Insight2Impact

Advancing Financial Inclusion

A needs-based approach to financial inclusion measurement in Zimbabwe

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Measurement

About insight2impact

Insight2impact | i2i is a resource centre that aims to catalyse the provision and use of data by private and public-sector actors to improve financial inclusion through evidence-based, data-driven policies and client-centric product design.

i2i is funded by the Bill & Melinda Gates Foundation in partnership with The MasterCard Foundation.

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Executive summary

Financial inclusion is an important tool for enabling development and improving the lives of the poor across the globe. Up to now, most governments and organisations that seek to measure aspects of financial inclusion have focused either on access or uptake of formal financial services. While these measures are important, they do not reflect people's financial needs and how people use both formal and informal financial services to meet these needs. To close this gap, insight2impact's (i2i) measurement team developed measurement frameworks that gauge the financial needs of the users of financial services and the nature, patterns and outcomes of financial service usage by individuals to meet these needs. The i2i measurement approach therefore seeks to advance the use of data within financial inclusion through the application of a needs-based lens. The primary objective for developing the needs-based approach to measuring financial inclusion is to inform and facilitate the development of policies and business models that deliver financial services that meet the needs of consumers, especially those at the bottom of the pyramid.

The main objective of this study was to test the i2i needs-based measurement framework for financial service usage in Zimbabwe by assessing the financial inclusion landscape from a needs perspective. A further objective was to examine the nature and possible drivers of financial services usage in the Zimbabwean context, specifically as it relates to the formal credit market. The data used consisted of a demand-side survey specifically undertaken for this study and loan repayment data from a commercial credit bureau, XDS Zimbabwe. The survey collected primary data on financial services engaged by consumers in five provinces of Zimbabwe (Harare, Bulawayo, Manicaland, Mashonaland West and Midlands), and the data was used to test the needs-based approach to financial inclusion assessment. The credit bureau data from XDS Zimbabwe was analysed to ascertain the borrowing behaviour of consumers, with a combined data set on a sample of consumers/ respondents being used to determine the drivers for the borrowing and repayment patterns observed.

The following are the key findings from a needs perspective:

72% of women in the five provinces studied had a realisation of the resilience need, compared to 64% of the men. This could be attributed to the fact that women in Zimbabwe have the responsibility for day-to-day management of households. Besides, rural urban migration is highest among men who leave women in rural areas to run household affairs. Though not so pronounced, 73% of the men (compared to 68% of the women) realised (experienced) the meeting goal need.

Most of the respondents showed inadequate planning and remain largely unprepared to deal with shocks and major financial impact such as death or sickness. The top two use cases for resilience were death and health risks. For those who experienced deaths, the use of regular income (43%) was the most prominent, followed by savings (26%) and then insurance (17%). For those who experienced health risks, regular income remained the main solution (44%), followed by savings (30%) and then insurance (12%). Using regular income to deal with shocks is not optimal since most shocks have major financial impact, such that they may not be adequately addressed in one income cycle.

Challenges in managing day-to-day expenses were common among respondents. The results showed that 42% of those who had expenses exceeding their income did not do anything to address their situation. A proportion of 36% used credit to cover for income shortfalls. 15% used savings while about 11% had to wait for some income streams or to request for some assistance potentially in the form of a remittance (10%). The findings suggest that a significant proportion of the population has unmet liquidity needs, and this has real, direct and negative welfare consequences such as taking children out of school or not having enough food.

Most people meet their goals through savings. The primary way in which respondents achieve life goals is through savings (46%), followed by the use of regular income (21%). Credit contributed only 8% to the meeting of goals. This suggests that the formal lending market plays a small role in facilitating goal attainment.

Banks remain the most used financial services provider (FSP) towards meeting of goals and resilience, either through savings, credit or receiving income or remittances. Mobile money operators (MMOs) are the second-most used provider for these needs. This could be through receiving payments or remittances or as store of value, as cash has become scarce in Zimbabwe.

Mobile money operators and funeral parlours enjoy the greatest perceived importance (76% and 66% respectively) and trust (76% and 73% respectively) from consumers. After these two service providers, the only other two that were trusted and had a rating of perceived importance from more than 50% of the respondents were banks and self-provisioning (at home).

Females placed greater importance on, and have greater trust in, relationship-based FSPs such as community groups than males do. Given that females in Zimbabwe are more resilience-focused than males, this pattern could be partly because community groups serve multiple purposes, including being an insurance mechanism.

Having presented the use of financial services from a needs lens, the following findings characterise the use of credit in Zimbabwe:

Three-quarters of respondents reported to have borrowed money in the past 12 months, and only 8% reported to have had a loan application declined in the past 12 months, suggesting easy access to credit in the market.

Family and friends (35%) remain the most prevalent source of credit in Zimbabwe, followed by banks (24%), mobile money operators (17%) and MFIs (13%).

There is an association between the need being addressed and credit provider, with family and friends being the main source for liquidity needs and resilience use cases while banks are the major provider for meeting goals needs.

There is also an association between the source of credit and amount borrowed as well as need being addressed. Banks were the main source of larger loans (average USD1,300), which were mostly meant for meeting goal needs and, in some instances, for resilience. Family and friends were the main source for smaller loans (average USD40), which were mostly meant for managing day-to-day expenses.

Women in Zimbabwe are more inclined to consumptive borrowing while men are inclined to productive borrowing or for improving quality of life. Based on credit bureau data, men dominated personal loans [63%] (productive or improving quality of life) and instalment loans [57%] (furniture and electrical appliances) while women dominated revolving loans [61%] (clothing).

Borrowers facing challenges in loan repayment. As of June 2017, the percentage of loans with delinquent status (30 days in arrears) was 11%. Of all loan contracts over the five years studied, 17.4% fell into a delinquent state at some point. About 14.5% of the contracts defaulted. As of June 2017, the percentages of loans with 120 and 180 days in arrears were 8.1%, 7.5% and 5.7% respectively.

Functional needs experienced were a key determinant of borrowing appetite as well as repayment behaviour. It was observed that consumers who expressed the need to meet productive or quality-of-life improvement goals as well as resilience needs, on average borrowed more. Consumers who expressed the needs to meet goals related to the improvement of quality of life and for resilience were also more likely to be financially distressed than those addressing productive goals.

Higher income was associated with financial distress. Evidence from the transactional data shows that individuals in higher-income categories had higher debt loads and were more likely to be in financial distress. This suggests that much of loan approval processes was based on income rather than an assessment of affordability, i.e. one's total debt load relative to income.

Longer terms were associated with less default. This could be influenced by the loan approval process where more creditworthy clients are given larger loans with longer terms.

Default rates were much lower for personal loans (5%) than revolving (23.7%) or instalment loans (23.3%). This is mainly because most repayments of personal loans were effected through salary deductions, hence lower default rates.

Number of past missed payments was associated with future likelihood to default. Inconsistency in repayment was a strong indicator of financial distress and predictor of default. Therefore, past repayment behaviour remained the most important information to distinguish between good and bad borrowers.

Given the results of the study, these are some of the priority areas that policymakers should pay attention to, to ensure that financial services deliver value to consumers:

The needs-based approach to financial inclusion measurement is invaluable in understanding financial inclusion from a consumer perspective. The needs-based approach to measurement provides a powerful tool to understanding how consumers engage financial services to meet their needs. This is of paramount importance to policymakers, as they can use such insights to appropriately align, structure and regulate the market. For instance, the realisation that consumers expressed important meeting goals needs, which were met largely through savings and regular income, indicating the insufficiency of credit towards productive purposes. Another example in this case was the realisation that the greatest proportion of consumers used regular income to deal with shocks. This suggests inadequate planning towards shocks such sickness and deaths which have major financial effects.

Completeness and sharing of credit information. Applicants' information currently being collected is insufficient to allow informed credit-scoring. There is incomplete and missing data on income and gender (as examples). There is a need to raise awareness about the importance of credit information sharing among financial institutions and consumers, as there is credible evidence that the collection, sharing and reporting of credit information play a vital role in the proper functioning of a credit market. Proper credit information allows lenders to assess the credit risk of borrowers more accurately, thus correctly pricing credit and basing credit decisions on a more complete view of the consumer. This will improve repayment rates and reduce the cost of borrowing to the consumers. With incomplete information, the loan affordability assessment is compromised and this may promote reckless lending as FSPs compete for clients.

The regulator should consider instituting an appropriate framework to make it mandatory for lenders to report on information about all initiated loans (exposure) to a central repository which can then be accessed by credit bureaus and lenders. This will allow bureaus and lenders to ascertain borrowers' total debt load, thus informing loan affordability assessments. All lenders should be encouraged to collect and share with credit bureaus complete data on the loan performance (repayment) on monthly basis. This will help to improve credit risk information available on the market, allowing lenders to make informed lending decisions especially on loan approval and pricing.

FSPs can consider addressing the following areas to enhance service delivery:

The value of the needs-based approach to financial inclusion measurement. For service providers, insights generated through the needs-based assessment approach help to develop products that address the needs of the population. For instance, by looking at the need or a use case as a market, a service provider can gauge the size of the market by how much the use case or need was experienced or expressed. By looking at how the need or use case is addressed, one will be able to understand the competitors in the market. Put together with an understanding of the drivers of use, a service provider will be better informed on how to best serve the consumers.

Loan origination information. The study shows that information currently being collected at loan initiation is not sufficient to separate potential defaulters from good borrowers. This was shown by all application variables having insufficient discriminant power to separate potential defaulters. It could be that lenders collect additional information such as income and yet do not capture it in their systems. As such, lenders should insist on gender and income information as well as making efforts to assess current debt load versus income (DTI) to assess whether one can afford a loan before approval.

Behavioural scoring. The study shows that repayment behaviour information serves a powerful purpose to distinguish borrowers who are likely to default. As such, institutions are encouraged to perform behavioural assessments to be able to identify clients who are likely to default and engage them in time to avoid losses. Such approaches use statistical techniques to identify clients with increased likelihoods of falling into delinquency or into default using past repayment behaviour.

Risk mitigation. Given the weak predictive power of application variables, lenders may consider lending small loans to borrowers without credit history to assess repayment behaviour before offering larger loans.

Risk-based pricing. The study shows variations in default intensities based on individual characteristics among consumers. Lenders should therefore factor in the riskiness of individual clients when pricing and extending loans. For instance, those falling into the most risky age category should attract a higher interest than their counterparts.


ESGAR
PRODUCTS

1 Introduction

Financial inclusion is an important tool for enabling development and improving the lives of the poor across the globe. Up to now, most governments and organisations that seek to measure aspects of financial inclusion have either focused on access and/or uptake of formal financial services. While these measures are important, they do not address the financial needs people have and how they use both formal and informal financial services to meet these needs. To close this gap, the insight2impact (i2i) measurement team developed measurement frameworks that gauge the financial needs of the users of financial services and the nature, patterns and outcomes of financial service usage by individuals to meet these needs. The i2i measurement approach therefore seeks to advance the use of data within financial inclusion through the application of a needs-based lens. The primary objective for developing the needs-based approach to measuring financial inclusion is to inform and facilitate the development of policies and business models that deliver financial services that meet the needs of consumers, especially those at the bottom of the pyramid.

Objectives of the study

The main objective of this study was to test the i2i needs-based measurement framework for financial service usage in Zimbabwe by assessing the financial inclusion landscape from a needs perspective. In addition, the study examines possible drivers of financial service usage in the Zimbabwean context focusing on the formal credit market. The data used consisted of a demand-side survey specifically undertaken for this study and loan repayment data from a commercial credit bureau, XDS Zimbabwe. The analyses of the data provided insight into the engagement and use of financial services by consumers to meet their financial needs and highlighted some key aspects of the functioning of the credit market in Zimbabwe.

The specific objectives addressed are as follows:

i. Use the needs-based approach to financial inclusion measurement in Zimbabwe to ascertain how financial needs are met with the current structure of the market.

ii. Understand repayment behaviour and explore underlying drivers.

iii. Use the analysis of credit bureau data to provide XDS Zimbabwe with additional insight into the end-user behaviour and to identify the extent to which additional services could be offered.

iv. Inform the Reserve Bank of Zimbabwe of the results of the needs-based assessment of financial services usage and share insights into the efficiency and operation of the credit market in Zimbabwe.

The i2i approach to measuring financial inclusion is based on the view that consumers take up financial services based on their underlying needs for financial services, rather than for the sake of just having the product. For example, individuals may open a bank account to receive their salary, i.e. to meet a transfer of value need. Four universal financial needs are identified in the i2i measurement framework context, and these are: (1) transfer of value, (2) liquidity, (3) resilience and (4) meeting goals. We consider each need as a market where formal and informal products complement one another in meeting a specific need. For instance, an individual can use both savings from a formal institution and credit from an informal group to deal with a sickness at home. We define the financial needs as follows:

- **Transfer of value:** Transferring value is a core functional need to enable people to live their economic lives, as it enables consumption, gifting, payments and receipt of income. It is also a prerequisite for accessing savings, credit and insurance services. Transfer of value underlies all the other financial needs and is the basic function of a financial system – in the absence of transfer of value devices, communities must revert to barter.
- **Liquidity:** Liquidity refers to people's ability to manage day-to-day expenses to meet financial obligations within an income cycle. It is essential for survival and to maintain productive capacity.
- **Resilience:** Resilience refers to the ability to deal with unexpected shocks that have significant financial impact. Thus, it goes beyond short-term liquidity management to allow people to avoid falling into poverty or reducing their living standards.
- **Meeting goals:** The ability to meet goals refers to the extent to which individuals utilise financial services to meet foreseeable, desired life objectives, either to grow their economic or financial position, or to reach some fulfilment.

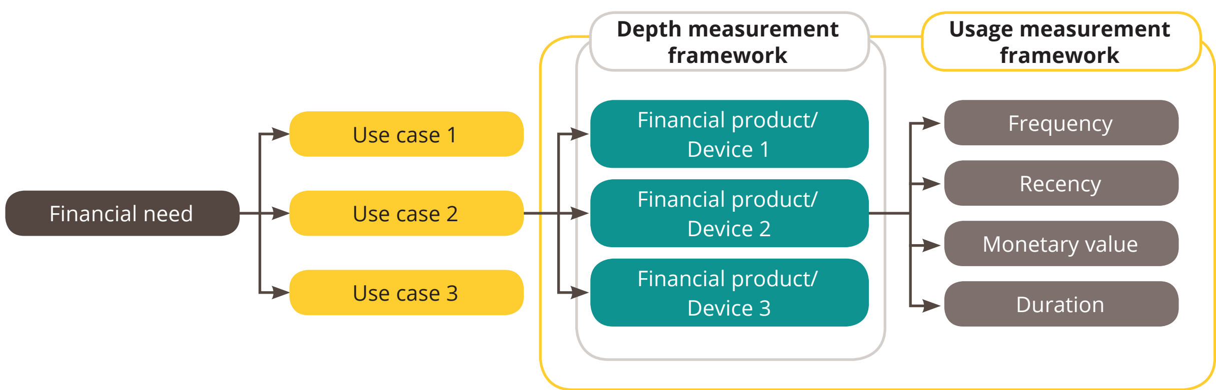
“We consider each need as a market where formal and informal products complement one another in meeting a specific need. For instance, an individual can use both savings from a formal institution and credit from an informal group to deal with a sickness at home.”

The needs-based measurement framework, therefore, seeks to measure market behaviour by tracking the use cases and financial devices used by individuals to meet their fundamental financial needs. This is done by populating an individual's use cases and then looking at the financial devices used towards each use case. A more detailed description of the needs measurement framework is outlined in the i2i measurement Note 4: Catering to every need: A measurement framework for functional financial service needs[1]. Figure 1 below provides a depiction of the need-based measurement framework. The depth aspect of the framework considers the range of financial devices used by individuals across formal and informal product markets. The usage component of the framework focuses on the nature and extent of use of each financial device. The usage measurement framework is outlined in i2i Measurement Note 6: Making good use: A measurement framework for financial service usage[2].

The remainder of this report is structured as follows: Section 2 lays a setting for the study by providing a brief overview of financial inclusion in Zimbabwe, Section 3 summarises the methodology used while Section 4 presents the results of the study. Section 5 concludes with the key findings and implications for policymakers and practitioners.

> "The needs-based measurement framework, therefore, seeks to measure market behaviour by tracking the use cases and financial devices used by individuals to meet their fundamental financial needs."

Figure 1: i2i's needs-based measurement framework



1 http://access.i2ifacility.org/Publications/i2i%20MFW%20Note%204%20-%20Catering%20to%20every%20need_Digital.pdf
2 http://access.i2ifacility.org/Publications/i2i%20MFW%20Note%206%20-%20Making%20good%20use_Digital.pdf

2 Study context:
Financial inclusion in Zimbabwe

Financial inclusion in Zimbabwe

The Reserve Bank of Zimbabwe has adopted a national financial inclusion strategy (NFIS), covering the period 2016 to 2020 (RBZ, 2016a). Its focus is on identifying barriers to financial inclusion and the implementation of a coordinated strategy that seeks to enhance access and usage of quality financial products. In addition, the NFIS focuses on advancing financial inclusion for particular groups, including micro-, small and medium enterprises (MSMEs), women, youth, rural population and smallholder farmers. The Reserve Bank of Zimbabwe became the 86th member of the Alliance for Financial Inclusion to make a public pledge under the Maya declaration. It made commitments in the following areas: (i) national financial inclusion strategy, (ii) financial literacy and consumer protection, (iii) digital financial services through promotion of use of plastic money, (iv) financial infrastructure and (v) gender equality.

The latest financial inclusion survey in Zimbabwe (FinScope, 2014) recorded an increase in financial inclusion, from 60% in 2011 to 77% in 2014. This was mainly attributed to the adoption of mobile money, which has improved the reach of financial services. The results from the survey indicate that banking infrastructure is still predominantly situated in urban areas. The survey also shows that exclusion is still higher in rural areas due to the lack of access. The FinScope survey furthermore revealed that despite the economic hardship faced by the country for over two decades, more than half of the population (58%) do not borrow. About 39% of those who did not borrow indicated that they feared debt, while 35% indicated that they might not be in a position to repay once they borrow. The main source of credit in Zimbabwe is family and friends (42%). About 40% of Zimbabwean borrowers used credit for productive reasons, with 21% having used credit to cover living expenses and 10% borrowing to pay off other debts. There has been low market penetration of insurance, compared to other financial products. About 70% of respondents did not use any insurance product, with 68% of the uninsured indicating that the high cost of insurance is the major driver of non-take-up. Of the insured, 77% had funeral cover, 30% had medical aid and 76% were members of burial societies.

The role of MFIs

Micro-finance institutions (MFIs) in Zimbabwe play a pivotal role in the provision of services to the low-income consumers and small businesses operating in the informal sector. Since 2015, there has been a steady increase in the number of registered MFIs, from 155 in September 2015 to 185 in December 2016. The Reserve Bank also noted a significant increase in loans disbursed by MFIs attributing this to increased access to cheaper and affordable credit lines from development institutions. The number of MFI branches has also increased from 475 in 2015 to 659 in 2016. The increase in lending institutions and value of loans disbursed over time coincided with a change in loan portfolio over time, with an increase in productive lending. The Bank attributes this change in loan portfolio to their suasion in the market (RBZ, 2016a).

3 Methodology

The study used data from a dedicated survey as well as loan repayment data obtained from a credit bureau. The survey collected primary data on financial services engaged by consumers in five provinces of Zimbabwe, and the data was used to test the needs-based approach to financial inclusion assessment. The credit bureau data from XDS Zimbabwe was analysed to ascertain the borrowing behaviour of consumers, with a combined data set on a sample of consumers/respondents being used to determine the drivers for the borrowing and repayment patterns observed.

Survey and questionnaire design

The survey instrument was designed by the i2i Data4FI team, with the support of the Measurement team and with the needs-based measurement approach in mind. The design of the survey was aimed at obtaining information to populate the needs-based measurement framework. The findings from the assessment provided insight into consumer engagement with financial services, taking cognisance of the underlying financial needs being addressed with the engagement, including the needs for which credit was used in the Zimbabwean market. Guided by the measurement frameworks (Figure 1 on page 10) and the conceptual framework (depicted in Figure 2 on next page) the survey specifically solicited information from respondents on how consumers experienced three of the four financial needs, identifying the specific use cases they experienced[3]. The transfer of value need was not included in the study. For each use case experienced, the survey obtained information on the financial action taken or financial product used to address it, including the type of FSP used. Lastly, the tool also gathered information on other socio-economic and demographics variables.

Sampling

A multi-staged sampling methodology was employed. Selection was done at the provincial level, city/town/centre level and at the household level using a randomised respondent-generating mechanism to select a respondent. For practical reasons not all 10 provinces of the country were

3 Liquidity use cases refer to recurrent expenses which can be met within an income cycle. On the other hand, resilience use cases refer to large and unexpected shocks that have a financial impact. Meeting goals use cases relate to the use of financial services to meet foreseeable, desired life objectives, either to grow their economic or financial position, or to reach some kind of fulfilment.

covered. However, the provinces sampled were carefully chosen to ensure that there was a fair representation of the country. The survey was therefore conducted in five provinces of Zimbabwe, namely Harare, Bulawayo, Manicaland, Mashonaland West and Midlands.

Since the survey-sampling approach was not as purely random as can be achieved by sampling through enumeration areas (EAs), post-stratification weights were used to correct for the sampling bias. Through the post-stratification weighting process, the survey managed to adjust the sample to reflect the population structure of the five studied provinces on gender and on the rural/urban distribution.

Field data collection

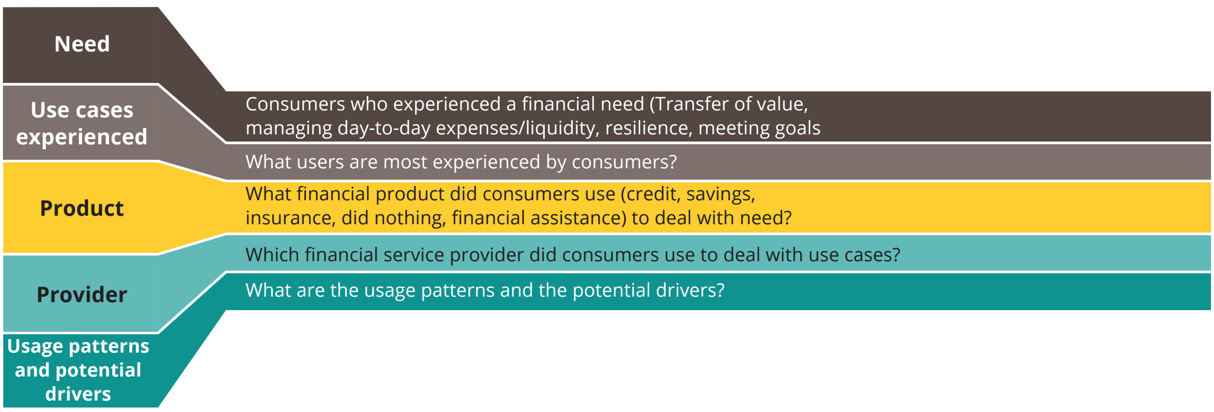
Data was collected by 20 enumerators from Research Continental-Fonkom (RCF) in August 2017. A structured questionnaire was used for the face-to-face interviews using a computer-assisted personal interview (CAPI) methodology. The three languages mainly spoken in Zimbabwe (Shona, Ndebele and English) were used to administer the questionnaire.

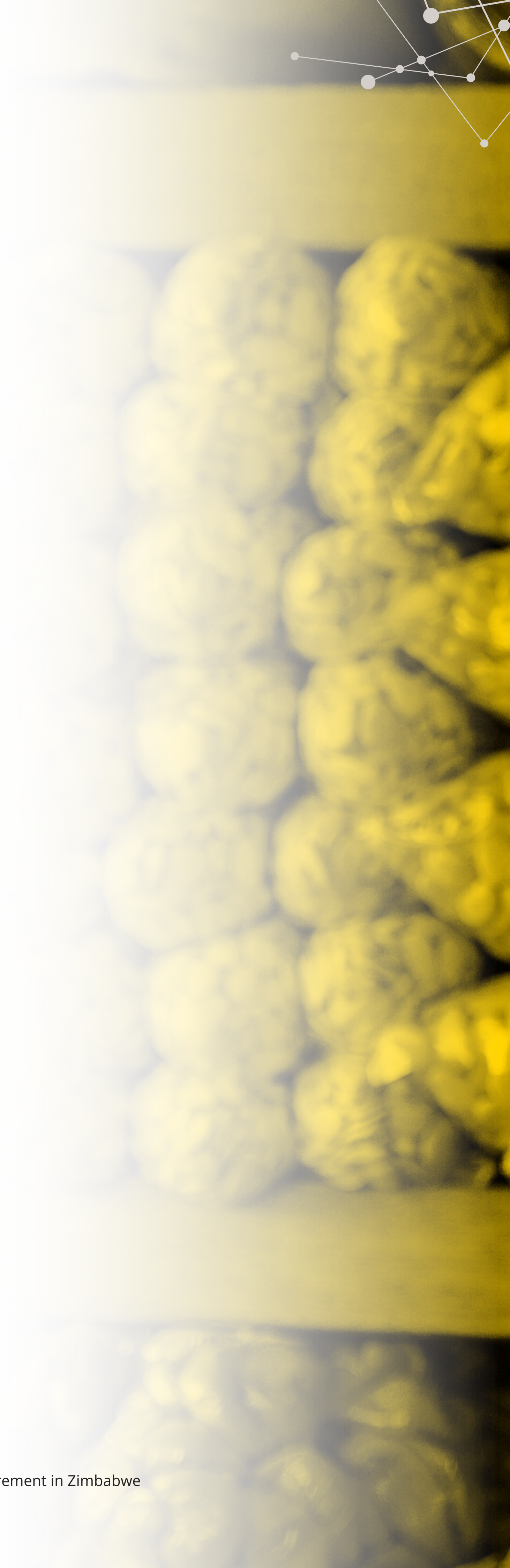
A sample of 1,006 respondents was covered, of which 307 were from the XDS credit bureau database and the remaining 700 were randomly selected.

Credit bureau data

Guided by a memorandum of understanding and a non-disclosure agreement with XDS Zimbabwe and observing all data privacy and confidentiality requirements, i2i was allowed access to the credit bureau data for the purposes of the study. The analysis was conducted at the XDS office in Harare under the control of XDS staff. The objectives of conducting this analysis were to enhance the understanding of the borrowing behaviour of individuals, understand their repayment behaviour and to assess potential financial distress or over-indebtedness. In addition, the analysis sought to provide insights into the drivers of the repayment behaviour, particularly default, and to work with XDS Zimbabwe towards informing their credit-scoring methodology.

Figure 2: Operationalisation of the needs measurement framework





The XDS database is populated with data collected from the credit providers who use the XDS credit information services. These providers consist of MFIs, department stores (clothing and household appliances), other retailers (e.g. computer and cellphone retailers), contract farming companies and producers of seed and fertiliser. It is important to note that most of the banks in the country have an MFI entity that offers consumer loans. The XDS database is updated monthly. XDS has information on 1.5 million borrowing consumers, and nearly a million of these have current active contracts whose performance is actively reported against. The study drew on information for a five-year period, from June 2012 to June 2017.

Survey and credit bureau merged data

To enrich the data and the analyses aimed at determining the drivers of credit use and repayment behaviour, records of individuals from the database were merged with those from the survey using a unique identifier. The survey provided an opportunity to source other socio-economic, demographic and contextual information, which is typically not available in credit bureau data, to amplify the information in the XDS database.

4 Results

This section provides the results from the three data sets analysed for this study. The results are presented in three sections dealing with survey results, results from the credit bureau data analysis and results from the merged dataset.

4.1 Survey results

It is important to note that the survey was conducted in five provinces of Zimbabwe, namely Harare, Bulawayo, Manicaland, Mashonaland West and Midlands. The post-stratification weights applied to the data corrected for the sample bias to reflect the population distribution for these provinces based on gender and rural urban locality, but caution should still be exercised on the interpretation and generalisation of the results.

Sample characteristics

Table 1 on the right presents the sample characteristics of the respondents specifically on demographics, livelihoods and role of respondents in the household. The demographics include the level of education, marital status, income brackets, sources and frequency of income. Table 1 shows that many of the respondents were female, which reflects the gender distribution in the population. Most people in Zimbabwe are rural dwellers, and these are represented by a proportion of 53% of the respondents the sample. The education variable shows that almost all the respondents had some form of education, which reflects the 90% literacy rate of the Zimbabwean population. This has a bearing on the usage of financial services since literacy is one of the necessary skills required for one to engage with a financial system. About 37% relied on regular wages/salary from individual or piece jobs or self-employment while about 32% had salaries or wages from a formal job. The marital status variable shows that most of the respondents were married (68%). Marital status strongly influences the use cases in the sense that it brings about dependence, hence one has to cater for financial needs which goes beyond themselves.

Table 1: Demographics and livelihoods

Variable	Variable category	Percentage
Gender	Male	45.5%
	Female	55.5%
Locality	Rural	53%
	Urban	47%
Age group	18 to 24	14.91%
	25 to 30	16.07%
	31 to 34	11.52%
	35 to 44	29.24%
	45 to 54	17.13%
	55+	11.13%
Marital status	Single	18.88%
	Living in together	3.1%
	Monogamous marriage	60.7%
	Polygamous marriage	1.94%
	Divorced	5.13%
	Separated	7.74%
Level of education	None	0.58%
	Grade 1 to 7	11.91%
	Form 1 to 6	55.76%
	Diploma/certificate after secondary	19.36%
	Graduate/post-graduate	12.39%
Livelihoods (Source of income)	Salaries and wages from government or private co.	32.14%
	Salary/wages from individual or piece jobs	11.62%
	Gifts	0.1%
	Remittances (money or goods from other people)	13.36%
	Self-employed	25.27%
	Money from farming/agriculture	13.26%
	Rental income	1.45%
	Pension fund	1.74%
	Others (specify)	1.06%
Income	No income	1.94%
	Less than USD100	26.33%
	USD101 to USD200	13.26%
	USD201 to USD300	12.68%
	USD301 to USD400	14.13%
	USD401 to USD750	20.23%
	USD751 to USD1,000	4.26%
	USD1,001 to USD1,500	2.71%
	USD1,501 to USD2,500	1.84%
	USD2,501 to USD3,500	1.26%
	USD3,501 plus	1.36%
Frequency of income	Daily	14.23%
	Weekly	7.74%
	Monthly	58.37%
	Every six months	1.65%
	Seasonal (occasionally)	16.26%
	Yearly	1.74%

Understanding consumers' financial needs and how they address them

Needs are the point of departure for the needs-based measurement approach. Certain use cases are combined to constitute a need category. Such use cases are country-specific and can also change over time. Figure 3 and Figure 4 show that 68% of the respondents experienced some risk event over the past 12 months (i.e. experienced a resilience need for which financial action was required). It is evident that women (72%) in the five provinces experienced or realised the resilience need more than men (64%). This could be because women are mainly responsible for dealing with and managing household financial issues. Besides, rural–urban migration is highest among men, with women remaining in rural areas to run household affairs. The results show that 71% of the respondents took action towards meeting some foreseeable goal. The results differed slightly across gender, with men (73%) having a slightly higher realisation of this need than women (68%). On liquidity, 66% reported to have encountered a situation where their monthly expenses were more than their income, thus exhibiting the need to manage day-to-day expenses within the past 12 months. There was no difference in the overall realisation of the needs between rural and urban dwellers, bringing to the fore the fact that, regardless of locality, consumers require financial services that can address their financial needs.

Figure 3: Needs experienced

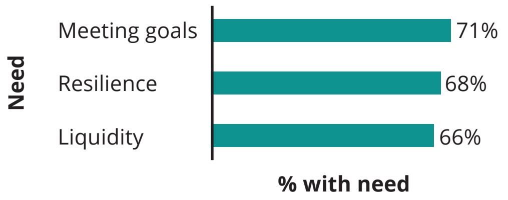
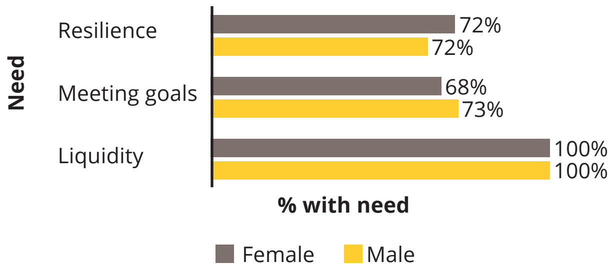
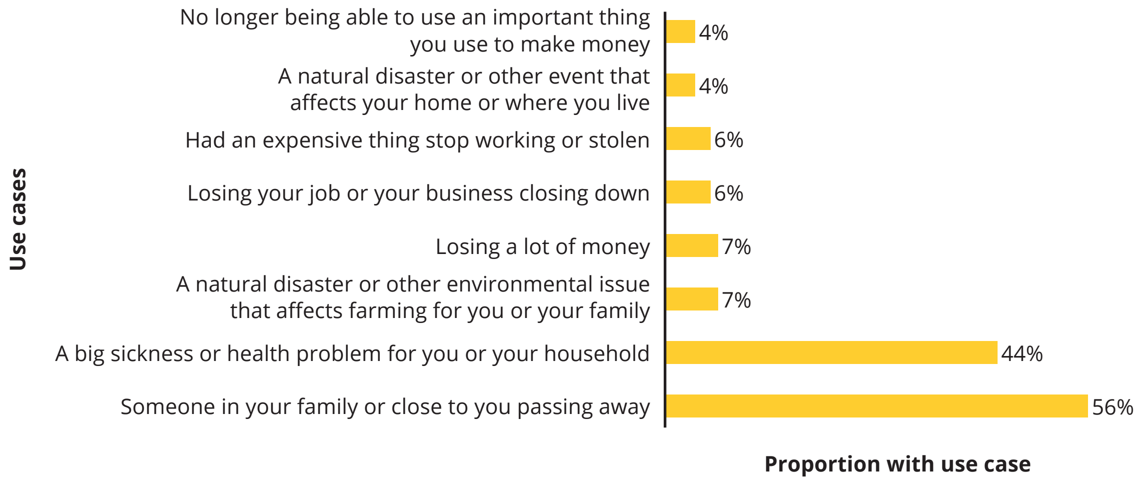


Figure 4: Needs experienced by gender



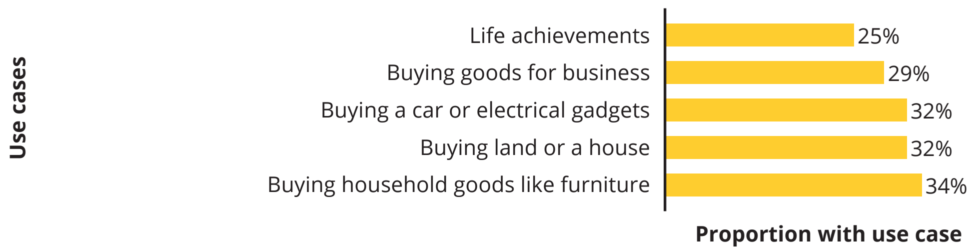
Dealing with sickness and dealing with death are the most common use cases for resilience. Figure 5 shows the use cases that relate to resilience. It is evident that the two most prevalent resilience use cases that require financial action are sickness (44%) and deaths in household or among family members (56%). These figures represent incidences that have actually occurred or situations where an individual has made provisions to cater for such in the event that it happens.

Figure 5: Resilience use cases



There is a balance between productive and consumptive goals. Figure 6 shows the top use cases for meeting goals. Buying household goods such as furniture (34%), buying land or a house (32%), buying a car or other electrical gadgets (32%) and buying goods for business (29%) topped the list.

Figure 6: Meeting-goals use cases

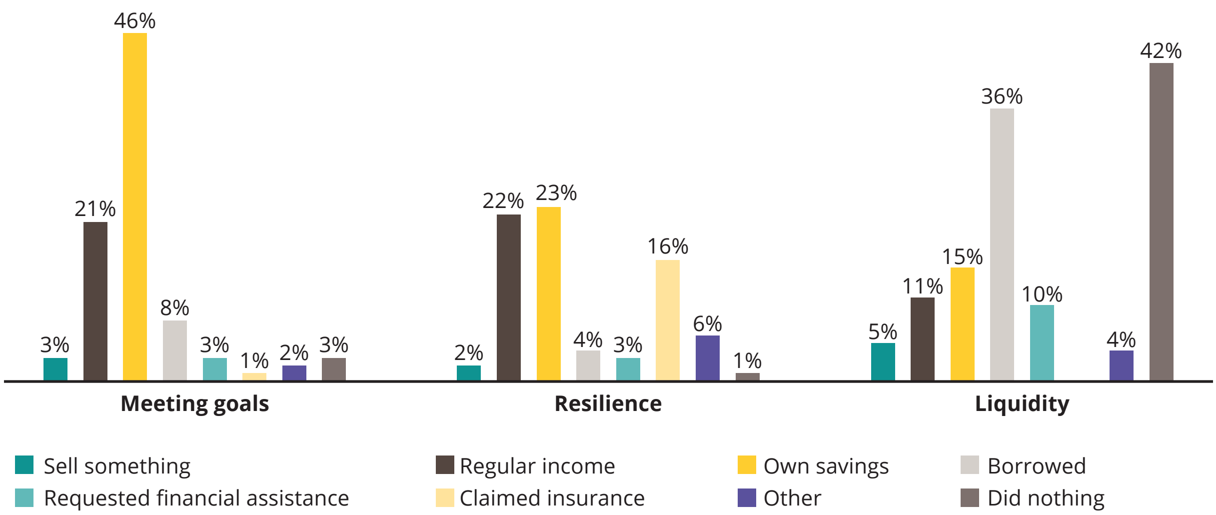


A preference for savings to meet goals. Figure 7 depicts the different financial actions or products deployed by respondents to meet the three stated needs. For the meeting-goals need (use cases listed in Figure 6 on the previous page), most consumers meet their goals through savings (46%), followed by the use of regular income (21%). Relative to the other actions, it is evident that borrowing played a minor role towards the meeting of goals (8%). Small percentages indicated that they have sold something, did nothing or requested financial assistance, possibly in the form of remittances. Figure 9 on page 22 depicts how respondents who expressed the four most commonly experienced meeting-goals use cases addressed them. In all cases, close to half of them saved to achieve those goals. Slightly more than a quarter used their regular income to achieve these goals.

Most individuals unable to manage day-to-day expenses. Figure 7, below, shows how the respondents dealt with situations when a regular budget was not sufficient to cover usual expenses within an income cycle (liquidity management). Most respondents (42%) reported that they did nothing, followed by 36% who borrowed. Others reported that they drew from their savings (15%), while 11% used regular income. A high proportion of consumers did nothing when their budget could not cover expenses incurred, which is a strong indication of financial stress among consumers. This was further illustrated by the fact that the use of credit was very pronounced for managing day-to-day or monthly expenses, more than towards the meeting of life goals.

Consumers mostly rely on regular income for resilience. Figure 7 shows that about 16% of the respondents claimed insurance when a risk event happened in the past 12 months. About 23% reported having used own savings while 22% used regular income. About 4% reported having borrowed to deal with a shock.

Figure 7: Financial action or products used to deal with needs



Financial sector is failing the micro to facilitate goal attainment. Figure 8, below, shows that consumers mostly used savings and regular income to achieve life goals, with credit playing a very insignificant role. Coupled with the fact that credit was mostly deployed towards managing day-to-day expenses, this finding brings to the fore the fact that the credit market is falling short on financing consumers' meeting-goals use cases that can help them to improve their ability to generate more income or improve their quality of life.

Figure 8: Financial action taken to address the most common meeting-goals needs (%)

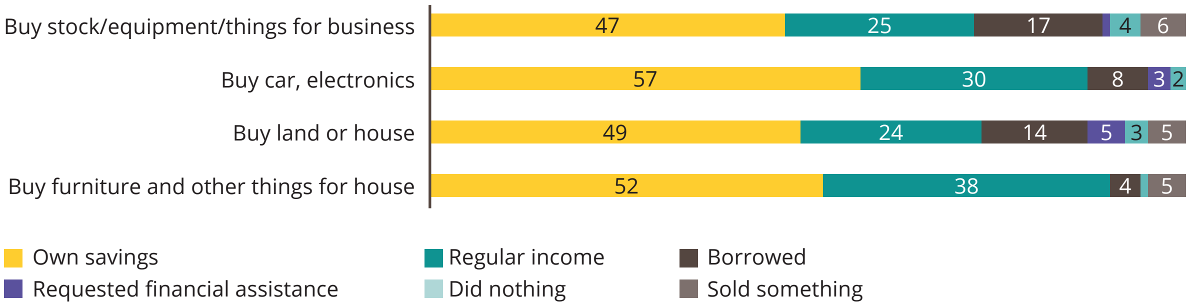
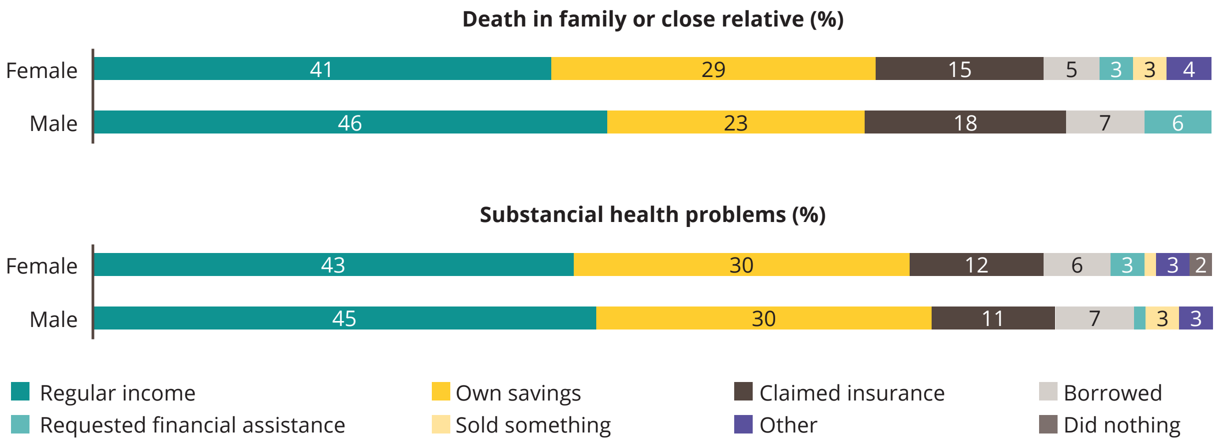


Figure 9 on the next page shows how respondents dealt with the two most common resilience use cases, namely sickness and death in the family. Of those who experienced health-related shocks, 44% (43% female vs 45% male) indicated to have used regular income while another 30% reported to have used savings to deal with the financial shock. About 12% reported to have used insurance while about 6% used credit. Among those who experienced a death in the family or among relatives, 46% males and 42% females used regular income to deal with the financial impact, while about 23% males and 29% females used their savings. Insurance in the form of funeral cover played a more pronounced role (17% average for male and female) compared to health cover (12% average for male and female). Overall, this depiction shows that the use of regular income is the main coping mechanism for shocks with financial impact, suggesting a high level of unpreparedness to dealing with shocks that have major financial impact. There were no major variations in coping mechanisms between males and females.

Figure 9: Financial action for the most common resilience needs



Banks and mobile money operators are the most used FSPs. Figure 10 below and Figure 11 on the next page show that banks and mobile money operators are the most used financial services in Zimbabwe across all financial needs. This relatively high usage of digital financial instruments can be attributed to the fact that most informal alternatives are predominantly cash based. The current cash shortages cause a compulsory drive towards digital instruments.

Figure 10: FSPs used to deal with meeting goals needs (%)

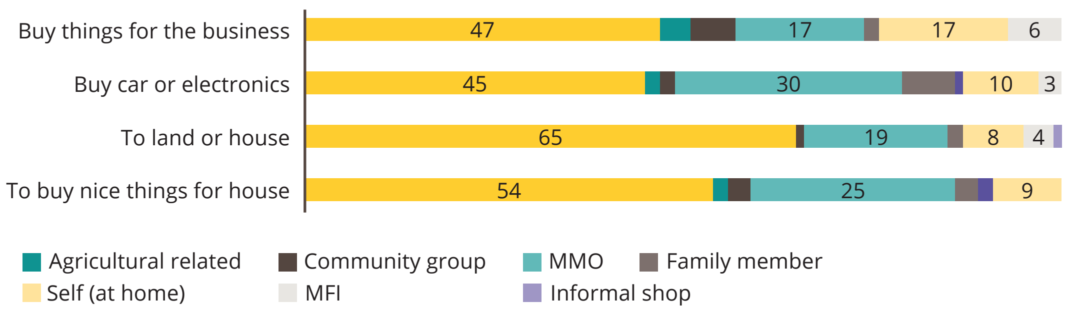
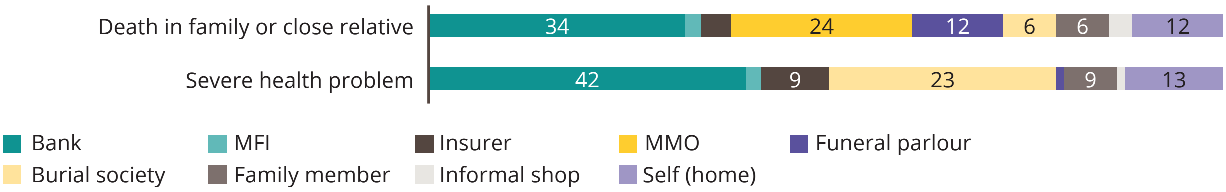


Figure 11: FSPs used to deal with resilience needs (%)



Use of financial product varies across gender and locality. Figures 12 and 13 below show the extent to which formal and informal financial services are used to address financial needs. It is evident that for the three needs listed, females used more informal financial services than men. Similarly, rural dwellers used informal services much more than urban dwellers for resilience and meeting goals, though this difference is not so pronounced on liquidity use cases.

Figure 12: Type of financial services used to address needs by gender (%)

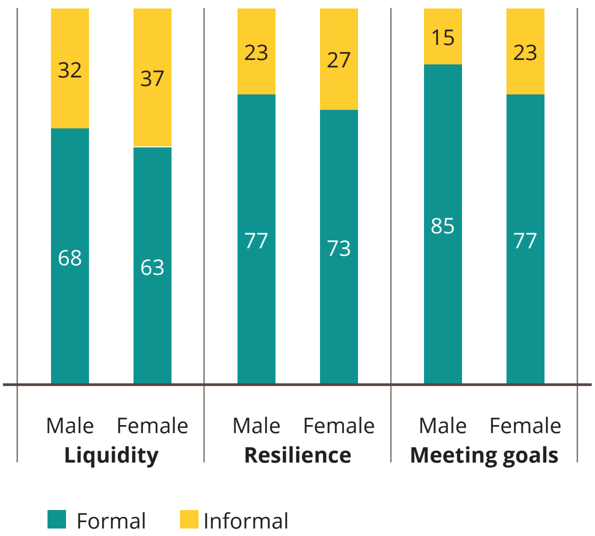
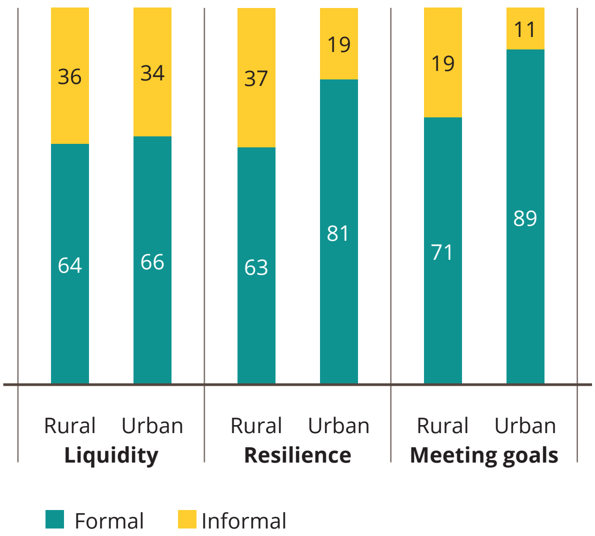


Figure 13: Type of financial services used to address needs by locality (%)



Trust and attitude towards FSPs

Mobile money and funeral parlours are the most trusted FSPs. Figures 14 and 15 below and 16 on the next page show the perceived importance and level of trust on different FSPs as well as an indication of the likelihood to recommend service providers to colleagues, family and friends[4]. Consistently, mobile money operators and funeral parlours have the greatest perceived importance (76% and 66% respectively) and trust (76% and 73% respectively), and they were the only two service providers with a positive net promoter score[5] (more promoters than detractors). After these two service providers, banks and self-provisioning (at home) were the only other two that were trusted and had a rating of perceived importance by more 50% of the respondents. Insurers other than funeral parlours were only trusted or perceived as important by about a quarter of the sample. The least trusted FSP among all is local money lenders (6%), and they also have the lowest net promoter score (-92), suggesting that the percentage of consumers who pass on negative sentiments about them far outnumber those who pass on positive sentiments. MFIs also score badly both in terms of perceived importance and trust by consumers.

Figure 14: Perceived importance of FSPs

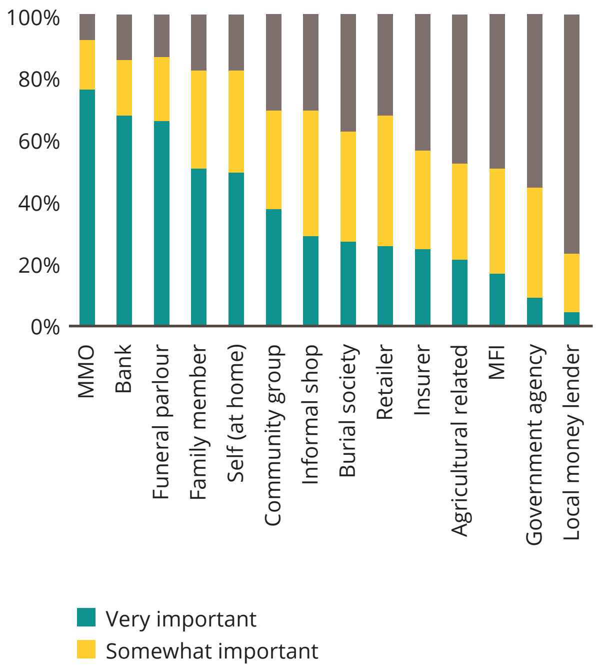
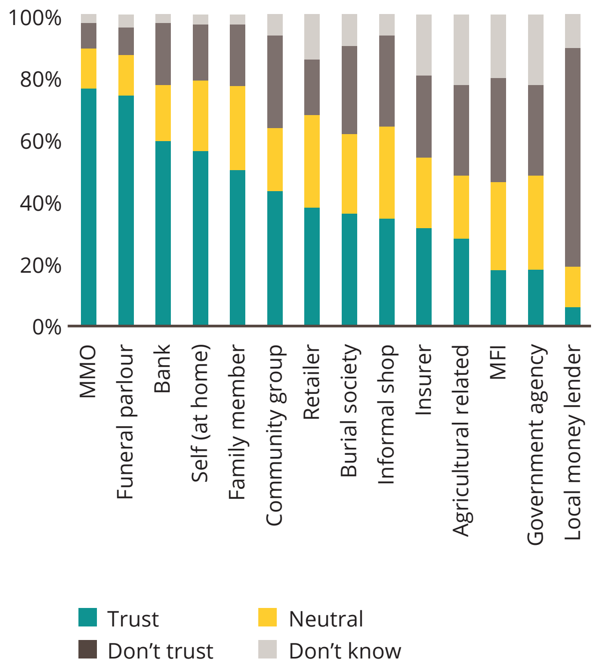


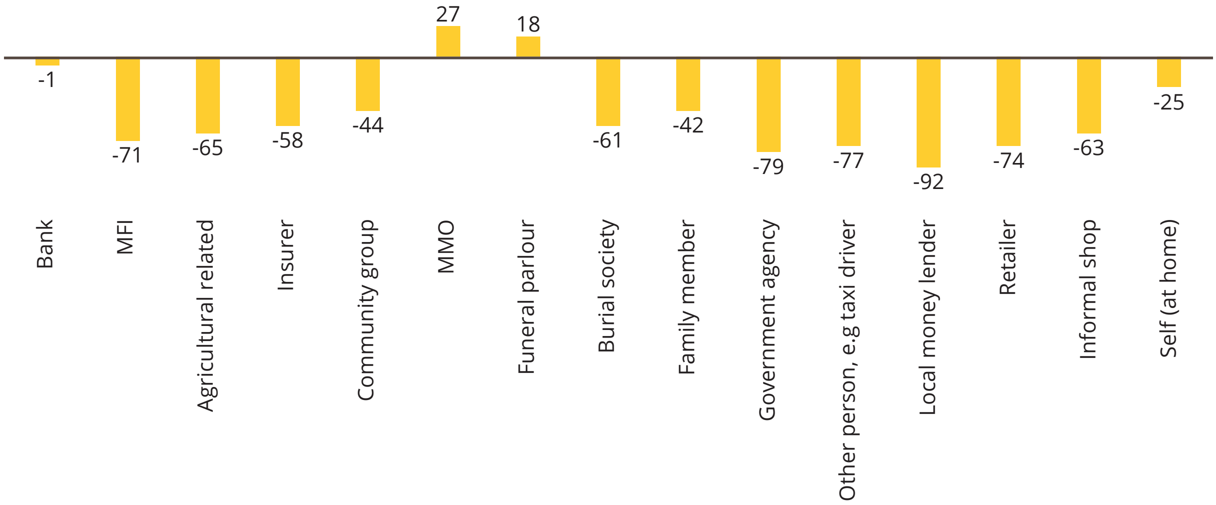
Figure 15: Trust in FSPs



4 expressed as a net promoter score

5 The Net Promoter Score is derived from one question: How likely are you to recommend a service provider to colleagues, friends and family on a scale of 0 to 10. Responses between 0 and 6 are considered to be from detractors, 7 and 8 from those who are passive, while 9 and 10 are from promoters. Its computation is based on subtracting the percentage of detractors from promoters (% promoters – % detractors).

Figure 16: Likelihood to recommend to colleagues, friends and family (Net Promoter Score)



> "The least trusted FSP among all is local money lenders (6%), and they also have the lowest net promoter score (-92), suggesting that the percentage of consumers who pass on negative sentiments about them far outnumber those who pass on positive sentiments."

Gender matters for perceived importance and trust in certain financial services. Figure 17 shows that females place greater importance on, and trust in, relationship-based FSPs than males do. For instance, females considered community groups as a very important FSP and trusted them more than men did. The results show that women in Zimbabwe are more resilience conscious than men. This finding makes sense since community groups serve multiple purposes, including being an insurance mechanism.

Figures 17 and 18 show that females placed greater importance on, and trust in, funeral parlours compared to males. It is also evident that more women than men place higher importance on, and trust in, retailers who offer credit. This finding fits well with insights from the credit bureau data, which show that females have a higher tendency to borrow for consumptive reasons compared to males.

Figure 17: Trusted FSPs vs gender

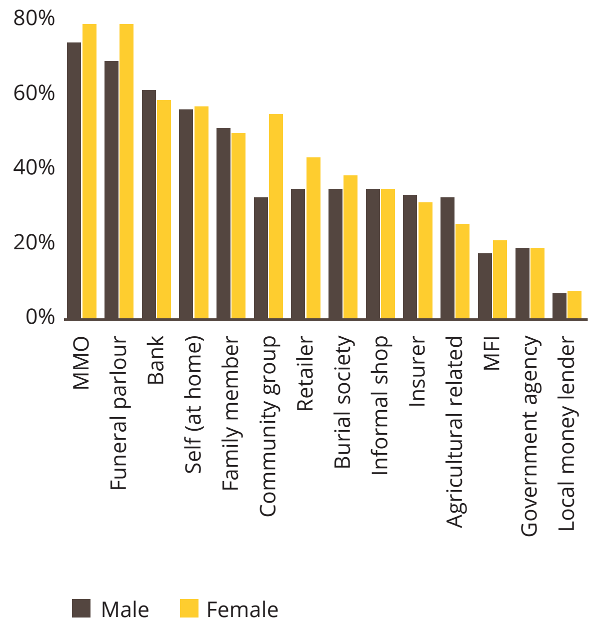
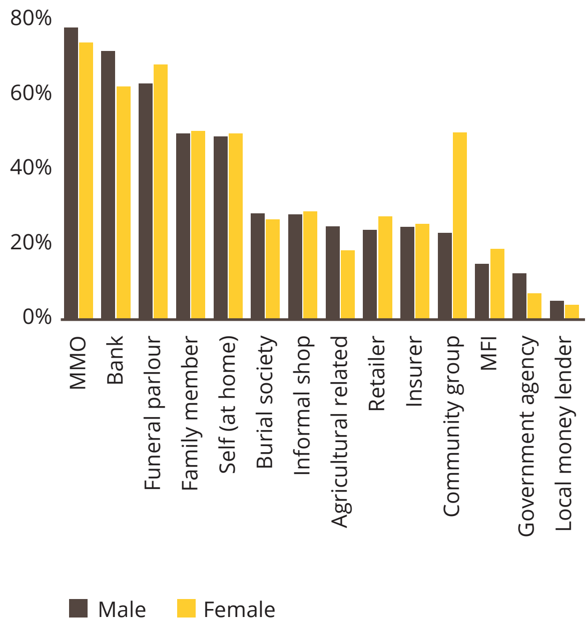


Figure 18: FSPs considered very important vs gender



Income (socio-economic status) also shapes perceived importance and trust in financial services. Figure 19 and Figure 20 show that the wealth gradient plays a crucial role in the perceived importance of and trust in FSPs. For insurance, it is evident that, the higher the income of an individual, the higher the perceived importance and trust in both life and non-life insurance. The results also show that higher income individuals placed greater trust in, and importance on, banks and MFIs. Conversely, lower income was associated with the placement of greater importance and trust towards informal financial services such as burial societies and community groups. Mobile money operators enjoyed almost the same level of trust and perceived importance across all income groups.

Figure 19: FSPs considered very important vs income

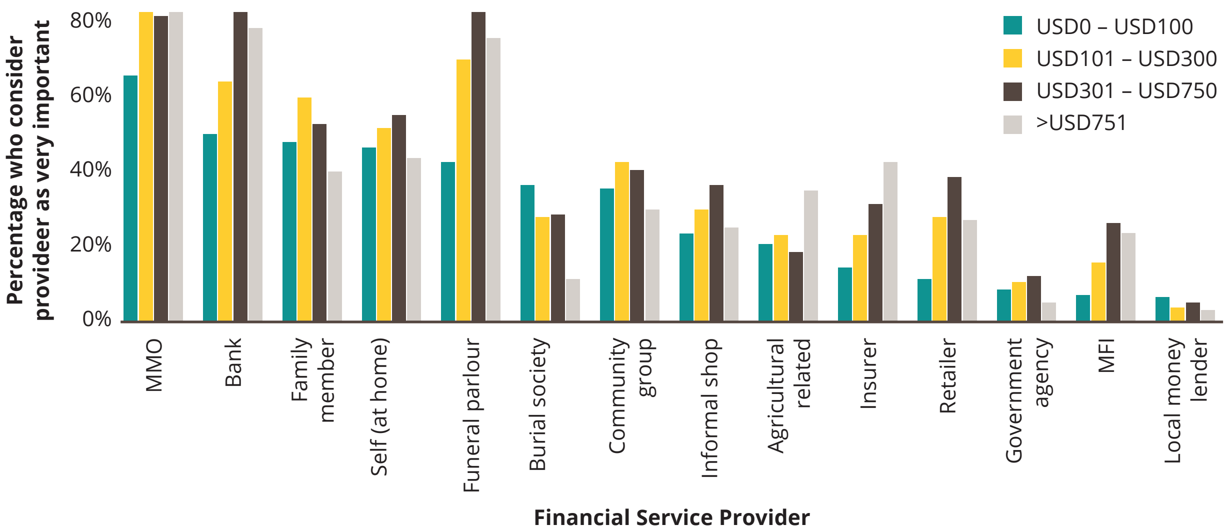
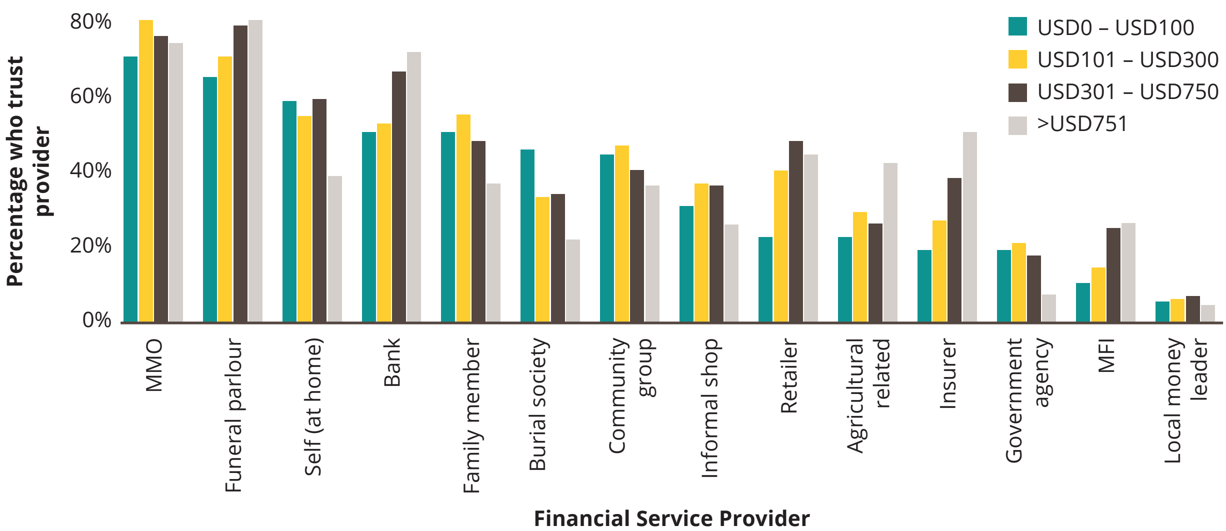


Figure 20: Trusted FSPs vs income



Credit market findings from the demand-side survey (DSS)

This section presents key insights gleaned from the survey on the credit market as it relates to uptake and usage of credit products.

Credit is widely used among the respondents. Figure 21 shows that 73% (men 76% vs women 70%) of the respondents indicated to have borrowed in the past 12 months. As already shown in Figure 7 on page 21, most of the borrowing was meant for dealing with unmet day-to-day or monthly expenses. Family and friends (35%) remain the major source of credit among the respondents as also reported in FinScope 2014, followed by banks (24%), mobile money operators (17%) and then MFIs (13%) (see Figure 23 on the next page). Figure 22 shows that only 8% of the respondents had unsuccessfully applied for a loan in the past 12 months, which is a good indication of the easy access to consumer credit on the market.

Figure 21: Borrowed in the past 12 months

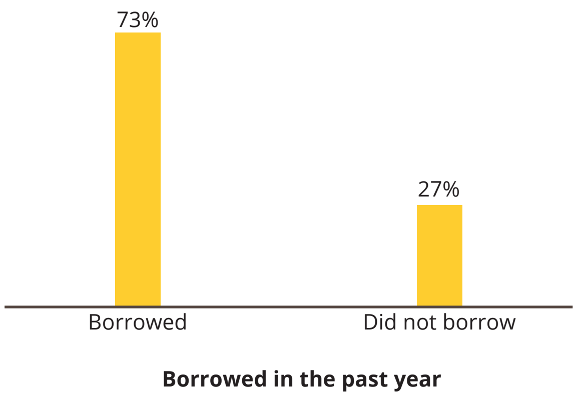
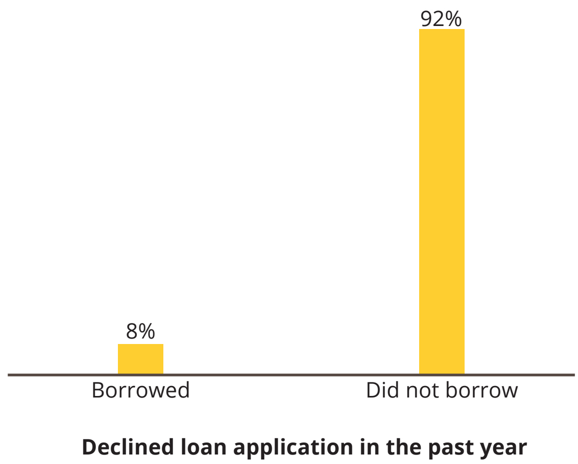


Figure 22: Declined loan application in past 12 months



There is an association between sources of credit and the need being addressed. Figures 24, 25 and 26, below, show that family and friends are the main source of credit for liquidity and resilience use cases. This was followed by banks and MMOs. In contrast, banks are by far the main source of credit for meeting goals use cases. This is because, by nature, banks tend to give larger amounts and longer terms for credit. MFIs and friends and family were also widely used to meet goals.

Figure 23: Main sources of credit

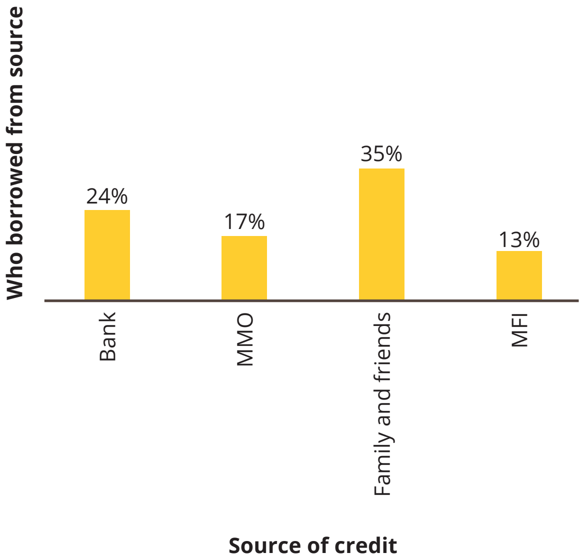


Figure 24: Sources of credit for resilience needs

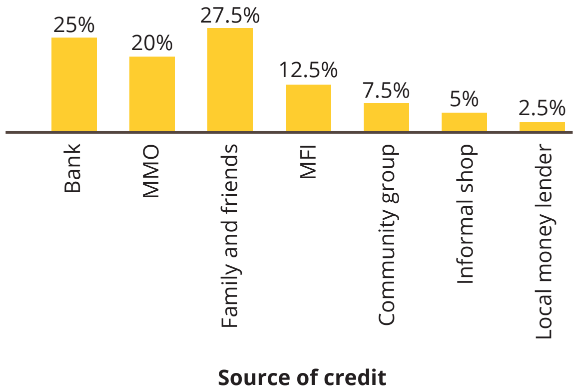


Figure 25: Sources of credit for meeting goals

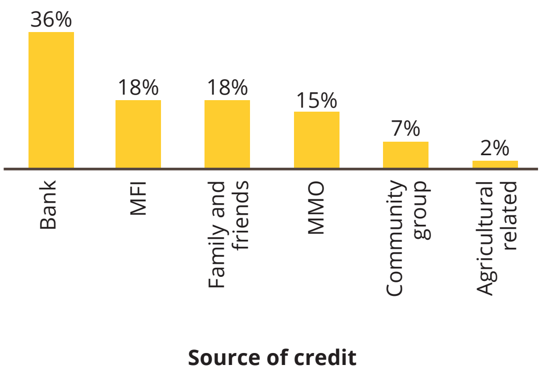
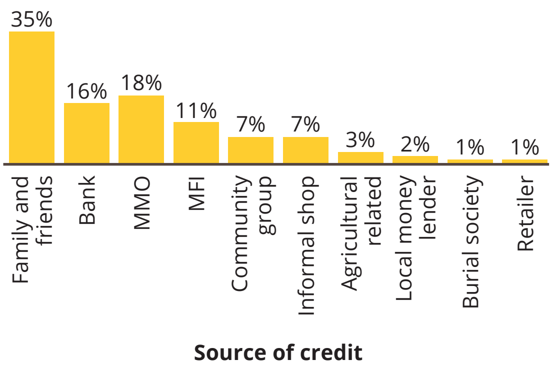
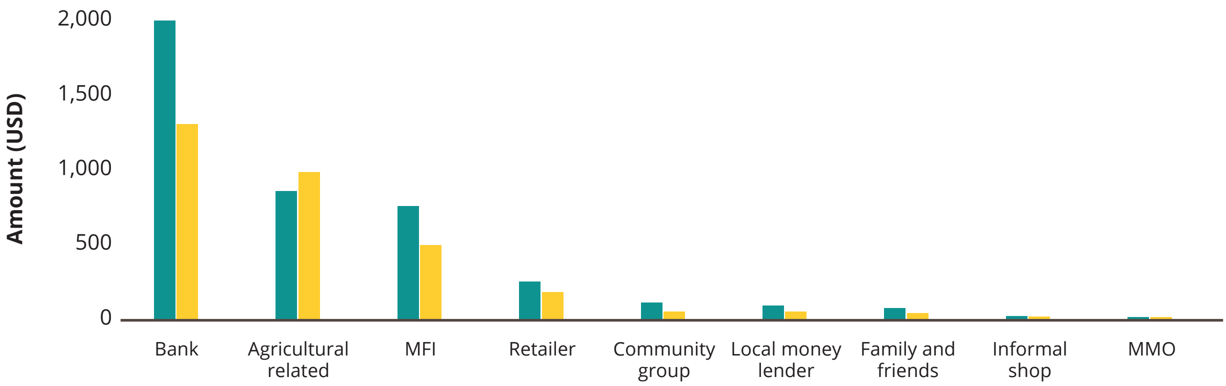


Figure 26: Sources of credit for liquidity needs



Amounts borrowed vary by source. As much as there were variations in the sources of credit for different needs, it is evident that the need and source of credit also influenced the amounts borrowed. For instance, borrowers from banks borrowed relatively larger amounts (average USD1,300) since the majority of these loans were earmarked for meeting goals or resilience. For those who borrowed from friends and family, mostly those were quick and relatively smaller loans (average USD40) and were meant for addressing liquidity needs.

Figure 27: Amounts borrowed by source



	Bank	Agricultural related	MFI	Retailer	Community group	Local money lender	Family and friends	Informal shop	MMO
Mean	2,245	870	779	255	117	98	85	14	8
Median	1,300	1,000	500	180	68	60	40	5	1

> “As much as there were variations in the sources of credit for different needs, it is evident that the need and source of credit also influenced the amounts borrowed.”

4.2 Findings from credit bureau data

The previous section focused on insights about the credit market from DSS, and this section turn to the insights on borrowing and repayment behaviour as gleaned from the credit bureau data. The data comes from the XDS Zimbabwe credit bureau, which has information on 1.5 million borrowing consumers, and nearly a million of these have current active contracts whose performance is actively reported against. The study drew on information for a five-year period, from June 2012 to June 2017.

Most of the loans from the XDS Zimbabwe database were from MFIs. Data was on loans from microfinance entities, department stores, other retailers and agricultural suppliers. These represent the bulk of the consumer-lending market in Zimbabwe.

Missing information on user characteristics. The characteristics reported here were derived from available data on the variables, noting that there are significant cases of missing information in the dataset. About 55% of the borrowers were men. The age of the borrowers ranged from 18 years to 75 years. To remove extreme values and/or outliers, the analysis filtered out income values outside the range of USD50 to USD10,000 and based on the remaining data, most of the borrowers' monthly incomes were between USD300 and USD1,200.

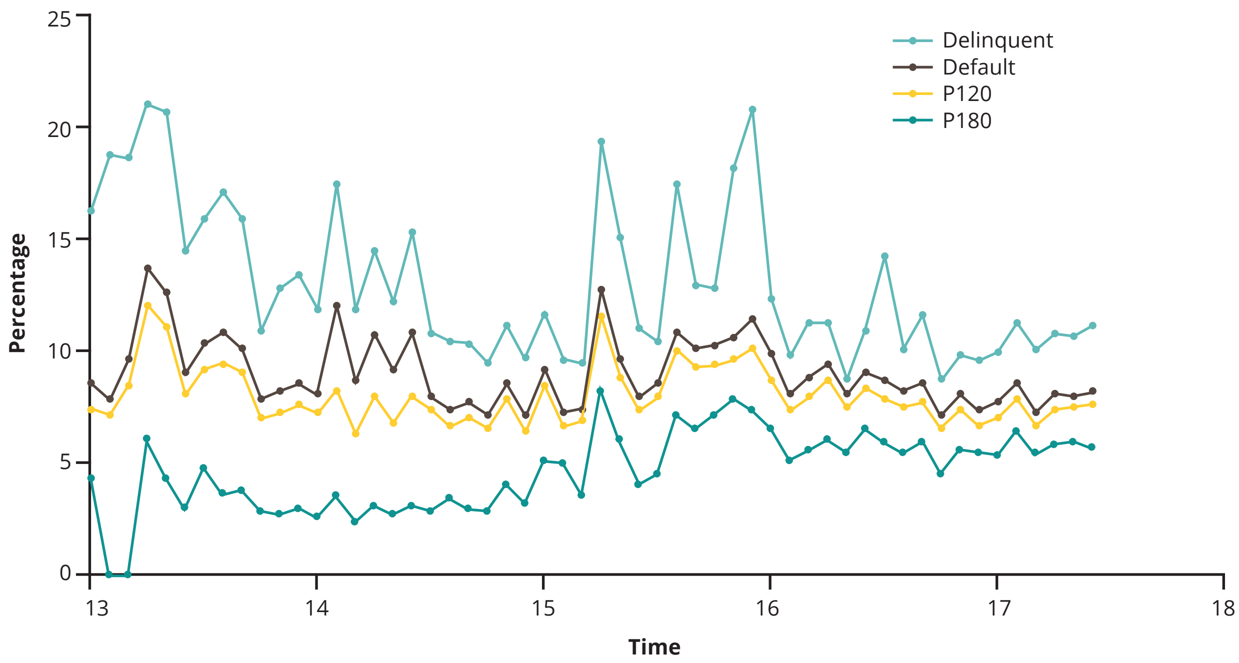
Most loans are for consumptive goals. About 49% of the loan contracts analysed were personal loans, which were mainly disbursed by MFIs and other microlenders. The specific purposes of the loans were not recorded. However, the report on MFIs performance by RBZ (2016) shows that most of the loans have been for productive purposes, which in this study are referred to as addressing the meeting goal need. About 32% of the contracts were instalment loans, which are mostly for furniture and other household appliances, which can be considered as improving quality of life. Another 18% of the contracts were revolving loans mostly from retailers such as clothing shops and the remaining 1% comprised different loan types for which their purpose was unclassified.

Most loans are small amounts and short term in nature. Loan terms ranged from one month to 60 months, averaging at eight months. For most of the loans, amounts borrowed were between USD100 and USD1,000 averaging at about USD560. However, depending on the type of loan, there were major variations with personal loans being relatively larger (USD683) compared to instalment loans (USD425) and revolving loans (USD200). Instalment size varied with loan size with a mean amount of about USD96.

The results show that about 70% of the borrowers only had one loan contract with the institutions serviced by XDS Zimbabwe. Around 15% of them have had two loan contracts during the five-year period, with the remaining 15% having had three to nine contracts.

High default rates on revolving and instalment loans. Considering active loans, the percentage of loans with a delinquent status (30 days in arrears), default status (90 days in arrears), 120 and 180 days in arrears as of June 2017 were 11%, 8.1%, 7.5% and 5.7% respectively. However, taking a system view and considering all loans for the entire study period, about 17.4% of the loan contracts went into a delinquent state. Once in that state, the median time a contract remained delinquent was around six months. It is important to highlight that most of the delinquent borrowers subsequently fell into default, as evidenced by about 14.5% of the contracts having defaulted. Personal loans had the lowest default rate (5%), compared to revolving credit (23.7%) and instalment loans (23.3%). The fact that most repayments of personal loans were effected through salary deductions lowered default rates on personal loans.

Figure 28: Percentage of loans that are delinquent, defaulting, and 120 days in arrears and 180 days in arrears



To ascertain the drivers of repayment and default behaviour, a statistical model was used. Table 2 presents an indication of the relative importance of the variables included in the model for predicting default events.

Table 2: Factors associated with default

Variable type	Variable	Discriminant power	Role of variable in predicting default	Role of group of variables in predicting default
Application variables	Gender	Moderate	Females are less likely to be distressed and to default	As much as they are important, application variables alone do not provide satisfactory information to ascertain the likelihood of one being distressed or to default.
	Age	Moderate	The 25-to-35-year-old cohort had the highest default rates, whereas those younger than 25 and those older than 35 default less often.	
	Income	Weak	There was no sufficient information on income.	
Debt-to-income ratio	DTI	Moderate	Higher debt load compared to income was associated with higher default rates. However, there was not enough information on income, thus was difficult to assess the relationship between debt load and income.	Relative to application variables, DTI and loan variables carried better discriminant information for understanding the potential to be distressed or to default. However, these variables alone do not provide satisfactory information to predict default with certainty.
Loan variables	Loan term	Moderate	Longer terms were associated with lower default rates (This could be influenced by the loan approval process where less worthy clients are given smaller loans with shorter terms).	
	Loan amount		Correlated with term	
	Instalment size		Correlated with term	
Behavioural variables	Number of missed payments	Strong	Number of past missed payments was a strong indicator of future likelihood to default.	Past repayment behaviour remained the most important information to predict to future repayment behaviour.
	Performance Standard deviation	Strong	Consistency in repayment was a strong indicator of financial distress and predictor of default	

4.3 Further insights from merged credit bureau and survey data

The analysis of survey data and transactional data in isolation does not draw a complete picture of the financial life of an individual. For this reason, the study merged the credit bureau data and the survey data by matching a respondent's transactional profile from the credit bureau database and the survey responses. Table 3 presents the characteristics, as well as needs experienced, by consumers in the merged dataset (survey and matching loan repayment data) comprising 264 borrowers. From a needs perspective, 50% of the borrowers experienced a risk event with significant financial impact either in the form of a severe sickness or death in family or close relative. Seventy percent of the borrowers also registered to have had set goals to invest or buy goods for business, farming or education or buying land or a house, while about 56% had goals to improve their quality of life through buying a car, house furniture or paying for a holiday. See Table 3 on the right.

Functional needs experienced as the underlying driver of borrowing and repayment behaviour

To ascertain the factors associated with borrowing and repayment behaviours, total outstanding debt and total arrears[4] were used as proxies of financial distress. The total outstanding debt ranged from very small amounts close to zero to USD3,000. The average outstanding debt was about USD636 (and standard deviation of USD803). A sizable fraction (31%) of the borrowers had missed payments and arrears ranged from zero to as high as USD500, with an average of USD43 and a standard deviation of USD100.

Functional needs experienced were a key determinant of the borrowing appetite. As mentioned in earlier sections, needs are the point of departure and are consumers' primary reason for engaging financial services. As such, the functional needs expressed determined the borrowing appetite. This is confirmed by the borrowing behaviour as observed in Figure 29, 31 and 33 (on page 37). From Figure 29, it is evident that consumers who had goals such as investing or buying goods for business, farming or education or buying land or a house, on average borrowed more (USD740) than those who did not (USD389) have such goals in the past 12 months, and this difference was statistically significant[5]. Similarly, those who had goals to improve their quality of life through buying a car, house furniture or paying for a holiday also borrowed more than those who did not express this need (Figure 31). Again, this difference was statistically significant[6]. Figure 33 shows that consumers who had experienced a shock either in the form of a severe sickness in the family or death had on average a higher (USD673) outstanding debt than those who did not experience the same need (USD599).

Source of income and locality also drive borrowing behaviour. Other than needs, the study also investigated other potential drivers

4 Since this part of the study used a small sample and default being a rare event, the study resorted to using outstanding arrears as a measure of financial distress (instead of default).

5 A t-test for the equality of means revealed that the difference was significant statistically ($p = 0.001$)

6 A t-test for the equality of means suggest that the difference was statistically significant ($p = 0.018$)

Table 3: Merged data sample characteristics and needs experienced

Variable	Variable category	% in sample
Gender	Male	50%
	Female	50%
Locality	Rural	23%
	Urban	77%
Age group	18 to 34	15%
	35 to 54	72%
	55+	13%
Marital status	Single	6%
	Married	78%
	Divorced/separated/widowed	16%
Level of education	Up to secondary	33%
	Diploma/certificate after secondary	41%
	Graduate/post-graduate	26%
Income	< USD300	13%
	USD301 to USD400	24%
	USD401 to USD750	41%
	USD751 plus	22%
Loan type	Personal	46%
	Instalment	21%
	Revolving	33%
Household provisioning	Principal provider	75%
	Support the provision	25%
Role in household financial decision-making	Make decisions myself	70%
	Make decisions with someone else	30%
Source of income	Salary	72%
	Else	28%
Experienced death of sickness in past 12 months	Yes	50%
	No	50%
Had a meeting goal need (productive)	Yes	70%
	No	30%
Had a meeting goal need (improve quality of life)	Yes	56%
	No	44%
Used savings to meet some need	Yes	32%
	No	68%
Used informal credit to meet some need	Yes	36%
	No	64%
Used insurance for resilience need	Yes	9%
	No	91%

of borrowing behaviour. Using an ordinary least squares (OLS) regression, variables which were significant predictors of amounts borrowed included source of income and locality (rural/urban). Salaried individuals borrowed on average USD256 more than those who earned their money otherwise ($p = 0.071$). Rural dwellers on average borrowed USD231 less than those in urban areas ($p = 0.078$). Gender, age, marital status, role in household financial decision making, role in household provisioning, level of education and income were not significant drivers of amount borrowed (See Annexure 1). In addition, the concurrent use of other financial products such as savings, insurance and informal credit did not significantly affect the amounts borrowed.

In terms of repayment, needs experienced played a fundamental role. Overall, the sample shows high levels of financial distress, with 31% of the borrowers having missed payments and 18% having defaulted. Figure 30 on the right shows that those who had expressed the need for meeting goals that are related to improving their quality of life had on average more arrears (USD83) compared to those who did not express this need (USD63). However, this difference was statistically insignificant. For those who experienced a sickness or death, on average their total areas were more (USD90) than those who did not experience such (USD57). This suggests that experiencing a shock, especially without appropriate coping mechanisms, may lead to borrowers foregoing debt repayment in order to address the shock; or, alternatively, borrowing to deal with a shock often leads to financial distress. However, this difference was not statistically significant. Figure 26 on page 29 shows that borrowers who had use cases related to investing or buying goods for business, farming or education or buying land or a house had on average much lower arrears (USD59) compared to those without (USD108), and this was statistically significant ($p = 0.075$). Potentially, this could be because the borrowed amounts were used to generate more income, which elevated their ability to repay.

Loan type, income and debt-to-income ratio also drive repayment behaviour. Other than needs experienced, the study investigated other potential drivers of repayment behaviour. Using an OLS regression, gender, age, marital status, role in household financial decision-making, role in household provisioning, source of income, locality (rural/urban), level of education and the concurrent use of other financial products (such as informal credit, savings and insurance) were found not to be significant factors. Variables that were significant predictors of outstanding arrears were loan type, income and debt-to-income ratio. The higher the income of an individual was, the more arrears he/she was likely to have. A one-dollar increase in a person's income was associated with a 22-cent increase in total arrears. This could be an indication of inappropriate lending practices that base loan approval on income instead of loan affordability, based on an assessment of debt load versus income. Related to this, it was found that one unit increase in DTI resulted in USD168 increase in arrears. Thus, higher debt loads relative to income were associated with increasing inability to repay.

Figure 29: Had productive goal vs mean debt

Figure 30: Had productive goal vs mean arrears

Figure 31: Improving quality of life goal vs mean debt

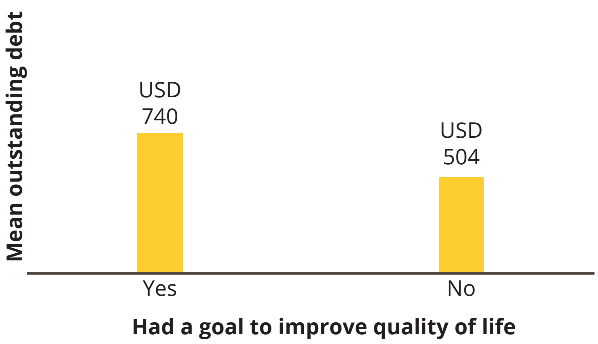


Figure 32: Improving quality of life goal vs mean arrears

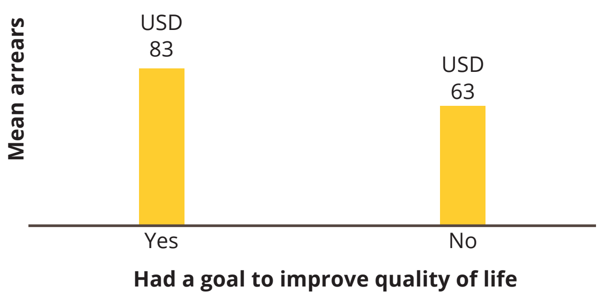


Figure 33: Death or health shock vs mean debt

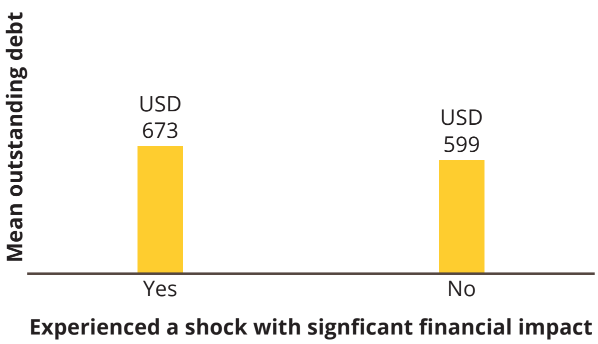
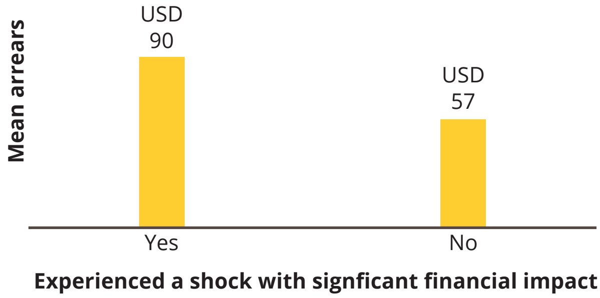


Figure 34: Death or health shock vs mean arrears



5 Key findings and conclusions

Financial inclusion analysis relying one data source does not give a complete picture of people's financial lives because individuals use a combination of both formal and informal financial products to meet their needs. Relying on transactional data to understand financial inclusion dynamics omits the use of informal alternatives, which often constitute a large proportion of low-income people's financial lives. The study presents insights from both the DSS and transactional data to give a comprehensive picture of how people manage their financial lives. The following are high-level findings from the study.

> Regardless of locality, individuals experienced these financial needs equally and require the use of financial services to address them.

What the needs measurement framework reveals about consumer behaviour in Zimbabwe

There is no difference in the realisation or experience of the three financial needs between rural and urban dwellers. Regardless of locality, individuals experienced these financial needs equally and require the use of financial services to address them.

Women in the five provinces studied had a higher (72%) realisation of the resilience need than men (64%). This could be attributed to the fact that women in Zimbabwe have the responsibility for day-to-day management of households. Besides, rural urban migration is highest among men, with women remaining in rural areas to run household affairs. Though not so pronounced, men (73%) realised (experienced) the meeting goal need more their female counterparts (68%).

Most of the respondents had shown inadequate planning and remain largely unprepared to deal with shocks with major financial impact such as death or sickness. For those who experienced deaths, the use of regular income (43%) was the most prominent, followed by savings (26%) and then insurance (17%). For those who experienced health risks, regular income remained the main solution (44%), followed by savings (30%) and then insurance (12%).

Credit is widely used to cover day-to-day expenses. When expenses exceed regular income, most respondents use credit to meet their liquidity needs (36%). Fifteen percent used savings, while about 11% had to wait for some income streams or to request some assistance potentially in the form of a remittance (10%). This finding shows that a large proportion of the respondents are in financial distress.

Most people meet their goals through saving. The primary way respondents achieve life goals is through savings (46%), followed by the use of regular income (21%). Credit only contributed 8% to the meeting of goals. This suggests that the formal lending market plays a small role in facilitating goal attainment. It is important to highlight that Zimbabweans, due to economic circumstances, have been forced to develop, or always had, a strong savings culture. They thus heavily rely on savings even to meet foreseeable larger life goals.

Banks remain the most used FSP towards meeting of goals and resilience, either through savings, credit or receiving income or remittances. Mobile money operators are the second-most used provider for these needs. This could be through receiving payments or remittances or as store of value as cash has become scarce in Zimbabwe.

Consumers' perception of FSPs

Mobile money operators and funeral parlours enjoy the greatest perceived importance (76% and 66% respectively) and trust (76% and 73% respectively) by consumers. After these two service providers, banks and self-provisioning (at home) were the only other two that were trusted and had a rating of perceived importance from more than 50% of the respondents.

Local money lenders were the least trusted service providers while MFIs also scored badly, both in terms of perceived importance and trust by consumers.

Females placed greater importance on, and trust in, relationship-based FSPs such as community groups than males did. Given that females in Zimbabwe are more resilience focused than males, this pattern could be partly because community groups serve multiple purposes, including being an insurance mechanism. The higher resilience orientation of females is further confirmed as females considered funeral parlours very important and trusted funeral parlours more than males.

Females placed higher importance on, and trust in, retailers who offer credit than males did. This could be partly because of a higher inclination of females towards consumptive borrowing.

The wealth gradient plays a crucial role in the perceived importance of, and trust in, FSPs. For insurance, the higher the income of an individual was, the higher the perceived importance of, and trust in, both life and health insurance. The same pattern holds true for banks and MFIs.

Lower income was associated with the placement of greater importance on, and trust in, informal financial services such as burial societies and community groups. Mobile money operators enjoyed almost the same level of trust and perceived importance across all income groups.

In many markets, MFIs are, by design, intended for the lower-income strata. In this case, we find that higher-income individuals placed more importance on, and trust in, MFIs than the lower-income groups did, which suggests that the MFIs are really targeting the higher-income individuals, not the lower-income ones. Also, the overall outlook of MFIs in the country in terms of perceived importance and trust by consumers is very weak, yet MFIs are expected to play an important role of servicing those traditionally underserved by banks.

> “The overall outlook of MFIs in the country in terms of perceived importance and trust by consumers is very weak, yet MFIs are expected to play an important role of servicing those traditionally underserved by banks.”

Credit market insights

Three-quarters of respondents reported to have borrowed in the past 12 months, and only 8% reported to have had a loan application declined in the past 12 months.

Family and friends (35%) remain the most prevalent source of credit in Zimbabwe, followed by banks (24%), mobile money operators (17%) and MFIs (13%).

There is an association between the need being addressed and credit provider, with family and friends being the main source for liquidity needs and resilience use cases, while banks are the major provider for meeting goals needs.

There is also an association between the source of credit and amount borrowed as well as the need being addressed. Banks were the main source of larger loans (average USD1,300), which were mostly meant for meeting goal needs and in some instances for resilience. Family and friends were the main source for smaller loans (average USD40), which were mostly meant for managing day-to-day expenses. From the credit bureau data, 70% of the borrowers only had one loan contract with the institutions serviced by XDS Zimbabwe for the past five years. Around 15% of them have had two loan contracts during the same period, with the remaining 15% having had three to nine contracts.

There is high financial distress among borrowers in Zimbabwe. As of June 2017, the percentage of loans with delinquent status (30 days in arrears were 11%). Of all loan contracts over the five years studied, 17.4% fell into a delinquent state at some point.

Credit risk is very high on MFIs and retail loans in Zimbabwe: About 14.5% of the contracts defaulted. As of June 2017, the percentage of loans with 120 and 180 days in arrears were 8.1%, 7.5% and 5.7% respectively.

Functional needs experienced were a key determinant of borrowing appetite as well as repayment behaviour. It was observed that consumers who expressed the need to meet productive or quality-of-life improvement goals as well as resilience needs on average borrowed more. Consumers who expressed the needs to meet goals related to the improvement of quality of life and for resilience were also more likely to be financially distressed.

Demographics explain borrowing behaviour: Females were less likely to be distressed and to default. The 25-to-35-year-old cohort had the highest default rates, whereas those younger than 25 and those older than 35 default less often. Women in Zimbabwe are more inclined to consumptive borrowing, while men are inclined to productive borrowing or improving quality of life.

Furthermore, higher-income individuals were likely to borrow more and to be more financially distressed. Salaried individuals on average borrowed more than those who earned their income otherwise. The higher the income of an individual was, the more arrears he/she was likely to have. This could be an indication of inappropriate lending practices that base loan approval on income instead of loan affordability based on an assessment of debt load versus income.

Higher DTIs were associated with greater financial distress and higher default rates. It is reasonable to suspect that much of loan approval processes were based on income rather than an assessment of affordability, i.e. one's total debt load relative to income.

Longer terms were associated with less default. This could be influenced by the loan approval process where clients who are more creditworthy are given larger loans with longer terms. Default rates were much lower for personal loans (5%) than revolving (23.7%) or instalment loans (23.3%). This is mainly because most repayments of personal loans were effected through salary deductions, hence lower default rates.

Number of past missed payments was a strong indicator of future likelihood to default. Persistence in repayment was a strong indicator of financial distress and predictor of default. Therefore, past repayment behaviour remained the most important information to distinguish between good and bad borrowers.

6 Policy implications and practitioner considerations

Policy considerations

The credit market fails substantially to provide sufficient credit for meeting goals. This is evidenced by the fact that consumers fulfilled their goals through savings and regular income, indicating the insufficiency of credit towards meeting goals.

The insurance market is playing a limited role in providing risk cover. The results show that the majority of consumers used regular income to deal with shocks. This suggests inadequate planning towards shocks such as sickness and deaths that have major financial impacts. The result is that clients are forced to take up credit to meet resilience needs, and this may increase debt burden, causing financial distress. The inadequacy of the insurance sector to play its role can thus contribute to debt stress.

Applicants' information currently being collected is insufficient to allow informed credit scoring. There is incomplete and missing data on income and gender (as examples). There is a need to raise awareness about the importance of credit information sharing among financial institutions and consumers, as there is credible evidence that the collection, sharing and reporting of credit information play a vital role in the proper functioning of a credit market. Proper credit information allows lenders to assess the credit risk of borrowers more accurately, thus correctly pricing credit and basing credit decisions on a more complete view of the consumer. This will improve repayment rates and reduce the cost of borrowing to the consumers. With incomplete information, the loan affordability assessment is compromised, and this may promote reckless lending as FSPs compete for clients.

Accelerated adoption of digital payments presents an opportunity to increase financial inclusion through savings and credit provision. This illustrates growing importance of, and huge trust in, mobile money operators. Mobile money platforms can also be used to deliver financial products such as insurance and short-term credit to meet the underserved markets revealed by the needs lens.

All lenders should be encouraged to collect and share with credit bureaus complete data on the loan performance (repayment) on monthly basis. This will allow bureaus and lenders to ascertain borrowers' total debt load, thus informing loan affordability assessments. This will help to improve credit risk information available on the market, allowing lenders to make informed lending decisions, especially on loan approval and pricing.

Practitioner considerations

The competitive advantage of banks and MFIs seems to be in meeting goals and resilience, both of which require larger amounts and longer terms.

The competitive advantage of MMOs seems to be in liquidity – small amounts, borrowed and repaid regularly. It seems that only MMOs can currently compete against the low transaction costs of the mattress and the informal money lender. Banks and MFIs are going to fall behind unless they partner with low-cost-payment providers or develop alternative channels and systems.

Loan origination information. The study shows that information currently being collected at loan initiation is not sufficient to separate potential defaulters from good borrowers. This was shown by all application variables having insufficient discriminant power to separate potential defaulters. It could be that lenders collect additional information such as income and yet do not capture it in their systems. As such, lenders should insist on gender and income information as well as making efforts to assess current debt load versus income (DTI) to assess whether one can afford a loan before approval.

Behavioural scoring. The study shows that repayment behaviour information serves a powerful purpose to distinguish borrowers who are likely to default. As such, institutions are encouraged to perform behavioural assessments to be able to ascertain clients who are likely to fail and engage them in time to avoid losses.

Risk mitigation. Given the weak predictive power of application variables, lenders may consider lending small loans to borrowers without credit history to assess repayment behaviour before offering larger loans.

Risk-based pricing. The study shows variations in default intensities based on individual characteristics of consumers. Lenders should therefore factor in the riskiness of individual clients when pricing and extending loans.

“The study shows that information currently being collected at loan initiation is not sufficient to separate potential defaulters from good borrowers. This was shown by all application variables having insufficient discriminant power to separate potential defaulters.”

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