vast sections of disadvantaged and low income groups (Bihari, 2011). Mobile money transfers allow the store of value between users by using the set of text messages, menu commands and personal identification numbers (Aker and Mbiti, 2010).

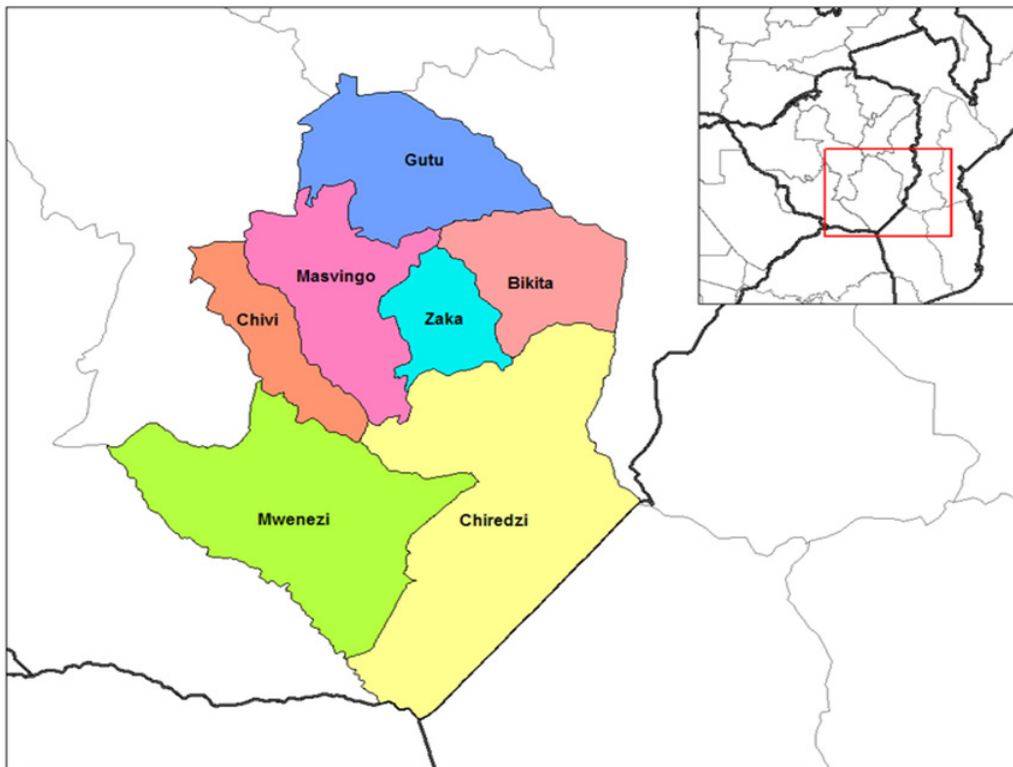
Research on the impact of m-transfer systems in Kenya and Rwanda suggests that households increased their access to financial services (Morawczynski and Pickens, 2009; Mbiti and Weili, 2011) and informal private transfers between individuals (Blumenstock et al., 2011; Jack and Suri, 2011). According to Ariguzo and White (2011) M-Pesa operated by SafariCom in Kenya has given the unbanked in the country unrivalled access to formal financial services. M-Pesa brought about convenience and flexibility in a country with a much sparser population (Collins et al., 2009). On the other hand, Vodafone and G-Cash, leveraging on the ubiquity and popularity of the mobile phone have been able to provide customers with low cost, yet fast accessible and reliable financial services in the Philippines (Manila Bulletin, 2010). In the United States, mobile phone based payroll cards are generally cheaper than the check-cashing services and money orders (Foster et al., 2010).

To ensure the success of mobile money transfers, according to Jack et al., (2008), operators need to maintain an extensive network of agents. In their Townsend Model of financial deepening and growth, Jack et al. (2008) argue that the degree of financial interconnectedness of agents with the level of economic development is positively correlated. Mobile money transfer services thus changes the financial connectedness of individuals in the economy causing higher economic development.

This study will contribute to research by bringing in the Zimbabwean experience on the correlation between mobile money transfers and financial inclusion. It also serves in filling the gap that exists in literature.

#### 4 RESEARCH METHODOLOGY

Methodology is a systematic analysis and organisation of the rational and experimental processes that guide scientific enquiry (Runes, 1983). The research which was predominantly descriptive was carried out in Chivi Rural District. The district was chosen because the researcher is familiar with the territory and demarcating the area was easy. Chivi District lies in the Lowveld area with 32 Wards and an estimated total population of 166,277 (ZimStat, 2012). Within the district there are three political constituencies namely Chivi North, Chivi Central and Chivi South. It is on the basis of this stratification that the sampling technique was developed. The map below shows the geographical location of the district in Zimbabwe.



Source: [http://en.wikipedia.org/wiki/File:Masvingo\\_districts.png](http://en.wikipedia.org/wiki/File:Masvingo_districts.png)

The study population was the entire Chivi District from which the sample was drawn. The Stratified random sampling technique was used to draw the sample. In stratified random sampling, the sampling frame is divided into subgroups, or strata, according to specified characteristics and then random samples of a predetermined size will then have to be obtained from each stratum. Some of the benefits of this technique is that it allows representative subgroups of study units with specific characteristics and a relatively large sample can be taken from a small stratum.

The district was stratified according to the political constituencies that are in the Chivi District. Three strata therefore emerged namely Chivi North, Chivi Central and Chivi South. This stratification was made to enable capturing the differences in livelihoods that exist in the different constituencies. Within the strata, respondents were randomly selected and the majority of the respondents came from highly populated areas like Madamombe, Mhandambabwe, Chivi growth point and Ngundu. The district was accessed mainly from the Gweru- Beitbridge highway which almost dissects the district. Data was collected through the use of questionnaires which were hand delivered to the respondents. A total of 270 questionnaires were distributed, 90 in each strata. Within a particular stratum questionnaires were distributed randomly. Respondents were allowed time to complete the questionnaire before collection. In cases where the respondents could not complete instantaneously arrangements were made for collection at a later date. Data was coded and analysed using SPSS version 16 and Microsoft Excel and graphical representations generated.

### 5. EMPIRICAL FINDINGS AND DISCUSSIONS

Of the 270 questionnaires distributed 243 were returned back, 83 in chivi north (45 male and 8 females), 81 in chivi central (55 males and 26 females) and 79 in chivi south (32 males and 47 females).this represented a success rate of 90%.

#### 5.1 Data Presentation

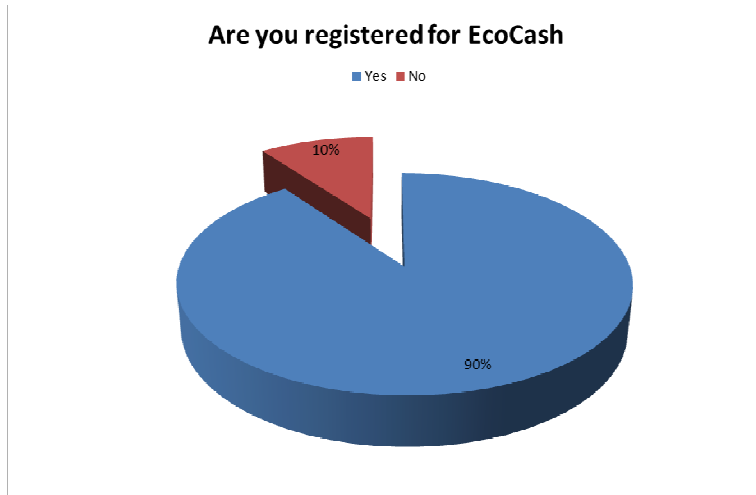


Figure 1 Registration for EcoCash

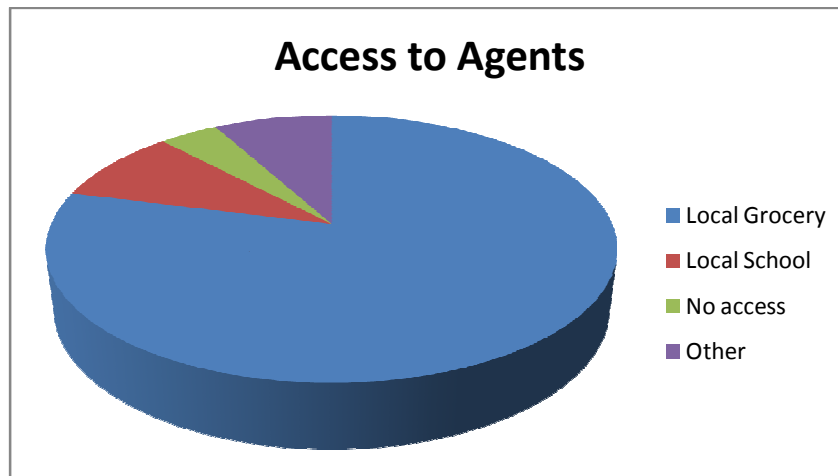
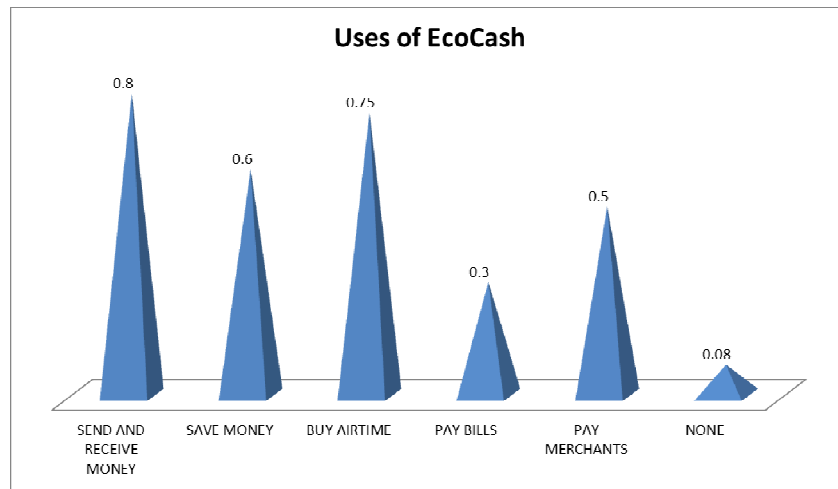
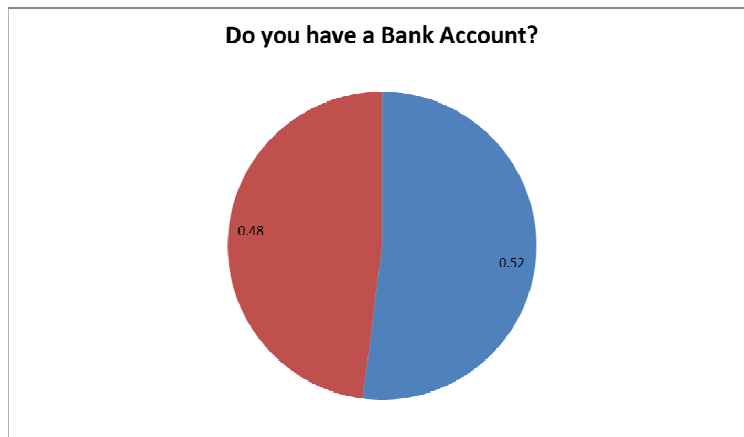


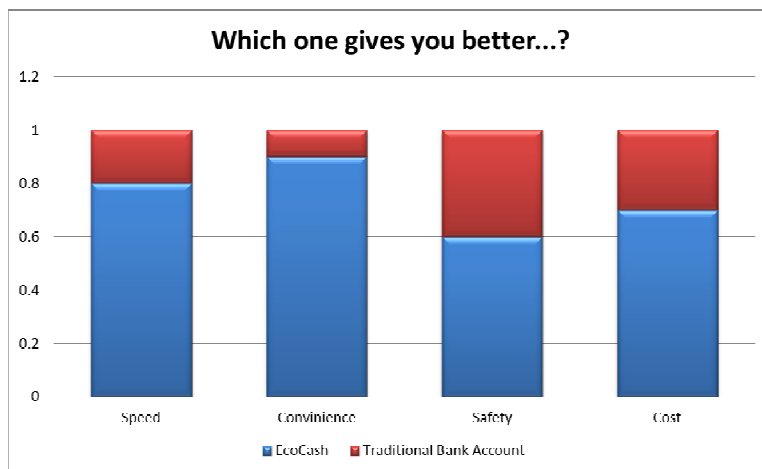
Figure 2 Access to EcoCash agents



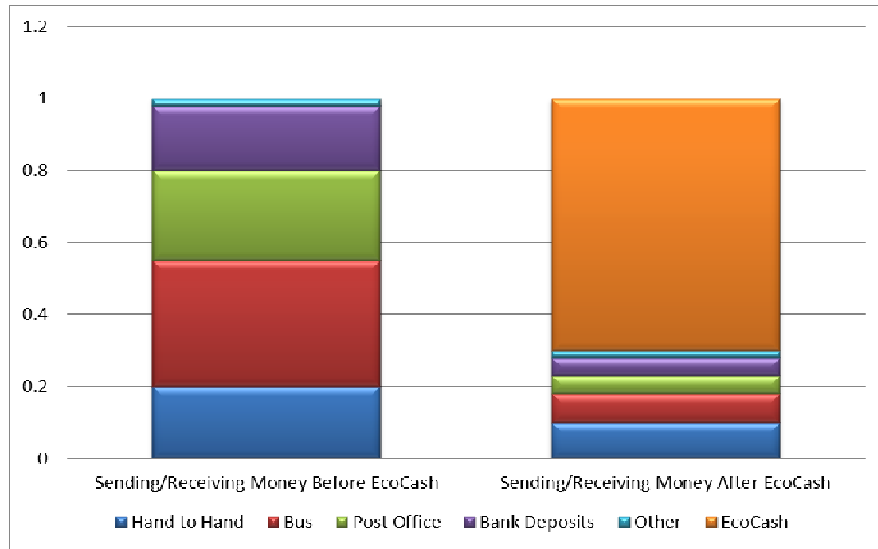
**Figure 3 Uses of EcoCash**



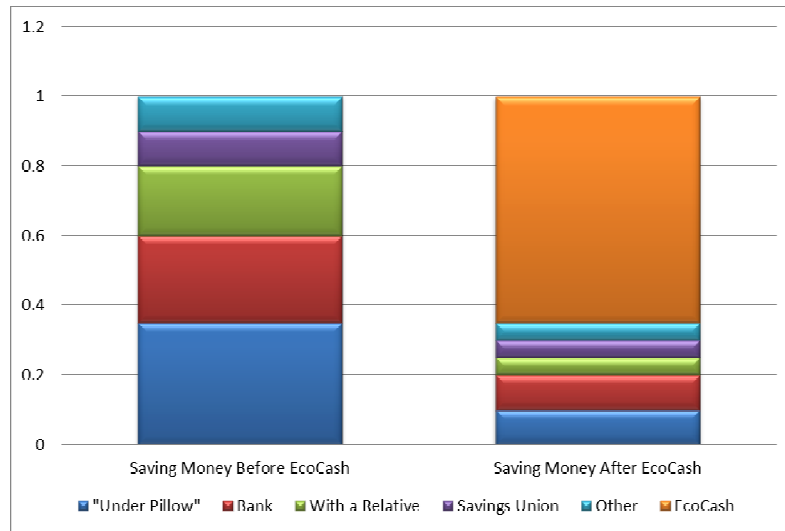
**Figure 4 Access to traditional bank account**



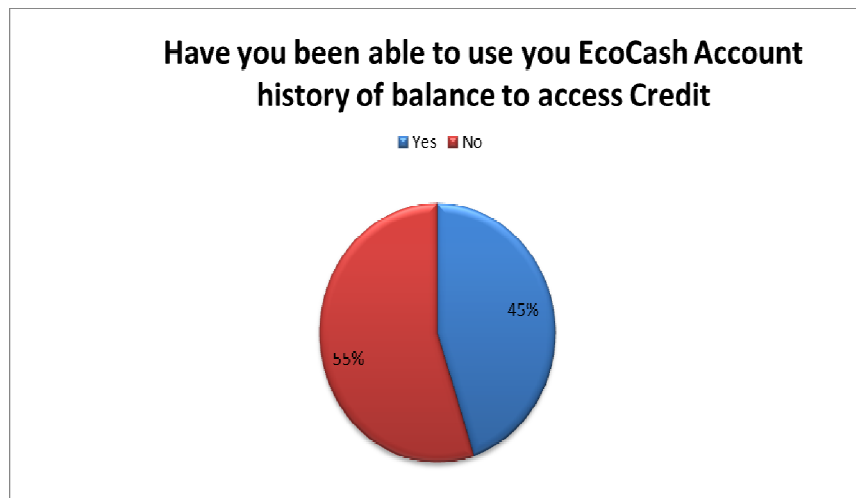
**Figure 5 Benefits of EcoCash**



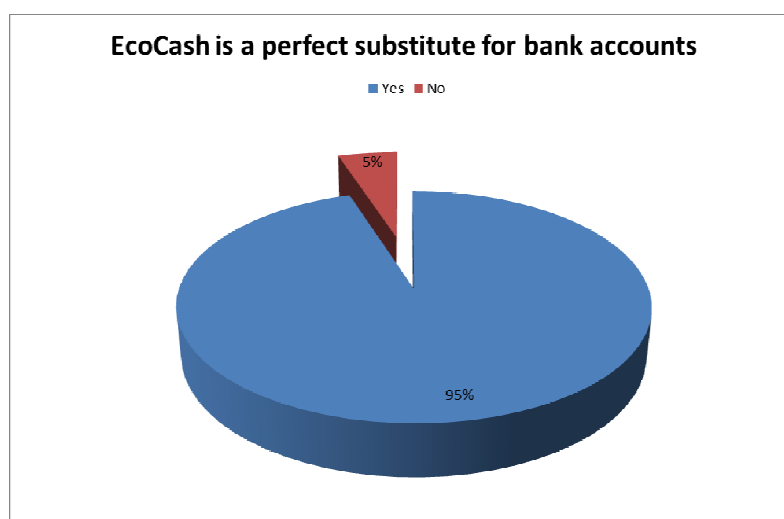
**Figure 6 Sending and receiving money before EcoCash**



**Figure 7 Saving before and after EcoCash**



**Figure 8 Access to credit**



**Figure 9 EcoCash as a substitute of Bank accounts**

## **5.2 Discussions**

### **5.2.1 EcoCash has been highly adopted in the rural areas**

The research revealed that approximately 90% of the population are registered for EcoCash. Access to EcoCash is more prevalent than access to traditional bank accounts where only a 52% of the population in the rural areas have a bank account. There is a possibility that of the 52% who have bank accounts most of them are dormant because of unavailability of bank branches.

### **5.2.2 EcoCash provides a myriad of functions to users**

EcoCash is primarily used for sending and receiving money. Approximately 80% of the population said that they use EcoCash to send and receive money. Users also frequently use EcoCash mobile money transfer platform to buy airtime and pay merchants. A small percentage (30%) however use the facility to pay bills. This maybe because there are very few households who incur utility bills in the rural areas given that there is limited access to piped water, electricity and other utilities.

### **5.2.3 Mobile money transfers offer better speed, convenience, safety and cost effectiveness**

When compared with other alternatives to accessing financial services, EcoCash proved to be better in terms of speed, convenience, safety and cost. According to the research, convenience is the flagship benefit of mobile money transfer. More than 80% of the population agree that EcoCash is better in terms of convenience.

### **5.2.4 EcoCash is the game changer**

Before the incubation of EcoCash, people in the rural areas used to send money by hand to hand delivery, bus, post office and bank deposits. However the research revealed that EcoCash became the 'game changer' and more than 80% of the respondents now use the facility to send and receive money. The same can be said for saving where over 60% now use mobile wallets to save for emergencies and daily needs. The "under pillow" kind of saving has become a thing of the past and so is saving with relatives or savings union.

### **5.2.5 Access to credit using EcoCash remains constrained**

However EcoCash wallets have not yet helped the majority in terms of accessing formal credit. 45% of the respondents said they have accessed some form of credit using their EcoCash account history or balances. Such informal credit facilities could include being able to get groceries from the grocery shop and paying when a receipt is made via EcoCash. Users may also have been able to borrow cash from somewhere with the promise to pay when they receive their EcoCash funds. The platform itself does not have a facility to advance users funds based on their account history.



### 5.2.6 Cash is a perfect substitute

The majority of the respondents believe that EcoCash can be considered a perfect substitute for a bank account. This means that they are prepared to close their bank accounts and still access undisrupted financial services from EcoCash.

## 6. CONCLUSIONS AND RECOMMENDATIONS

The building blocks of financial inclusion according to theoretical literature include the following;

- Ability to exchange different forms of money,
- Storage of money for safekeeping ,
- Transfer of money from one owner to another , and
- Investment of money.

According to Dittus and Klein (2011) when measuring financial inclusion related to the use of mobile telephones in financial transactions, ability to send and receive money, pay bills and save constitute financial inclusion. Using both frameworks as measures of financial inclusion, it can be noted that there is substantial evidence of financial inclusion in the rural areas predominantly powered by the mobile money transfer platform\_ EcoCash. EcoCash filled in the void that had been left behind by traditional banks and has allowed a significant number of rural adults to participate in the mainstream economic activities through the use of their cell phones. Mobile money transfer technology is a tool for financial inclusion in the rural areas.

The following recommendations are made to promoters of EcoCash and also to policy makers;

- Reduced tariffs on EcoCash transactions

One way of increasing adoption and foster financial inclusion is through reduced tariffs. A sizeable number of respondents still believe EcoCash does not offer cost effective transactions. It is therefore critical that the tariff charged on transactions be reviewed with the view of fostering improved adoption and volume of transaction and subsequently improves access to financial services. This is important not only for users but is a buffer against replication and competition. Sadana et al. (2011) argue that multiple systems competing for customers are likely to result in significantly reduced costs, improved products and customer service, and eventually interoperability between the mobile money/m-banking systems.

- Investment in essential infrastructure

Since most rural areas are characterised by poor infrastructure, this occasionally affect reception of mobile phone network. Since EcoCash is based on mobile phone network, disruption of reception also disrupts access to EcoCash services. It is critical that Econet Wireless, the promoters of EcoCash continue to invest in essential infrastructure like generators, solar systems, signal boosters and other infrastructure to ensure uninterrupted services. Government could also compliment the efforts of private organisation by ensuring that rural areas get essential infrastructure like electricity power lines.

- Introduce credit advances based on account history ("EcoCashCredit" if it can be called that)

The financial inclusion circle of mobile money transfers is broken on the part of access to credit. Starting on a small scale EcoCash could introduce a facility that advances money to users based on their account history. If for example a user receives an average of \$300 a month, he may be allowed an advance of say 10% of \$300 payable within a month. Subject to feasibility studies and further research, this facility could add points to financial inclusion.

- Incentives for initiatives benefiting the rural communities

The government of Zimbabwe has been supportive to industries that foster economic development. Through tax incentives and exemptions from customs duties, the government can complement the efforts by Econet Wireless to empower the rural populace. These incentives will reduce the production costs and hopefully the saving will be passed on to consumers through reduced transaction costs.

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