



**Mapping the Retail Payment Services Landscape  
Zimbabwe**

**FinMark Trust**

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## ABSTRACT

Zimbabwe has historically been an important fixture in the Southern African economy, with a highly literate population and sophisticated financial service sector. However, over the course of the past decade Zimbabweans have experienced some significant challenges. In particular is the period of hyperinflation, eroded consumer confidence and stifled investment in new payment services. The market is now slowly rebounding and focused particularly on gaining lost ground. This has incentivized many institutions to seek out new technologies (ATM, POS, mobile, internet) to deliver services more cost effectively, leapfrog legacy systems, and regain customers with a better service proposition.

The regulatory environment for payment services in Zimbabwe has not rebounded as quickly as the market and as such there remain some gaps in the legal framework for retail payment services. This situation has not prevented the Reserve Bank of Zimbabwe (RBZ) from seeking creative solutions in order to provide guidance to the financial services sector, particularly via a revision of the current regulatory environment, dating back to 2009. The RBZ has taken a “test and learn” approach to new innovations and currently assesses applications for new product innovations on a case-by-case basis. This has been sufficient to allow the market to introduce new products to meet customer demand for services, but is unlikely to support future market growth as product innovations increase in complexity and require more regulatory clarity to secure investments. Of particular note in this regard is participation of non-bank financial institutions in the payment system, rules around system interconnection, exclusivity of distribution networks, and risk based account opening requirements for low value accounts.

In parallel to the regulatory issues, electronic infrastructure is still relatively limited in Zimbabwe, with inconsistent power and mobile coverage in many rural areas. Urban and peri-urban areas benefit from more reliable services, as well as greater presence of financial institutions, leaving many rural communities without access to formal services. It maybe likely that the first areas of take up of electronic payment products will be in these urban areas, which may assist in driving adoption in more rural areas as domestic remittances flow outward from urban centers.

From the consumer perspective, there remains a large percentage of Zimbabweans who are “previously banked” (estimated to be at least 12% of the population). This is attributed to the period of hyperinflation and the resulting effects, which has damaged overall confidence in the banking sector. These customers highlight that barriers of knowledge is not a limitation but rather sensitivity to costs.

In particular, consumers are still recovering from the bank account freeze at dollarization, and report that bank fees are high. Focus groups discussions revealed that Zimbabweans perceive the banks as operating in an uncertain environment. Many lost confidence in the banks after having their accounts frozen. Respondents— both people who use banks and those who have never had an account— reported that bank charges have increased and are prohibitively high.

# HOW THEY PAY: Consumer Payment Profile



% of access to bank based payment services

24%

13%

63%

■ Banked ■ Ex-Banked □ Unbanked

## Banked:



**Geographic Location:** Urban or semi-urban, or commercial farmer



**Instrument usage:** Transact primarily in cash. May have an ATM card and to use it for withdrawals and checking balance. May occasionally use POS for payment.



**Network Access:** Urban dwellers have access to more than one branch. Majority of ATMs are not functional. Mobile coverage is best in urban centers and along major road networks.



**Counterparty Services:** P2P- Transfers within the same bank affordable and possible at ATM. May still use cash and mini bus transport to send money. Electronic interbank transfers are expensive and not commonly used.

P2B- Bill payment available at most branches, post offices and some corporate chains.

G2P- Salaried civil servants receive salary via bank account.

B2P- Most large corporates pay urban based employees via nominated bank accounts.

## Ex-banked:

A notable portion of the population have access to basic banking services but choose not to be banked.

Uncertainty in the market stability does not justify the high cost of maintaining a bank account.

Lack of trust and high fees have discouraged them from *re-entering* the formal system.

But opportunity and interest in stored value cards and mobile money among these sophisticated customers

## Unbanked:

**Geographic Location:** Urban, semi-urban and rural

**Instrument usage:** Transact primarily in cash or bartering. Limited access to bank accounts or cards, but may have cell phones. Some receive remittances through transport or Western Union.

**Network Access:** Semi-urban and rural may travel long distances and pay high transportation costs to reach banks and other institutions. Mobile network coverage varies, but may be poor in areas away from major roads.

### Counterparty Services:

P2P- Primarily cash, post office transfer possible, but family, friends, or mini bus transfers most common.

P2B- Bill payment in person, some available at post office.

G2P- Most common is agricultural inputs of in-kind aid

B2P- Income earned in cash, with frequency and size varying by income source. Many people try to piece together different jobs to smooth cash inflow.

**[NOTE:** This graphic depicts the varied access to payment services between the banked and unbanked population in Zimbabwe. It is not meant to present absolutes, but rather provides an indicative sense of the current state of the market in Zimbabwe.

## Abbreviations and acronyms

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
ATM	Automated Teller Machine
BLSSD	Bank Licensing Supervision and Surveillance Division
ECCH	Electronic Check Clearing House
EFT	Electronic Fund Transfer
G2P	Government to Person
KYC	Know Your Customer
MNO	Mobile Network Operator
MoF	Ministry of Finance
MTO	Money Transfer Operator
NPS	National Payment System
P2P	Person to Person
POS	Point of Sale device
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
ZETSS	Zimbabwe Electronic Transfer and Settlement System
ZIPIT	Zimswitch Instant Payment Interchange Technology

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## **1. INTRODUCTION**

This report is part of the series commissioned by FinMark Trust to examine the retail payments landscape in Malawi, Mozambique, and Zimbabwe. It distills key findings from country research conducted in Zimbabwe in October 2011 and provides tools for understanding the landscape for retail payments in Zimbabwe.

This study hypothesizes that the ability to make payments conveniently and affordably has a material impact on the financial lives of the poor. This hypothesis also assumes that (i) existing formal payment products are not designed for use by the low-income segment of the population, and (ii) existing distribution networks have a limited domestic outreach. This study therefore presents a “payment profile” depicting how Zimbabweans currently use payment services as well as the conditions in which current mechanisms are used.

### **1.1. How to use this report**

This report offers a synthesis of the findings by first providing a descriptive overview of relevant Zimbabwean demographics and financial service penetration in Section 2. This is followed by a supply side review of the current regulatory and market environment in Zimbabwe in Section 3, concluding with an analysis of the respective regulatory gaps and market barriers to payment system development. A demand side analysis (Section 4) then looks at the consumer experience with existing payment services, drawing from focus group interviews conducted in rural and urban settings in Zimbabwe.

This relatively descriptive preface sets the stage for an analytical framework of themes that emerge from a consideration of the underlying conditions for enabling transformational retail payment services (Section 5). The analytical framework provides a lens with which to view retail payments in Zimbabwe. It represents a distillation of themes that emerge from the country-specific details uncovered in the course of the research, combining supply- and demand-side factors.

The comprehensive view of the landscape for retail payment services is then brought to bear on an identification of priorities for the area in Section 6. Where the analytic and thematic discussions are generally descriptive of the state of play and options for development, the discussion of priorities is oriented around discrete actions that can be taken by policymakers and other stakeholders.

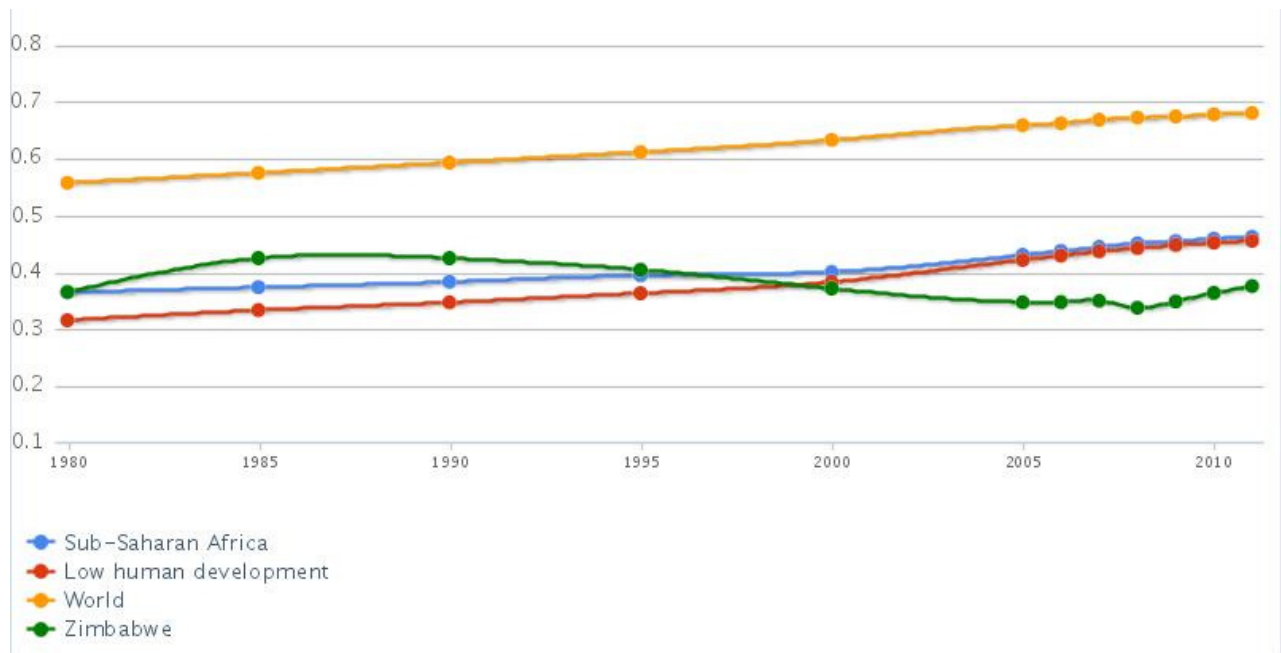
## **2. COUNTRY CONTEXT**

### **2.1. Socio-economic context**

Zimbabwe’s population of over 12 million people has experienced a dramatic change in circumstances in the past 10 years that has had a material impact on the lives of its citizens. The hyperinflation of 2007-2008 created the most tangible challenges for reforming Zimbabwe’s development prospects. Zimbabwe ranks 173 out of 187 on the Human Development Index (HDI), which, coupled with the low GDP per capita (\$500), highlights the extent of poverty in the nation. The agriculture sector in Zimbabwe has historically dominated the market, with up to 66% of the market currently working in that sector. However, this figure does not reflect the true issue of “underemployment”, with up to 95% of the population not employed in a manner

that makes full use of their skills and abilities due to lack of job opportunities. The exceptionally high literacy rate (90%) puts the underemployment rate in a unique light, presenting the untapped potential of the people of Zimbabwe. Historically, Zimbabwe has had good infrastructure, especially relative to other countries in the region, and there is potential to rehabilitate or expand roads, power grids, and cellular coverage to promote financial access.

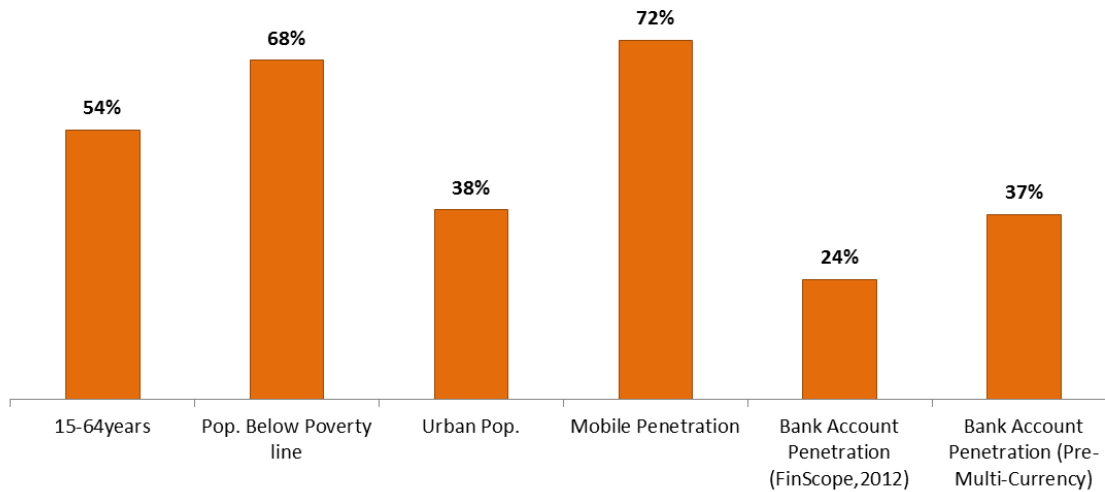
**Figure 1: Zimbabwe Human Development Index**



Source: <http://hdr.undp.org/en/statistics/hdi/>

Further analysis of the demographic landscape in Zimbabwe begins to expose more clearly other issues that are at the heart of Zimbabwe's development challenges, particularly as they relate to the provision of more inclusive financial services generally, and payment services more specifically. Figure 2 below provides a snapshot of the current demographic landscape across several relevant categories, as a percentage of population.





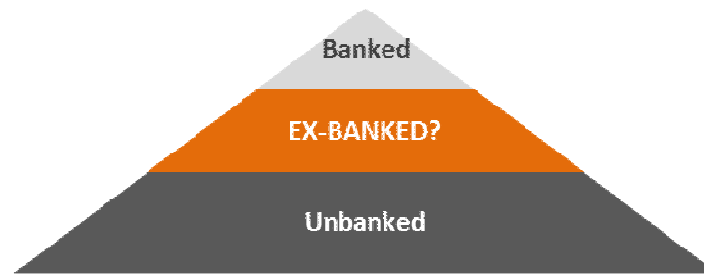
Source: CIA Factbook (2012), <http://hdr.undp.org/en/statistics/hdi/>, FinScope (2012), GSMA Mobile Money Tracker (2011)

The messages that stand out in this figure are the relatively deep penetration of mobile phones compared to the percentage of urban population and the disparity between bank account penetration pre- and post-multi-currency. This reflects both the opportunity and challenge in extending services to an educated population who are suffering through a lack of economic opportunities, many of whom are hesitant to re-enter the formal financial services market.

The opportunity lies in that access to mobile phone technology and the associated benefits have extended beyond the urban population to a degree that may potentially be harnessed to deliver electronic services across the network platforms.

The challenge lies in overcoming the reaction of the market to hyperinflation, whereby a potentially significant population chooses not to operate in the formal financial system as they no longer trust formal financial institutions to protect their funds (a theme that is discussed in greater detail throughout this report). Indeed, many Zimbabweans closed their bank accounts after the period of hyperinflation. Therefore there is likely to be a large population of people in Zimbabwe who can be considered **ex-banked**, namely: *those who have access to bank accounts and previously used a bank account, but currently choose not to have one.*

**Figure 3: Indicative Access Pyramid in Zimbabwe<sup>1</sup>**



This categorization is unique in comparison to Zimbabwe's SADC peer group. The significance of this group is not only that they have lost faith in the banking system, but that they consist of a segment of the population who may have physical access to relatively affordable formal payment services, but choose not to use them. Harnessing this population, equates to the low-hanging fruit that might have a material impact on the uptake of new services.

#### **BOX 1: The experience of hyperinflation**

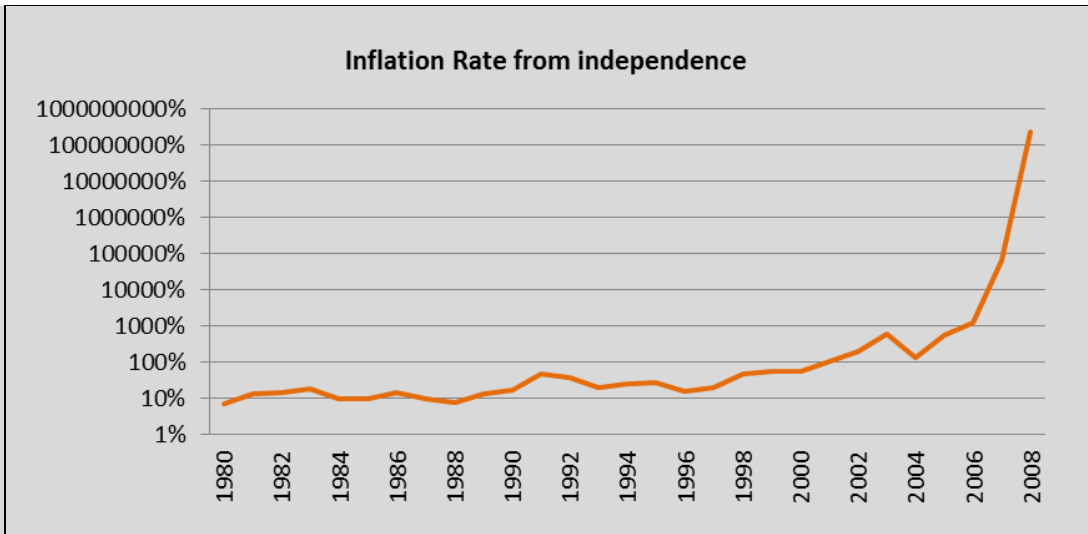
Before proceeding to further discuss the demographics and service penetration in Zimbabwe, we should take a moment to appreciate the circumstances that gave rise to hyperinflation and the subsequent impact that it had on the market in Zimbabwe.

For various reasons beyond the scope of this report, food and manufacturing outputs fell dramatically (up to 45% and 29% respectively) between 2005 and 2007 and unemployment rose to 80%. Currency was printed as a response to the output shortage and to mitigate rising inflation. However, this effectively increased the money supply at a higher rate than Real GDP. Inflation rapidly spiraled out of control until the end of 2008, at which point the Zimbabwe dollar was taken out of circulation and the Zimbabwe economy turned to foreign currencies to manage the severely damaged economy. Since early 2009, Zimbabwe has used the more stable US dollar as its main currency, which has had a positive impact on the market's ability to emerge from the destructive experience of hyperinflation.

The figure below provides a sense of the extreme nature of the hyperinflation experience.

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<sup>1</sup> It is unknown how many people in Zimbabwe currently have bank accounts, although this will soon be rectified once the results from the FinScope Zimbabwe is released in early 2012



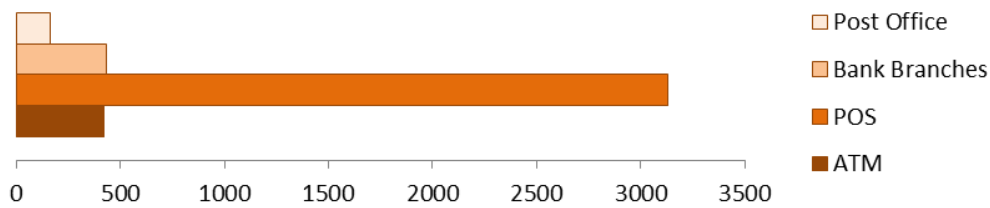
YEAR	INFLATION RATE	Hyperinflation in context:
1998	48%	<p><b>At the peak of hyperinflation in July 2008 a Coke bought at 8am cost ZIM\$50 billion.</b></p> <p><b>At noon, the same Coke cost ZIM\$100 billion.</b></p> <p><b>By 7pm that day, the same Coke cost ZIM\$150 billion.</b></p> <p>This price insecurity had a disastrous impact on people's trust in formal financial institutions, where money held in accounts became virtually worthless overnight. Zimbabwe today is still recovering from the effects of this period of history. This report will discuss further how the experience impacted consumer confidence and market development.</p>
2002	198%	
2005	585%	
2006	1,281%	
2007	66,212%	
2008 (July)	231,150,888%	

Source of data: [http://en.wikipedia.org/wiki/Hyperinflation\\_in\\_Zimbabwe](http://en.wikipedia.org/wiki/Hyperinflation_in_Zimbabwe); <http://databank.worldbank.org>  
 Source of context: <http://www.solitudedecanyon.com/thoughts-from-the-canyon/a-chronology-of-the-zimbabwe-hyperinflation>

**2.2. Financial Service Penetration**

In terms of service penetration, it is important to highlight that bank branch, ATM and POS channels are only available to existing bank customers (estimated at about 15% of the population), the majority of whom live in urban centers. The Post Office, in contrast, has a presence throughout Zimbabwe and provides some basic money transfer services to customers without accounts at banks or other formal institutions. Figure 4 below highlights the number of service points of existing distribution channels in Zimbabwe.

Figure 4: Available Distribution Channels

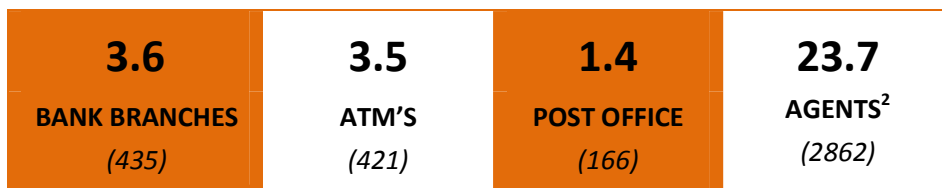


Source: Reserve Bank of Zimbabwe, ZimPost

Touch points per 100k (branches, ATM's, remittance 'agents')

Another measure of service penetration is the number of outlets available per 100,000 people. Figure 5 provides a tangible comparison of the number of outlets that are available to the population. Notably, even the regionally ubiquitous Post Office service clearly falls short of providing accessible services to the majority of Zimbabweans. ATM and POS penetration do not fare much better, particularly when compared to the number of Econet mobile money agents recruited for the recent launched mobile money product.

Figure 5: Total touch points per 100,000 people



### ATM's and POS

Hyperinflation drove up the demand for electronic payment services due to the immediacy of the transaction settlement. This helped drive early investment in electronic infrastructure by financial institutions and also improved customer familiarization and use of both ATMs and POS, although mainly in the urban centers.

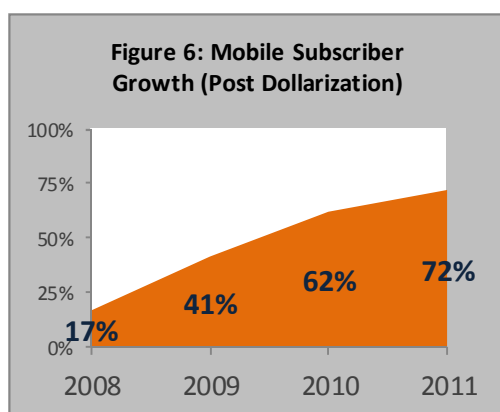
Although the high demand for cash withdrawals during the initial stages of the hyperinflation period drove up penetration (and usage) of ATM's, most of these machines were proprietary and did not interconnect between different institutions. The lack of interconnection, coupled with impracticalities of using cash in the latter stages of the hyperinflation, eventually decreased the usage of ATMs, a circumstance that is still the case today. An additional issue with existing ATM's is that the low quality of the paper US dollar currency in circulation has made disbursement of cash at ATM's unreliable, further impacting customer trust of the financial institutions behind the services. These factors have effectively shut down large numbers of ATM's throughout the country, many of which lie dormant at bank branches or street side. Some banks noted that

<sup>2</sup> Based on approximate number of agents recruited for Econet's mobile money pilot

they may replace the older ATM's with new systems that can also facilitate mobile phone based transactions, although no timeline or conditions were given to indicate when this might happen.

Regarding POS devices, Zimbabwe enjoys a high number of devices but rather low usage. Although the precise reasons for the low usage are not known, we can speculate that low penetration of account holders is a factor, coupled with unreliable connectivity. Customer interviews also revealed that many card holders did not know that you could use the same card at the POS as well as the ATM.

### 2.3. Telecommunications Services Penetration



Mobile penetration has grown rapidly post multi-currency. It is estimated that up to 72% of Zimbabweans, or 8.7 million, had mobile phones in 2011. Mobile phones thus provide the potential to expand financial services well beyond the existing financial sector distribution networks. Zimbabwe has experienced exponential growth in mobile subscriptions, particularly post multi-currency when the stabilization of the economy coincided with growth in mobile penetration across the African continent. Figure 6 depicts the growth in subscriptions since 2008.

Zimbabwe has three major Mobile Network Operators (MNO's): Econet, Telecel and NetOne. Econet is by far the largest of the three with 70% of the subscribership. Telecel and NetOne evenly share the remaining 30%. NetOne is a state-owned entity while Telecel is a subsidiary of the global network operator, Orascom. Notably, Telecel has aggressively pursued a customer acquisition strategy that is directly challenging Econet's prominence in the market. This is prevalent in public ad campaigns and its product pricing. NetOne does not have as significant a public market presence when compared to Telecel or Econet.

## 3. SUPPLY SIDE OVERVIEW

With the country context in mind, this section looks at the supply side of the payment system environment in Zimbabwe. It reflects on both the regulatory framework for payments and the dynamics of the financial services sector, as they relate to payments. The objective of this section is to describe the current state of play in each component of the supply side of the market. It concludes with a discussion of the critical regulatory gaps and market barriers.

### 3.1. Market Dynamics

#### 3.1.1 Electronic Payment Infrastructure

The main components of the electronic payment system infrastructure in Zimbabwe are the Zimbabwe Electronic Transfer and Settlement System (ZETSS) run by the Reserve Bank of Zimbabwe (RBZ) and ZimSwitch, the privately owned and managed retail payment switch that facilitates electronic interbank

settlement for ATM's and POS devices. Zimbabwe also has the Visa and MasterCard card payment system operating in the country.

Notably, Zimbabwe does not have an Electronic Clearing House (ECH). The early stages of hyperinflation (before cash lost significant value) greatly reduced the use of checks because of the loss of value during the time required to clear. This experience has impacted the market to such a degree that there remains very little use of checks in Zimbabwe and it appears unlikely that they will return. The RBZ has expressed that this reality is instead allowing them to focus priorities (and funding) on the development of other electronic channels that can support new technologies, such as card and mobile-based transactions. However, the RBZ and the banking community are working on the modalities related to the introduction of an ECH and a concept paper is already in place.

### **Zimbabwe Electronic Transfer and Settlement System (ZETSS)**

The Real Time Gross Settlement (RTGS) System for Zimbabwe is run and managed by the RBZ. The RTGS is referred to as the Zimbabwe Electronic Transfer and Settlement System (ZETSS) and was launched in late 2002 as part of the payment system modernization process. The intended purpose of ZETSS was to reduce risk in the payment system by improving (i) liquidity management within the financial sector<sup>3</sup>, (ii) efficiency of high value payments, and (iii) provision of timely and accurate data to support monetary policy<sup>4</sup>.

ZETSS functions as an electronic inter-bank system to transfer funds between participant banks using settlement accounts held at the RBZ. The system operates on a real time basis and is designed to handle high value payments processed on a gross basis (i.e. individually) without netting via the SWIFT network. Participation in ZETSS is extended to commercial banks, discount houses, merchant banks, and building societies.

Individual and corporate customers can use ZETSS for their high value, time critical payments by issuing the necessary instructions to their banks to effect the payments on their behalf.

### **Zimswitch**

Zimswitch is a retail electronic funds switch, delivering inter-connectivity between ATMs and POS devices throughout Zimbabwe. At present, 19 banks are connected to the switch, although all banks in Zimbabwe have been advised by the RBZ to have Zimswitch payment platform functionality. The RBZ mandate is focused on technical interconnection to ensure the banks' systems can operate in line with Zimswitch

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<sup>3</sup> ZETSS works on a credit push basis i.e. sufficient funds are required in the paying bank's settlement account held at the Reserve Bank of Zimbabwe before a transaction can be processed successfully.

<sup>4</sup> [http://www.rbz.co.zw/operations/nps\\_ZETSS.asp](http://www.rbz.co.zw/operations/nps_ZETSS.asp)

standards. Zimswitch is currently negotiating business rules (e.g. interchange fees) with the banks to extend interconnected services to the retail product level (rather than at the solely technical level).

Zimswitch is a third-party, privately owned and managed company, formed in 1994, whose original purpose of ATM and POS connectivity has recently broadened to incorporate mobile phone based transactions into its platform of services. During its early years in the market, Zimswitch had to compete with VISA and MasterCard who also provided switching services for the large banks in Zimbabwe. However, the period of hyperinflation created an environment that ultimately drove VISA and MasterCard from the market, leaving Zimswitch as the primary provider of electronic retail payment settlement for ATM's and POS. During 2008 Zimswitch experienced a massive surge in transactions (ATMs = 28.4 million transactions and POS = 13.8 million), entrenching itself as a reliable domestic partner for Zimbabwe's domestic retail banking market, a position that Zimswitch has retained to date.

In response to the evolving nature of electronic payments in Zimbabwe, Zimswitch has developed a new payment platform for low value, high volume electronic payments to relieve the pressure from the RTGS platform, which is the major electronic payment platform in Zimbabwe and is not designed to handle high volumes of retail payments. The platform will be branded as a new service called Zimswitch Instant Payment Interchange Technology (ZIPIT) (See Box 2 for a description of ZIPIT services).

The ZIPIT platform will enable financial institutions in Zimbabwe to offer mobile banking services over GSM networks using any basic GSM<sup>5</sup> mobile phone. ZIPIT is designed to enable interconnectivity between banked mobile subscribers by allowing money to be sent instantly to any cell phone in Zimbabwe. The service is a fund transfer mechanism that enables customers of banks to send money instantly to any other 'ZIPIT Ready' bank, in real time, similar to that of the RTGS system.

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<sup>5</sup> Global System for Mobile Communications (GSM)

### **Box 2: ZIPIT = Bank Account Based**

The ZIPIT platform is designed to allow for transactions between bank accounts (ZIPIT to Bank). The system can also facilitate transactions between cellphones, if they are linked to bank accounts (ZIPIT to Cellphone).

*ZIPIT to Bank* can be initiated from a number of delivery channels (e.g. ATM) and will have a ceiling value of USD 1,000. Costs are estimated at USD 20 cents for “on us” transactions where after banks will add on product specific fees where relevant. “Off us” transactions (via the Zimswitch platform) will be US 50 cents per transaction for both ATM and POS.

*ZIPIT to Cellphone* is added to send similar values with the added functionality of being able to send through to any registered cellphone. This service is intended to allow bank account holders to conduct transactions via their mobile phone and make payments to other parties with designated linked bank accounts.

### **3.1.2 Composition of the retail payment services market**

The Banking Sector of Zimbabwe comprises of 26 operational banking institutions. The sector is made up of 17 commercial banks, four merchant banks, four building societies and one savings bank. In addition to the banking institutions, there are 132 operating microfinance institutions under the supervision of the Reserve Bank<sup>6</sup>. It is worth noting here that non-bank financial institutions (such as electronic money institutions) are not authorized to operate in Zimbabwe. A non-bank institution interested in offering financial services (such as retail payment services) to the general public is required to partner with a prudentially regulated bank.

As of August 2011 commercial banks account for 83% of the market deposits, while the merchant banks, building societies and the savings bank account for 7%, 8% and 2% respectively. The top 5 commercial banks in terms of market share by deposit base are CBZ (22.3%), Stanbic (11.5%), Stanchart (8.4%), BancABC (8.2%) and Barclays (6.7%) respectively<sup>7</sup>.

Two commercial banks, namely Standard Chartered (91%) and Stanbic (100%), are foreign owned while Barclays (67.7%) and MBCA (78.5%) have majority foreign ownership. Agribank (100%), ZABG (92%), and ZB bank (76%) are government owned while government also has major stakes in CBZ (21%), and FBC (40%).

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<sup>6</sup> These numbers may change as some banks are considering the consolidation of their respective commercial and building society roles.

<sup>7</sup> Source: Reserve Bank of Zimbabwe, December 2011



### **Impact of Hyperinflation on the Banking Sector**

During the hyperinflation period of 2005-2008 the Zimbabwe Dollar was characterized as a rapidly devaluing currency with very little storable value. This negative characteristic was further compounded by the inability to efficiently access cash as withdrawal limits were imposed. In a short space of time much of the banked population reverted to cash as the most sought after form of payment. Multiple accounts were also opened in an attempt to gain access to more cash on a daily basis.

Given the lack of access to cash in the latter stages of the hyperinflationary period, other payment methods in the form of POS, cheques and Real Time Gross Settlement (RTGS) became more useful. Cheques reached a peak volume of over 2 million in October 2008 while the RTGS system peaked at just over 60,000 transactions in November 2008. ATMs had a total of 28.4m transactions in 2008 while POS was used 13.8m times in the same calendar year. Use of these systems declined rapidly after 2008 due the introduction of multiple currencies, which brought cash into the economy that is less susceptible to significant fluctuations in value.

The introduction of the multicurrency system in Zimbabwe has, to a limited extent, restored the faith in the banking system as whole. However, the process of converting to “multi-currency” did have a detrimental effect, as all Zimbabwe Dollars held in any of the bank accounts depleted to zero with no compensation. Although the amounts in real terms were negligible, the psychological effects may still be felt. The general public is still hesitant to leave cash in the banking system, worrying about both access to their cash and the possible future erosion of value if the Zimbabwe Dollar is hastily reintroduced. Without a doubt, cash is still king in Zimbabwe. It is likely that in the short to medium term any new electronic payment channels will only be successful if they provide a convenient and affordable way to reliably access cash.

#### **3.1.3 Participation in the NPS**

With regards to the interaction of the financial sector with the national payment system, the Bankers Association of Zimbabwe has three associations (Interbank Committee, Treasurers and Plastic Card and Electronic Payments Association) that represent the industry’s interests, which includes participation in the payments system. Of the various groups, the Plastic Card and Electronic Payments Association has the most relevance to the direct payment system participation. Formerly known as only the Plastic Card Association the group has recently updated its mandate to address electronic payments beyond cards. The Association is now more directly focused on emerging technologies such as mobile phones and the development of high volume electronic interbank payment infrastructure. It is imperative that this industry group in particular continues to support the holistic development of the payment services market, rather than a particular niche (e.g. plastic cards).

However, the banking industry does appear to have common interests in payment system development that have come to the attention of the RBZ. One particular area of note is interconnection and agreeing a role for Zimswitch to act as the *de facto* national retail switch for ATM, POS and mobile phone based transactions. As Zimbabwe’s economy continues to reemerge from the experience with hyperinflation, banks see a clear advantage in capitalizing on new technologies to leverage each other’s infrastructure via interconnected networks to provide better services to the public, and gain back the trust of discerning customers.

### 3.1.4 *Payment Service Innovations*

The relatively sophisticated nature of Zimbabwe’s financial service industry has given rise to some payment services product offerings that are unique to the market and offer a glimpse of financial institutions looking to use new technologies to navigate a challenging and complex market environment. In this section we highlight two particular models: the “bank-led” model, whereby a bank has taken the lead role in developing and promoting a new payment service product; and “non-bank-led”, where a non-bank institution has taken the lead role in the product promotion and development but they have partnered with a bank to meet the prudential requirements set out by the RBZ. Below, we consider each model in turn. We also discuss the role of the Zimbabwe Post Office (ZIMPOST) and Post Office Savings Bank (POSB). As in many developing markets, the post office network offers basic internal remittance services and presents an opportunity to deepen access to services using its wide distribution network of outlets.

#### **Bank-Led: CABS and Kingdom Bank**

Central African Building Society (CABS) and Kingdom Bank have been particularly active in pursuing innovative solutions to payments services in Zimbabwe. While other banks are committed to modernizing their existing infrastructure, CABS and Kingdom are leading the market in terms of integrating new technologies, such as mobile phones, into the modernization process.

Kingdom Bank was the first institution to integrate a mobile phone based payments solution, called CellCard, into its suite of product. Kingdom has also introduced cardless ATM services for cash withdrawals, using the mobile phone platform. Both of these instances are firsts in Zimbabwe. However, while Kingdom is arguably leapfrogging traditional distribution models for payment services, the mobile phone based products are largely additive and restricted to Kingdom bank account holders. Kingdom Bank has not yet connected its mobile services to the ZIPIT platform, thereby excluding themselves from an interconnected network to allow customers to send and receive payments from other institutions.

CABS has similarly introduced new payment mechanisms to the market, beginning in late 2010 with a card based stored value product, more recently followed by a mobile payment solution called Textacash. The CABS stored value card has 10,000 account holders, 8,000 of whom are associated with a particular program servicing the agriculture sector. The cardholders are CABS customers but were signed up specifically for the particular agriculture support program (i.e. they did not initially have access to the full suite of CABS retail banking products). In contrast, the Textacash mobile payment service is an additive service for existing CABS customers, similar to that of Kingdom Bank’s Cellcard. The critical distinction of CABS’ approach to its electronic payment services strategy is that they have committed to full interconnectivity via the ZIPIT platform. CABS is leading the dialogue within the Zimbabwe banking industry advocating for greater interconnection between financial institutions for mobile-based services, as well as ATM and POS. To date only two banks (Kingdom Bank and TN Bank) are choosing to retain exclusive access to their respective payment channels.

## **Non-Bank Led: Tetrad E-Mali and MobiKash**

Non-bank institutions are not authorized to operate in Zimbabwe unless partnered with a bank, which is responsible for the prudential controls associated with financial service provisions, be it payment services or otherwise. However, partnerships are not created equal and in the case of Zimbabwe there are two particular non-bank institutions<sup>8</sup> which have sought to lead the management and branding of retail payment services.. These two institutions are E-Mali and MobiKash.

Tetrad E-Mali is a joint venture between E-Mali technologies and Tetrad Investment Bank, who have developed a payment service that is primarily card-based but also has mobile capability. The basic services include person-to-person transfers, mobile top-up, and bill payments. The services do not have a minimum balance or monthly fee (in contrast with many traditional deposit accounts) and are heavily dependent on an agent based network distribution model. The target market base for services is corporate institutions and mainly urban customers. Tetrad E-Mali has partnered with several grocery store chains in Zimbabwe as well as the ZIMPOST to use their outlets to facilitate transactional services. Tetrad E-Mali is also looking to partner with similar businesses in South Africa (such as Shoprite) to funnel cross border remittances into their distribution channels. Regulatory authority to do so is expected in early 2012, but this is solely dependent on gaining permission from the South African regulator.

In contrast to Tetrad E-Mali's domestic roots, MobiKash Zimbabwe is a subsidiary of MobiKash's larger pan-African mobile payment platform whose most significant presence is in South Africa. MobiKash's operational model involves the use of the mobile phone as a POS device and is mainly targeted towards the rural unbanked in Zimbabwe. Similar to Tetrad E-Mali, MobiKash's service offering includes person-to-person payments, mobile top-up and bill payments. Notably, MobiKash initially approached the RBZ for permission to operate without a bank in partnership, at which point they were advised to partner with a bank of their choice if they intend to operate in Zimbabwe. As of date, it has yet to establish a successful partnership with a bank and the model is therefore not yet operational in Zimbabwe.

## **ZIMPOST and POSB**

As is the case in many developing markets in Southern Africa, the post office in Zimbabwe (ZimPost) has the most extensive distribution network for services outside the urban centers. This distribution also raises the profile of ZimPost to the degree that the brand is well known amongst citizens in Zimbabwe. The fact that the postal services are regarded as relatively affordable further increases the customer's perceived value in the ZimPost brand.

As part of its postal services, ZimPost is also a conduit for domestic remittances via its partner financial institution, Post Office Savings Bank (POSB). Together with ZimPost, POSB has the single largest brick and mortar distribution network<sup>9</sup> for payment services in Zimbabwe, with 166 total outlets covering every district

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<sup>8</sup> Other than mobile network operators. Mobile money will be discussed separately below.

<sup>9</sup> The only other financial services institutions with similar coverage are AgriBank and CBZ, who have a country wide presence with 56 and 60 branch outlets, respectively.

in the country. ZimPost is also connected to the ZIPIT platform and has established an agreement with Telecel to offer mobile banking services.

Importantly, ZimPost provides access to customers who do not have a formal bank account with financial institutions. Non-account holders can remit from ZimPost to other non-account holders, as well as account holders. For example, POSB account holders can receive funds from non-account holders and vice versa.

Although ZimPost and POSB currently enjoy a relatively high level of usage of payment services from the unbanked, the institutions themselves are not developing innovative products to further entrench their services or expand their network. Instead ZimPost has allowed products such as EcoCash and Tetrad E-Mali to use their distribution network to support those mobile-based payment services. However, it is unclear whether the post offices themselves have determined the impact on their services. Either via cannibalization of existing ZimPost remittance products or meeting customer liquidity demands with limited amounts of cash transactions occurring at ZimPost locations. The impact of these possible outcomes would strain the already operationally intensive operations required to run a nationwide network of branches, underpinning the delivery of postal and remittance services.

### **3.1.5 Mobile Money**

There have been significant developments in the mobile money arena in Zimbabwe over the course of 2011. At least eight products are now operating in the market, most of which having just launched in late 2011. None of these products have gained a significant amount of traction in the market yet, although competition amongst them is high. All of the mobile money products in Zimbabwe are bank-based (as directed by the RBZ) although not all of the products emphasize the bank's role in the partnership.

All of the MNOs' in Zimbabwe support a mobile money product in some manner. Econet has launched EcoCash in partnership with TN Bank and NetOne launched OneWallet in partnership with FBC Bank. In contrast to Econet and NetOne, Telecel has opted to interconnect with Zimswitch over the ZIPIT platform and offer its network to a variety of financial institutions (similar to Zimswitch's ATM and POS services), the most prominent of which is CABS' Textacash service. POSB and CBZ have also developed mobile money products primarily using the Telecel network. All of these products are focused on providing domestic remittances and basic payment services (such as bill pay and mobile top-up), largely targeted towards existing customers.

EcoCash is by far the most widely marketed mobile money product in Zimbabwe, thanks largely to Econet's large user base and expansive marketing efforts. Not surprisingly, EcoCash is heavily leveraging the Econet

brand to drive awareness of the product and services. However, to gain regulatory approval Econet was required to partner with a bank and have therefore chosen to partner with a small commercial bank (TN Bank) as a vehicle for their mobile money operating license. TN Bank is not connected to ZimSwitch and therefore EcoCash cannot interconnect to other mobile banking services over the ZIPIT platform.<sup>10</sup>

Telecel's market strategy is to compete against Econet's significant market share advantage by leveraging an interconnected network where multiple banks use the Telecel network to deliver mobile money services. This is largely enabled by the fact that the majority of banks are already connected to Zimswitch, making it easier for Telecel to offer their network service by simply connecting to Zimswitch as well (via the ZIPIT platform). Telecel has sought to increase their market share through lower pricing, offering more reliable service and the aforementioned interconnectivity. Telecel also has the advantage of bigger bank players such as CABS to push marketing and promote interconnectivity and benefits of a mobile "ecosystem".






The table below provides a sense of the pricing profile amongst the leading mobile money products in Zimbabwe. More particularly, the table demonstrates the contrasting approaches to fund transfer and withdrawal fees. EcoCash is notable for the high cost of sending money to a non-Econet subscriber (7%), which in comparison to the other products is not much cheaper than the 10% per transaction fee charged by formal alternatives (such as ZimPost).

Table 1: Comparison of Zimbabwe Mobile Banking Transaction Fees<sup>11</sup>

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<sup>10</sup> As of July 2012, TN and Econet are in process of regularizing the technical modalities and intend to join the local switch.

<sup>11</sup> <http://www.techzim.co.zw/wp-content/uploads/zim-m-banking-cost-compare2.png>

	Econet EcoCash	CABS Textacash	Tetrad eMali	NetOne OneWallet	Kingdom CellCard
					
Deposit	free	free	free	free	free
Withdrawal	3%	n/a	\$0.25	2%	\$1.00
Transfer money	2% to EcoCash 7% non-EcoCash \$6 limit	20 cents + 1%	\$1.00	1.5%	\$0.15 to CellCard \$2 to non-CellCard
Balance enquiry	free <del>\$0.03</del>	free	\$0.10	\$0.05	\$0.03
Airtime topup	free	free	n/a	free	free
Monthly fee	none	none	none	none	\$1.30

Source: <http://www.techzim.co.zw>

Additionally, Annex 4 provides an overview of cost of “traditional” bank account services that can be compared to this table of mobile banking fees.

### 3.2. Regulatory Environment

The section below discusses the current regulatory environment in Zimbabwe for retail payment services. The discussion highlights the key regulatory institutions and nature of existing laws and regulations that provide oversight powers to the government and guidance to the market.

#### 3.1.6 Regulatory institutions and their respective remit

**Reserve Bank of Zimbabwe:** The Reserve Bank of Zimbabwe (RBZ) is the primary entity responsible for the oversight and guiding the development of retail payment services in Zimbabwe. The RBZ houses the policy development and supervisory functions for oversight for banking and payment services in two separate departments: the National Payment System Department (NPSD) and the Banking Licensing, Supervision and Surveillance Division (BLSSD). The NPSD also oversees the development of Zimbabwe’s payment infrastructure, setting rules and regulations for participation in the payment system by financial institutions. The NPSD has proactively sought to encourage innovative solutions for payment service modernization, often in the absence of some market certainty due to the nature of the evolving policy environment in Zimbabwe. The Department’s strategy for NPS development is focused on creating an ecosystem for retail payments, which includes a move towards e-payments, encouraging greater innovation, and pushing low value payments to Zimswitch to lighten the load on the RTGS system (ZETSS).

The BLSSD’s role in respect to payment system development is largely a complementary one, since only banks can participate in the national payment system under the current legal framework. For this reason, the

BLSSD works with the NPSD to support the application and approvals process for banks wishing to introduce new products and partnerships into the national payment system.

The rapidly changing payment services market in Zimbabwe has challenged the ability of the NPSD to develop a policy framework that can keep up with market conditions. For this reason, the NPSD has developed some creative solutions to providing guidance to the market. These include the use of bi-annual Monetary Policy Statements published on the RBZ website (discussed further in the sections below) and an internal coordinating committee between the NPSD, BLSSD, and Legal Departments that convenes to discuss gaps in the current regulatory environment.

**Ministry of Finance:** The Ministry of Finance (MoF) is the only other government institution in Zimbabwe which is engaged in payment system development, albeit indirectly. They are the policymakers for the financial sector, with an overall coordination role, who give direction to RBZ policies which are then pronounced in the Monetary Policy Statements. Therefore they have limited day-to-day engagement in payment system development. The MoF does not engage directly with firms, but however, they oversee the RBZ by administering the Reserve Bank of Zimbabwe Act, which gives oversight powers to the RBZ. The MoF coordinates most closely with the BLSSD and occasionally with the NPSD, although this is likely to change as NPS development emerges and a key developmental milestone in Zimbabwe. The MoF’s policy priorities are to re-build confidence in the financial services sector, promote regional integration and further develop the electronic payment and banking infrastructure.

**Institutional Coordination:** Currently there is no *centralized* national strategy or coordinating body for payment system development in Zimbabwe. However, the RBZ remains at the centre of payment systems development. Payment systems developments in Zimbabwe are driven using a payment systems strategy formulated by a Steering Committee, composed of various public and private sector stakeholders, led by the RBZ.

The RBZ oversees the Cheque Clearing House operations to ensure the efficient functioning of the system. A Clearing House Committee manages the business of the Cheque Clearing House, which is composed of one representative from each member bank and chaired by the Central Bank. This is in contrast with countries like South Africa where the Payment Association of South Africa (PASA) operates the clearing house, other retail payments and drives the payment systems development.

In addition, the Bankers Association of Zimbabwe (BAZ) manages three associations (namely Interbank Committee, Treasurers and Plastic Card and Electronic Payments Association) who work in collaboration with RBZ to develop or formulate strategic policies where necessary.

### 3.1.7 Overview of relevant laws and regulations

Table 2 below highlights the main pillars of the existing formal regulatory framework around the payment systems ecosystem in Zimbabwe.

**Table 2: Payment Regulations in Zimbabwe**

<b>Payment</b>	The only regulations regarding rules and participation in the NPS in Zimbabwe
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<p><b>Systems Act (2001)</b></p>	<p>reside in the National Payment Systems Act (2001). The NPS Act clarifies rules for settlement obligations and clearing of payment instructions and provides a framework for the oversight of such rules. The NPS Act does not include specific reference to the use of electronic retail payment mechanisms or instruments (such as cards or electronic money).</p> <p>The RBZ Act [Chapter 22:15], Section 12 provides the same and the NPS Act is complimentary to that effect. NPS Act limits direct participation in the NPS to banks, who are the only type of financial institution currently defined in the legal framework that can undertake “money transmission services”<sup>12</sup>. Therefore all participation in the NPS to conduct retail payment services must involve a licensed bank. The NPS Act also does not specify any rules around outsourcing services by banks to third party providers (such as agents or MNO’s) to facilitate the respective components of retail payment service provision outside of bank branches. In the absence of such specific rules, the NPS Act requires regulated institutions to ensure proper risk management measures are in place including in an outsourcing scenario. Such outsourcing arrangements are managed through service level agreements, which are approved in line with the bank’s risk management framework.</p>
<p><b>Banking Act (2004)</b></p>	<p>As noted previously, the Banking Act specifies that banks may undertake money transmission services and buying and selling of foreign exchange currencies. No other mention of payment services or foreign exchange is made in the Banking Act. The Act also does not reference rules for anti-money laundering provisions or outsourcing of services.</p>
<p><b>Exchange Control Act (2004)</b></p>	<p>The Exchange Control Act covers payments between parties<sup>13</sup> in Zimbabwe, but does not specifically discuss the conditions in which these occur at the retail level. The rules are only designed to cover foreign transactions or cross border payments and not meant for local payments. The Act does not discuss financial limits for foreign exchange transactions, Statutory Instrument 109 and 110 of 1996 provides the basis for review in line with RK26 Guideline of February 2009 as read in conjunction with ECD1 of 2009 instead focusing on ensuring that foreign exchange dealings represent the true value of any gold, currency or securities involved in the transactions.</p> <p>It is important to note that the Exchange Control Act operates in an environment that is heavily dependent on cross-border remittances throughout the region (particularly South Africa). Regulators are keen to keep open avenues for incoming remittances and have not taken a conservative tack, revealed in the fact that the Act does not specify limits for foreign exchange transactions. The burden has fallen on the financial services industry to manage the operational challenges associated with offering foreign exchange services, namely creating an efficient conduit for incoming remittances and cost-effective distribution networks for disbursement of funds. The former is limited by the nature of “first-mile” rules and regulations at the origination point of the cross-border transaction.</p>

<sup>12</sup> Zimbabwe Banking Act (2004), Section 7(1)(d)

<sup>13</sup> As well as imports and exports, transfer and settlement of property, debt transactions.



<p><b>Bank Use Promotion and Suppression of Money Laundering Act (2004)</b></p>	<p>Bank Use Promotion and Suppression of Money Laundering Act (2004) is the act responsible for money laundering and CDD-KYC principles. SOCP compliments the money laundering Act in the prosecution process by a competent court. Circular's No. 1 and No. 2 from the Act highlight reduced criteria for the opening of accounts by low risk customers.</p> <p>Circular No. 1 broadens the documentation required to prove residence. Examples of the documentation include letters from employers, affidavits from landlords, third party home owner certificates, letters from schools, chiefs and head men, or referral letters from Senior Bank Officials.</p> <p>Circular No. 2 widens the scope of documents used for customer identification to include a letter from any of the following: a practicing accountant, an existing bank customer, a practicing doctor, a practicing lawyer, a government arm.</p>
<p><b>The Serious Offences (Confiscation of Profits) Act (2005)</b></p>	<p>The Serious Offences (Confiscation of Profits) Act (hereby referred to as the SOCP Act) pertains directly to the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime in Zimbabwe. The SOCP Act covers all regulated financial institutions in Zimbabwe (including commercial banks, POSB and building societies) and covers transactions that include account opening, electronic funds transfer, and foreign exchange.</p> <p>However the SOCP Act's primary context is the prevention of criminal activity and it focuses on the rights and duties of law enforcement and legal prosecution of offenders of the Act. The Act does not discuss requirements for customer identification for account opening or the nature of restrictions and requirements associated with the use of electronic instruments such as cards or stored value accounts.</p> <p>The Bank Use Promotion and Suppression of Money Laundering Act (2004) is the act responsible for money laundering and CDD-KYC principles. SOCP compliments the money laundering Act in the prosecution process by a competent court. See The typical KYC requirements to open a bank account are proof of residence, copy of ID and a passport photo. See Annex 4 for an overview of identification required by a selection of financial institutions to open a bank account in Zimbabwe.</p>

The table above indicates the absence of a comprehensive regulatory framework for electronic retail payment services in Zimbabwe.. However the current framework also reveals the *ad hoc* nature of licensing financial institutions that seek to offer products and services outside of the legal framework stated previously. The NPSD assesses all applications on a case-by-case basis and imposes licensing conditions (via a letter of approval) based on their assessment of the risk associated with the product or business venture.

The NPSD also uses the Monetary Policy Statements published bi-annually on the RBZ website<sup>14</sup> to communicate policy developments and guidelines to the market. The NPSD often uses the Monetary Policy

<sup>14</sup> <http://www.rbz.co.zw/mpolicy/mpolicycontents2004.asp>

Statements to address common concerns of financial institutions and specific market developments that would benefit from further guidance from the regulator. However, the Monetary Policy Statements do not hold the same weight as the legal provisions stated above. The RBZ uses them to allow the respective departments (such as the NPSD) to engage with the market in a consultative manner to ultimately determine the best approach for policy and regulatory guidance. Although this is the intent, there has been little progress made in expanding the existing legal framework for retail payment services in Zimbabwe by applying the learning from the use of the Monetary Policy Statements. Clearly the period of hyperinflation made such progress more complicated and it is only now that the market is beginning to push the boundaries with the introduction of new products and services (such as mobile money and agent banking), thereby exposing gaps in the current legal framework.

The following section will explore in greater detail the gaps in both the regulatory and market environment in Zimbabwe.

### **3.3. Key Regulatory gaps and market barriers to payment system development**

This section looks at the current gaps in the existing regulatory environment and market context that inhibit further development of the payment system ecosystem in Zimbabwe. These gaps form the foundation of the issues that impact Zimbabwe's development of an effective and efficient NPS that is sufficiently open to innovation and provides the necessary certainty to the market to encourage investment.

#### **3.1.8 Regulatory Gaps**

**No framework for electronic money or stored value.** The innovative solutions presented by service providers such as CABS, Kingdom Bank and Tetrad E-Mali are all based on the idea of using stored value accounts to facilitate low cost access to basic payments services using electronic money. However, there is no publicly available<sup>15</sup> framework in Zimbabwean law that discusses the use of stored value services over mediums such as cards or mobile phones and specifies the conditions in which this must occur. Although participation in the NPS is limited to prudentially regulated banks (who should have the capital and internal controls to mitigate risk associated with stored value instruments), stored value and e-money services are new lines of business that would justify specific regulatory guidance. Additionally, for partnership models that use a non-bank service provider, such as MNO or other payment services provider (e.g. E-Mali), rules around stored value may be more critical to help guide the nature of such partnerships as it relates to their shared risk management requirements.

**No specific rules on the development and management of agent networks for mobile banking:** Within the context of the legal framework noted in the previous sections, the outsourcing of services to agent networks is provided for in the banking act under section 7(1)(i). The agents are managed through SLAs and any acceptable contractual arrangements and the risk lies with the bank that is answerable not the MNO. Nearly all of the mobile money products discussed previously intend on using agents as part of their respective distribution networks. However any conditions for the recruitment, training and oversight of such agents are

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<sup>15</sup> The RBZ has drafted an e money guideline but it has not yet been published and was not available as part of this research

stipulated in the *individual* approval letters that outline the conditions of approval. There is no public reference for such conditions to (i) ensure a level playing field amongst stakeholders and (ii) provide certainty to new entrants into the market as to the conditions (and associated costs) required to participate in such activities. Agents are provided for in the banking act under section 7(1)(i). The agents are managed through SLAs and any acceptable contractual arrangements and the risk lies with the bank that is answerable not the MNO.

**Reduced KYC rules rely on a third party to verify identification.** The current KYC framework makes specific reference to reduced requirements for the opening of accounts by customers. The framework provides financial institutions the necessary flexibility to enable customers to open accounts by expanding the type of documentation required to open an account (namely proof of residence and verification of identity). However customers are still reliant on a third party to verify their suitability to open an account, even though most Zimbabweans hold a government issued identification card. It is likely that this extra step in the verification process (the need to acquire a letter from a 3<sup>rd</sup> party) will still inhibit the full potential of the market by preventing customers who do not have access to a third party to allow them to open account. Given the pervasiveness of government identification, the KYC framework may benefit from the development of a standard of account that only requires presentation of government identification. The risk of these accounts can be mitigated by limitations on the value (or volume) funds operated by the customer. This is already the defacto process being implemented by existing mobile money programs in Zimbabwe. (Note: See Annex 4 for overview of identification required by a selection of financial institutions to open a bank account in Zimbabwe.)

**Non-bank participation in NPS may encourage innovation.** Allowing non-bank service providers to participate directly in the NPS would assist in the development of a holistic retail payment system that maximizes the use of innovative ideas to meet customer needs. The current framework puts the entire burden of participation on banks, who may not be incentivized to take on the burden of developing transaction monitoring services, agent network management and other such peripheral services that are central to the effective functioning of a retail NPS. Existing laws do not go as far as prohibiting banks from seeking partnerships with such services providers, but the framework does not provide banks with an ability to effectively share the risk with such institutions, to further incentivize investment in infrastructure and services and ultimately provide a broader range of services to customers.

**National Payment Systems Act does not address electronic services.** The current form of the NPS Act is limited to addressing netting and settlement procedures for interbank payments and does not sufficiently address the growing trend towards complex retail payment mechanisms over electronic channels. The NPSD is currently considering developing an e-payment act to cover issues such as e-signatures and other similar issues specific to electronic payment services. The market is moving rapidly and any new regulatory guidance would greatly enhance the regulatory certainty needed in the market today.

It is worth noting that RBZ is limited in their legal capacity to act due to some limitations in the existing regulations discussed previously, so therefore must regulate on a relatively ad hoc basis. The NPSD has worked hard to preserve a level of transparency but this is exceedingly difficult as the market is moving quickly and the regulator is not armed with a framework of guiding principles that can safely navigate their policy interventions and manage market expectations.

### 3.1.9 Market Barriers

**Business rules for interconnection are still evolving.** Zimswitch has made good progress in agreeing conditions for greater interconnection in retail payments in Zimbabwe, particularly with the introduction of the ZIPIT platform and the support of institutions like Telecel and CABS. However, at the time of writing of this report two significant players, Econet and Kingdom Bank mobile banking products, were still not connected to the ZimSwitch mobile platform<sup>16</sup>. One of the critical areas of discussion amongst these institutions is agreeing on interchange fees<sup>17</sup> and the use of shared networks and infrastructure (i.e. ATM's, POS and Agents). This is clearly a challenge given the disparate levels of market dominance among the respective stakeholders and the as yet unclear rules around exclusivity of distribution networks.

**Distribution networks do not extend to rural areas.** At the present time there are few formal outlets to send and receive payments outside of the urban centers in Zimbabwe. Rural dwellers are forced to come into urban centers at significant personal cost to receive or send payments, which diminishes the convenience and affordability to existing channels substantially. This circumstance is well known amongst the stakeholders in the payment services market, but the incentives to invest in extending the infrastructure is complex, particularly when the cost of introducing and operating traditional channels (such as branches and ATM's) are considered. The recent development of mobile money products is a promising development *if* the key institutions can effectively leverage the potential of agent networks using the mobile and POS. However, how to manage the critical function of liquidity (i.e. cash) required to serve as an extension of such networks remains a significant challenge. Until this is understood it is unlikely that service distribution will be introduced effectively outside of the urban centers (other than at ZimPost outlets) in the near future.

**Product pricing still needs to be refined.** As with any new product, it is unclear what the customer deems is the "right price" for the electronic payment services currently being introduced in Zimbabwe. This is an issue that is not unique to Zimbabwe as many other markets throughout Africa navigate the balance between profitable and affordable products. However, Zimbabwe is unique in that its population is rather sensitive to the dynamics of the financial services sector based on their experience with hyperinflation. Although this circumstance is clear to the financial institutions developing the new payment products (such as mobile money), there remains work to be done to understand how customers perceive the delicate balance of paying for greater reliability and convenience in formal payment services. This becomes even more critical if the potential market for such products is customers who have little experience operating the formal financial sector. Initial conversations with customers (outlined in Section 4 of this report) demonstrate the current pricing model of some mobile money products may not be in tune with what the potential customer considers "affordable".

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<sup>16</sup> Kingdom bank is a member of Zimswitch and participates on the card network. The bank offers a mobile banking service not linked to Zimswitch

<sup>17</sup> Interchange fee is a term used in the payment card industry to describe a fee paid between banks for the acceptance of card-based transactions. Usually it is a fee that a merchant's bank (the "acquiring bank") pays a customer's bank (the "issuing bank") however there are instances where the interchange fee is paid from the issuer to acquirer, often called reverse interchange. *Source:* [http://en.wikipedia.org/wiki/Interchange\\_fee](http://en.wikipedia.org/wiki/Interchange_fee)

**No representative industry body to represent the needs of the industry as a whole.** Given the sophistication of the financial services market in Zimbabwe a representative industry body (such as a Payments Association or Council) would be an immensely useful tool to coordinate the needs of the industry, level the playing field amongst the different types of institutions (e.g. banks vs MNO's), and to more efficiently work with the RBZ to develop regulations that are in tandem with nascent business models. The absence of such an organizing body runs the risk of stalling market developments as all parties are forced to represent themselves, thus creating a circumstance where many of the common messages and needs can be obscured by differences among institutions (which may or may not be minor in respect of the interest of a national payment system development agenda).

#### 4. CONSUMER PERSPECTIVE

##### 4.1. Overview of research

*"Us Zimbabweans, we have lost our love of the banks."- Harare*

To complement the supply-side research, Bankable Frontier Associates and the market research firm Research Bureau International (RBI) conducted seven focus group discussions about experience with and perceptions of retail payment services from October 4-11, 2011. Focus groups were held in Harare, Dema, a peri-urban town in an area called Seke, and the more rural Chiweshe, about 95km from Harare. We spoke with remittance receivers and senders, beneficiaries of agricultural input programs, and urban Zimbabweans using bank and stored value card products. Although we spoke with Zimbabweans from different walks of life, this research reflects the experience of Zimbabweans we met in Mashonaland East and Mashonaland Central provinces only. More information about the focus groups is provided in Appendix 1, and the discussion guide used in focus groups is available in Appendix 2.

Hyperinflation and a rocky transition to the multi-currency regime continue to influence many aspects of life in Zimbabwe and, unsurprisingly, this history has a particularly strong influence over how people think about and manage money. Zimbabwe represents a unique case of an urban and peri-urban population that formerly used more formal financial instruments than they do today, a class we are calling the *ex-banked*. The uncertainty of the multi-currency regime, in which US dollars and South African rand are used interchangeably and at different conversion rates in different parts of the country, also impacts how people imagine their financial future. The possible return to Zimbabwe dollars, compounded by the lack of clarity about how people might exchange Zimbabwe dollars that are still in circulation motivates some respondents to keep the old currency at home, just in case.

Perhaps due to having to find creative ways to work around cash during hyperinflation, respondents in Zimbabwe use a more diverse arsenal of payment tools than in Malawi and Mozambique, the other countries surveyed in this study. Financial behavior and perceptions of payment services is explored in more detail in the following sections. Specifically, we look at how people are paid, how they make payments, person-to-person payment patterns, government-to-person payments, attitudes towards innovative payments, and consumer preferences about financial service use.

##### 4.2. Getting money into the house: How are people paid?

###### Income patterns

Income patterns vary across sectors, for example:

- Vendors and small business owners earn small profits regularly, daily or many times per week.

- Farmers who now own and cultivate land as opposed to working for others may get income only once or twice a year, and are often dependent on the parastatal Grain Marketing Board or another large company to buy their harvests.
- A construction worker and repairman we met in Seke complained that requests for him to build or remodel a house are unpredictable and clustered around certain times of the year. His clients pay in cash, but they often ask to delay payments, and he has to chase them to get paid.

### Getting paid

As in other countries in the region, informal markets thrive around cash payments. As seems to be common practice in the region, small business owners in Zimbabwe only accept payment on credit from customers they trust, or those with regular salaries. Some vendors also reported permitting installment payments:

Respondent (R): *“We offer credit to some of our clients that we trust, like the policeman and civil servants who get their salaries at the month end whom we know that they will definitely pay.”*

R: *“If I am selling an item worth US\$ 100, customers wouldn’t be able to pay for it in one month, so I let them pay over two or three months.”* – Harare.

For those with formal employment, opening a bank account is often a prerequisite for receiving salary payments. In the public sector— a heavyweight in the Zimbabwe economy— payments are done through CBZ bank. Quite a few employed individuals we met withdraw their salaries from the bank at one go, but this is not the case for everyone.

Although the use of cheques fluctuated during the hyperinflationary period, focus group discussion respondents reported that they do use cheques and bank transfers, especially in Harare . As mentioned, during the latter part of hyperinflation, cheques became a popular way to avoid carrying cartfuls of cash, and to save money by paying a sum that would decrease in real value by the time the receiver made it to the bank. Respondents said that some businesses stopped accepting cheques, and are hesitant to go back to them, in spite of an apparent consumer preference for paying for big purchases with cheques.

### 4.3. Transaction patterns: How do people pay?

#### Expense patterns

Focus group respondents mentioned school and medical expenses as the largest expenses they have to cover. We heard that school fees were \$120 per child per year in primary school in Seke. Family members’ medical emergencies and trips to the hospital for any reason were also mentioned as breaking the bank for poor recipients. One respondent with an eleven-month old daughter in Chiweshe was still paying back the hospital for the cost of the birth. As men in Chiweshe explained:

R: *“My wife went to the hospital, I had to pay hospital bills which was about US\$ 226, plus US\$ 30 for medicine. They said for \$100 they will discharge her and the balance I would pay next month but I would pay the other money early next month.”*

R: *“I also had to put money together in time to pay the hospital bills before I was chased after— they will chase you.”*

In the more rural Chiweshe and Seke, groceries and food were mentioned as the biggest expense over the past year. Although conditions have improved substantially since 2008 and 2009, we heard that basic food goods are costly and strain the limits of the poor’s budgets. The following respondent quote illustrates:

R: *“Food was sometimes unavailable last year. One would go to very far to buy food that would be expensive...for the past few years there was drought, so we would go to Grain Marketing Board*

*(GMB) where there would be maize meant for drought relief. But you would see GMB employees with loads of maize at their house and they would sell the maize at very high prices for up to \$50 a bag instead of the recommended \$5. I really had to work hard to secure food.” –Seke*

### **Making Payments**

Zimbabweans currently face the exceptional challenge of transacting in whole dollar (or Rand) amounts only: at the time of research, the government had not imported any US change. Five rand can be used as an equivalent of US\$ 0.50, but this was the smallest denomination that we encountered in discussions with urban and peri-urban respondents.

In shops, prices are rounded up to the nearest dollar or customers can choose to buy candy or matches in order to reach a whole dollar total, or can take a credit note written on a small piece of paper that can be redeemed for credit at this location only. A respondent in Harare commented on the difficulty of this system:

*R: [The lack of change] is so inconvenient! You have to go back to that particular shop to use the credit; you can't use it anywhere else. So if it's a shop which you rarely use or that is far from where you live or work you will end up buying things you did not plan to buy, to compensate for the change.” - Harare*

A few respondents mentioned an increase in bartering or exchanges in small goods, especially for small denominations and in more remote areas to get around the lack of change. Although our research was too limited to explore this on a larger scale, the consequent rounding up of low-cost items, like transportation fees and small food purchases is bound to have a large impact on the way the poor transact—likely benefiting small-scale producers and hurting consumers.

Wealthier, urban respondents mentioned that paying with a card at the POS as a good way to get around the lack of change in dollars or rand, as the card can be charged for the exact amount of the purchase. In Harare respondents had noticed the expansion of facilities accepting ZimSwitch, but complained that the system is not reliable.

*R: “There was a time when the card was offline for 3 days, I went to FoodWorld it was offline, I went to OK it was offline, all supermarkets trying to use the card but it was offline. I had to leave my groceries at the till.” –Harare*

**Moderator (M): “Do you find that the system is on more than it's offline?”**

*R: “Fifty-fifty.”*

Network and systems problems also limit how useful ATMs can be— respondents reported that they have been stuck without being able to access cash over the weekend when the banks are closed and ATMs are down.

For big purchases, respondents in Harare and Seke mentioned using checks and bank transfers:

*R: “I pay [for big purchases] through a transfer from my account”*

*R: “Check.”*

*R: “I would prefer a check...It does not go offline!” – Seke*

Zimbabweans have endured tough economic years. Respondents mentioned family and social networks, especially close ties to the diaspora, as a main source of their resilience. The next section explores payment options in the remittance landscape.

#### **4.4. Person-to-person transfers and remittances**



Many focus group respondents mentioned that money they receive from relatives and even community members who are working abroad sustained them through periods of crisis and allowed them to make basic payments.

*R: "The money from our relatives abroad is helping us buy medication for our children and the elderly, since medication is expensive in Zimbabwe."*

*R: "Personally, remittances helped me to start a business and other projects since the money I earn is always swallowed up with the day to day costs of life." - Harare*

Respondents are familiar with formal money transfer services, and many remittance receivers we spoke with use money transfer companies and bank transfers frequently. The table below summarizes some of the good experiences and challenges we heard about different methods of sending money. Interestingly, many respondents continue sending money through the bus network despite more formal options and the slew of problems they experience with the busses. More than the high cost of money transfer and bank services, people mentioned that access barriers on the sending end — especially, for migrants, being a legal resident in the country where one is working and having the required documents to open a bank account— are the main inhibiting factors preventing their relatives from using formal transfer services.

Remittance method	Positive experiences	Negative experiences
Transfer company- Western Union or Money Gram	<i>"It is safer, your money will be secure. Most people are just used to the informal way of doing things, but by using money transfers your money will be secure." - Harare</i>	<i>"People know that it is safer to use the money transfer agencies but due to circumstances they are forced to use the informal ways. In Namibia they require you to open an account with a Namibian bank and also with a Zimbabwean bank. I am afraid to open an account in a Namibia because I might be kicked out at any time." - Harare</i> <i>"She paid \$30 to send me US\$ 100."- Seke</i>
Kombi minibus system		<i>"My child is in South Africa... I go to the road port to collect money from her. But sometimes I miss the bus and the money will go back to South Africa. Sometimes the buses break down along the way and I wait for hours." - Harare</i> <i>"It takes me two to three days to receive the money from South Africa and I spend the whole day waiting at the road port." -Harare</i> <i>"He pays 20 and I pay 20, together we pay 40 rand to send 100 rand." -Chiweshe</i>
Friends, neighbors	<i>"A friend is the best – with a friend no Identification documents are needed, no ATM cards and no queues." –Seke</i>	
Bank transfer	<i>"It makes sense...you just do the transfer." - Harare</i>	<i>"They take a bank charge of five dollars per month if she has been sent \$45 she only gets</i>



	<i>"She had made an error in the person's account number, so when person she was sending money had not received money, that's when she went back to the bank that's when she realised the error and it was easily fixed."</i> - Harare	\$40." -Seke
Post office	<i>"The money will arrive within one day."</i> - Seke	<i>"It takes me about one hour to get to Chitungwiza post office, and one hour to come back."</i> - Seke  <i>"Unlike other ways, at The post office do you get charged when you are collecting the money."</i> –Seke

Perhaps because the Zimbabwean diaspora is well educated and doing well in the countries where they reside, they seem to use formal transfer mechanisms— banks and money transfer services— quite frequently, according to their family members. Box 3 below gives an example of how Zimbabweans banded together with an innovative technology solution to help family members at home when Zimbabwe was serious in crisis.

**Box 3: Text for fuel or cash, with Mukuru.com**

Mukuru.com was started by Zimbabweans working in the mobile and IT industries in London to facilitate remittance payments for the most essential goods when times were tough in Zimbabwe. In 2008, with official inflation over 2.2 million percent and the foreign reserve crisis in full force in Zimbabwe, companies were just as desperate for valuable foreign currency as everyday Zimbabweans were to be able to make purchases. Mukuru.com first introduced a product that enabled Zimbabweans living abroad to purchase fuel, groceries, school fees, or even pay the DSTV bill online for friends or relatives in Zimbabwe. The fuel companies and supermarkets receive a money transfer, and the recipient receives a text message with a pin number they can use to make the purchase. Email updates let the sender know when the text has been sent and when the receiver makes the purchase.

Born as an ingenious solution to inflation and foreign exchange constraints, Mukuru.com has expanded into the international mobile remittance market. Although groceries, fuel, and other goods can still be purchased online for Zimbabweans, the service now also allows senders to send money online to mobile phones in 73 countries around the world, with pick up at varying types of businesses and confirmation by email or text message.

Other innovative websites such as zimbuyer.com and zimland.com offer similar services, facilitating remittances and secure payments for essential goods.

Recently, money transfer operator Mukuru partnered with foreign exchange bureau InterAfrica in South Africa to allow sending of remittances from South Africa to Zimbabwe at a fee of only 10% of the remittance amount – significantly cheaper than most alternatives. After registering as a client and undergoing KYC at an InterAfrica branch, senders can make cash-in remittance payment at any Pep clothing store, FNB bank branch or InterAfrica branch. Recently, the ability to send from a cell phone via the FNB e-Wallet USSD menu was also introduced. Receivers can redeem cash through the infrastructure of CBZ and CABS banks in

Zimbabwe<sup>18</sup>.

Sources: [www.mukuru.com](http://www.mukuru.com), <http://news.bbc.co.uk/2/hi/africa/6660637.stm>, and <http://www.bloomberg.com/apps/news?pid=newsarchive&refer=africa&sid=abH3.i4pKlSk>

Although there are undoubtedly large volumes of remittances in-kind and sent through informal channels entering Zimbabwe especially from South Africa,<sup>19</sup> these demand-side findings suggest that mobile or stored value card products that can tap into the remittance markets have the potential to be successful in Zimbabwe as people report seeking lower-cost, reliable transfer products.

#### **4.5. Government-to-person and Donor-to-Person: Social assistance payments**

Because government-to-person (G2P) and Donor-to-person (D2P) transfers present opportunities for increasing financial access and creating a sizable market for payment products to be paid for by the state<sup>20</sup>, we included targeted transfer beneficiaries in the focus group research. We were unable to include a larger government assistant program. At the time of research, it seemed that NGOs were filling gaps in social safety nets in sectors such as health, HIV prevention, environment, and others. Companies, NGOs and parastatal organizations also actively provide agricultural inputs and assistance. Many of the products we heard about were primarily in-kind assistance, but the social enterprise, Northern Farming<sup>21</sup> reportedly had a small program in which farmers were given stored value cards with which to buy inputs at select stores. The bank implementing this program described it as a success.<sup>22</sup>

In extraordinarily fertile Zimbabwe, agricultural organizations such as the parastatal Grain Marketing Board<sup>23</sup> (GMB) subsidize or purchase in full inputs for farmers who then owe the organization the amount they were given back in grain or another crop. Any surplus can be sold (to this same organization) for a profit, and if the farm produces less than the value of the inputs the farmer owes the difference. It is interesting to explore the payments mechanisms employed in such schemes:

#### **The Grain Marketing Board**

The Grain Marketing Board was established in 1931. The GMB has a network of more than 70 depots and processing units. These depots are strategically located throughout Zimbabwe. The GMB's main purpose, which has largely remained the same over the seven decades, is to ensure food security in Zimbabwe with particular reference to staple food products, namely, maize and wheat. The main function of the GMB is the orderly marketing of agricultural products, mainly grains, oilseeds, edible beans and coffee, within Zimbabwe. The GMB assists farmers by buying various crops and selling them to the domestic agro-processing industry in addition to exporting these products to regional and international markets. When in short supply, the GMB imports food from both regional and international markets. The GMB offers subsidized inputs to farmers who

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<sup>18</sup> Source: forthcoming InterAfrica/Mukuru case study being developed for FinMark Trust by Cenfri (S. Ncube), based on interviews with InterAfrica and Mukuru, as well as a mystery shopping exercise.

<sup>19</sup> See Kerzner, Saul. 2009. "Cash and Carry: Understanding the Johannesburg-Zimbabwe remittance corridor." Submitted to FinMark Trust.

<sup>20</sup> See for example CGAP: <http://technology.cgap.org/series/g2p-financial-inclusion/>

<sup>21</sup> Northern Farming is a new endeavor by the owners of Northern Tobacco. For more information see: [http://www.aecfafrica.org/index.php?option=com\\_content&view=article&id=90:northern-farming&catid=43:zimbabwe&Itemid=100008](http://www.aecfafrica.org/index.php?option=com_content&view=article&id=90:northern-farming&catid=43:zimbabwe&Itemid=100008)

<sup>22</sup> CABS bank is implementing this initiative in partnership with Northern Farming. Farmers can only use the cards at participating farm supply stores with POS capability.

<sup>23</sup> For more information about the Grain Marketing Board, see: <http://www.gmbdura.co.zw/>

commit to reselling their produce to the Board as a repayment for the inputs. In recent years, the GMB has successfully ventured into downstream industry, which has seen it involved in the pre-packing and processing of agro products.

The GMB does payments in cash (according to respondents) and there is some confusion among recipients about the order in which payments should be received. Farmers go to the GMB and wait for their grain to be accepted. Sometimes there are quantity restrictions, and all the larger volume farmers sell first. Focus group participants described many days of waiting at the GMB to sell their grain and receive a lump-sum cash payment. According to recipients of GMB assistance in Chiweshe, the payment system could be improved significantly. Respondents in Chiweshe were meant to receive their payments in June, but still had not received anything by early October. After receiving payments from the officials at the GMB, respondents reportedly feel unsafe because people know they have been there and should be carrying money.

Respondents also reported that it is difficult to get information about when the GMB is giving inputs or buying grain, who can sell, and what the prices will be. Respondents in Chiweshe also described favoritism and kickbacks:

*R: "With GMB it does not matter if you need inputs. On a certain day they may want those who sold 10 tons of maize last year to get the inputs. When those who sold 10 tons have received, it depends on the GMB staff. They do some favors for people they know and like."*

*R: "The GMB staff members...engage in corrupt activities like they give you a certain amount of inputs and you will give back part of the inputs to the staff member."*

– Farmers in Chiweshe

Despite these problems, farmers mentioned that the Grain Marketing Board is the best option they have for selling grain. Given that the GMB interacts with many farmers, must keep track of thousands of subsidy and sale payments, and has a seemingly costly payment distribution system that is based on large scale cash payouts, there seems to be an opportunity for efficiency gains in payments that would be win-win for farmers and for the Board. The same would apply to other social transfer schemes – in the government and non-governmental sectors.

If electronic payments are eventually to be considered for G2P transfers, it is interesting to know how Zimbabweans view these payment options now. The next section explores this in more detail.

#### **4.6. Attitudes toward financial services and electronic and innovative payments**

Many Zimbabweans are making the conscious decision to avoid banks, especially for savings. Consumers blame the banks to some extent for bank accounts being frozen with the onset of multi-currency. With exponential inflation, it was hard for banks or consumers to assign a value to balances in the bank in 2008 and 2009. Some respondents may have had accounts with substantial sums wiped out. Others seem to have misunderstood that their bank balances, high in simple number terms, were actually near valueless due to hyperinflation.

*R: "I was disappointed losing huge amounts in my account [with the switch to multi-currency]. So I won't reopen a bank account." –Chiweshe*

*R: "In 2009 they just told us all accounts were frozen, and people lost all their money resulting in financial problems." - Harare*

Although some respondents see the banks as unreliable, it was more common for people to mention bank charges as the main reason for avoiding banks (See Annex 4 for actual bank charges encountered in a mystery shopping exercise). Many feel that bank charges have shot up compared with pre-crisis rates, reinforcing the image that the banks are charging unfair prices.

*R: "I would keep my money in a bank account if the bank didn't deduct so much of the amount I have deposited. Instead, they should add interest to my deposit, not deduct it." - Chiweshe*

Indeed, gaining returns on idle funds was a priority mentioned by many Zimbabweans, even those with low and unpredictable incomes. Focus group respondents overall had a relatively sophisticated understanding of banking and interest. Instead of saving at the bank, people prefer to save at home, in small safes, to invest in livestock or building materials, or in businesses that they hope will provide high returns. One woman in Seke described how she lent \$50 to small business owners in the market who need capital to buy stock, and they pay her back \$55 after two weeks. This 10% interest is much higher than she could earn at any bank. Another woman explained:

*R: "If I had enough money for the bank, I would rather invest in property or goods that I would resell when I needed cash. I would invest in building materials." - Seke*

Mobile and stored value card products in the nascent electronic payments market in Zimbabwe are capitalizing on consumers' aversion to traditional bank products, emphasizing in their marketing materials that there is no bank account required to use mobile banking and payment products.

### **Movement in mobile**

At the time of our research visit, there were at least three mobile payment products recently launched or about to be launched in Zimbabwe. The consumers we spoke with had not heard much about the details of how these products worked, but they had seen the advertisements, and were curious and intrigued:

*R: "I will have to try to use these mobile money services, because almost everyone has got a phone but not everyone has got a bank account." -Harare*

Other respondents in Harare mentioned that they felt sending money to a mobile account would be more secure, since there will be no confirmation slip that another person could get a hold of, and people commented that they thought it would be faster and more reliable than the bus system.

This was reiterated in Chiweshe:

*R: "I like that I would not have to travel far on the kombi to send money, all I would have to do is to go to the nearest shop, and even the person receiving the money won't have to travel far. Nice!" - Chiweshe*

However, this enthusiasm about mobile payments in theory was tempered by the fact that people had not yet tried the services, or been exposed to information about the costs or which banks these products are associated with. Despite advertising to the contrary, these products are required to be linked to a bank account.

**M: "Do you mind which bank is associated with the cell phone service to send money?"**

*R: "I don't want a bank account, I just want to use the service." -Chiweshe*

Respondents were very sensitive to transaction fees charged by banks, and competitive payment products will need to seem more affordable. We tried to probe how much people are willing to pay for mobile transactions. Although the discussion usually started with quips about how mobile phone companies make a lot of money already and should charge little, respondents eventually came around for charges of 3-5% for larger amounts (using \$50 as a benchmark). Some groups in Harare mentioned that for smaller amounts they

would understand if \$1 was charged to send \$10 for example. This grounding seemed to come from the lack of change and habit of rounding up. With Ecocash planning to charge a maximum of about 7% to the sender, with a capped amount of \$6, according to their promotional material, it seems that focus group respondents, especially in Harare, are willing to pay a similar fee to send money, especially larger amounts, but not all products are seen as affordable (for a more extensive list of charges, see Annex 4).

### **Cards coming up**

Focus group respondents were also familiar with a number of stored value cards that are relatively new to the market in Zimbabwe. Respondents reported that cards have limited utility outside of Harare, where POS are harder to come by and power is less reliable. In Harare people were familiar with cards linked to bank accounts or a stored value product that can be loaded at ZimPost, and some respondents used cards.

*R. "I swipe to buy my groceries. It's a very good idea because when I don't go to the ATM I can pay with my card." –Harare.*

And some respondents exhibited a high level of understanding of the switch:

*R: "The best cards are the ones you can use everywhere there is Zimswitch." - Harare*

In Chiweshe people were less familiar with cards, and it seems that despite Zimswitch's efforts to expand, people do not think there are many places to pay with cards outside the city. While some respondents stuck to a preference for cash, other more rural respondents hypothesized that using cards would help them keep money safe.

*R: "The cards are good, because with cash you might get robbed, so you will only go and use the card when you want to go and use the cash, because with the cash in hand it might all get stolen...A lot of tobacco farmers are targets for theft when they leave the floors." - Chiweshe*

Another woman thought a card might reduce spending on temptation goods after farmers they are paid lump sum amounts for the harvest:

*R: "These farmers get paid and come home saying they were robbed. Yet probably he spent much of that income on other girlfriends and entertainment (Laughs....). So if there is a card the wife would be taking care of it."*

*R: "I'll just stick with cash. I don't have a husband." –Chiweshe*

But cards are not yet prominent in Zimbabwe, especially outside of Harare. Many banked respondents use the ATM cards often, but don't seem to be considering making the leap to POS payments. Lack of network availability was mentioned as a limiting factor. But the markets are growing fast, and Zimbabweans are hungry for affordable products that offer accessible financial services while also keeping a measure of distance between the client and the bank. The next section addresses what attributes Zimbabweans say they prefer in choosing financial services.

### **4.7. Consumer priorities for payment system usage**

Two interesting findings emerged from our discussions on priorities in choosing financial services. First, high bank fees, rather than accessibility or reliability, were the main factor in choosing an account for many. Second, many of those who do have bank accounts and use them actively use them for budgeting and as a commitment device, something we did not hear in Mozambique or Malawi.

Affordability— especially fees, and trust— lack of confidence in the overall currency regime as well as in specific banks, are the main priorities

**M: “What is the most important factor in choosing a bank?”**

R: “Bank charges”

R: “Bank charges”

R: “Sometimes you travel outside and then you find that there are no any other branches; they will only be in Harare, so you find it difficult.” - Harare

Some perceive charges as exorbitant because of lack of transparency:

*“When I started banking I deposited \$180 into my account, after a while I only had \$120. They said the rest was bank charges. They told me the charges were only \$5. But then they were also charging me for an ATM card I didn’t have.” -Harare*

Respondents also mentioned that companies should do more consumer education when they introduce new technologies and products, explaining how they work and what the charges are in a transparent way. In this part of Zimbabwe it would also be appreciated if more services were in Shona.

For those who have never used a bank, lack of the required documents or sufficient funds to open account came up often as reasons for not choosing the bank.

R: “I didn’t have the required identity documents to open an account”...

R: “I have never even considered opening an account because I don’t have anything to put in the account.” -Seke

Loss of trust and traumatizing experiences with banks have left their mark, as one man explained in detail:

*R: “I say that the people lost confidence in the bank since the 2005 to 2009 crisis. Most people were robbed of the money they had in the bank. We also used to stand for the whole day waiting to withdraw money in vain... Some would sleep on the bank premises so that they could be first on the queues. Life was really terrible. The maximum withdrawal amount was too little and there was a lot of chaos. It’s all about trust, the nation will rather keep their monies at home or invest in goods that they will later resell.” -Harare*

But others feel that they can trust the banks. This opinion was echoed in the group of clients at banks with a down-market focus in Harare.

**M: Do you trust the bank?**

R: “Right now yes.”

R: “Now I do, but in the past it was a problem.” - Seke

They just would rather not pay the fees, or the fees are too substantial a part of income to make banking worthwhile, as described above:

*R: “I think another issue is that of income. Our incomes are too low. A person with little income finds it difficult get charged bank charges on that small amount.” –Seke*

However, when we asked what people would do with their money if they won a prize of \$1000, almost no one said they would deposit the money in the bank. This suggests that use of formal services is not that sensitive to income. As we have observed elsewhere, some “reluctantly banked” individuals (e.g. those whose employers insist on paying their salaries into a bank account) still use the bank as little as possible:

R: “I take out all the money and leave a small amount as little as \$12 to keep the account operational.”

R: “If I weren’t formally employed I wouldn’t have opened an account.” - Harare

Accessibility, as well as affordability, is a primary deterrent that prevents the ex-banked from going back to banks.

*M. Why do you say a cash box is better?*

*R. Because it is easily accessible and convenient if you have problems.*

Many respondents mentioned the need for payment services that penetrate into rural areas. The fact that the vast majority of places where cards can be used are in Harare limits their utility.

### **Commitment**

For both bank accounts and savings groups, people articulated clearly that the obligation inherent in keeping money out of sight helps them achieve their goals.

*R: "My account assisted me in sending money to my relatives and also receive money. Once I joined the bank I was able to save a little there and it helped me to pay school fees and some bills."*

*R: It is easier to have a bank account because I do less impulse buying. Sometimes I am crying about not having enough money, but in my mind I know it is in the bank." –Harare*

Similarly, savings groups, referred to by respondents as "rounds" use commitment to enforce repayment:

*R: In the round, if you are the 1<sup>st</sup> or 2<sup>nd</sup> to receive the money it's an advantage because it's a loan for the other members. With the group, it's a "must save"...not like a bank account." – Harare*

### **4.8. Summary of demand side findings**

We encountered polar differences between respondents in Harare who had many options for financial services, on the one hand, and much poorer more rural respondents who paid high transaction costs and endured exasperating delays to collect and make payments, on the other. The ex-banked, the reluctantly banked, and the never-banked alike are dissatisfied with high bank charges and inaccessible services outside of Harare.

The number of different mobile and stored value cards that are relatively new to the market in Zimbabwe evoked more excitement and perhaps even a greater willingness to pay for good service than bank products. But at the same time, respondents did not know the details of how these products work, and had not yet used them. It is an exciting time for retail payments and financial access in Zimbabwe, but the consumer research reveals that Zimbabweans won't be duped by hidden fees or inaccessible products.

## **5. THEMATIC ANALYSIS OF NPS DEVELOPMENT**

This section of the study takes the context of the current environment in Zimbabwe and applies a thematic lens to the issues that enable the development of transformative payment services. The specific categories were chosen because of their respective role in facilitating the development of transformative services, based on evidence highlighted in this report and external research<sup>24</sup> regarding the use of new technologies to

<sup>24</sup> "The Enabling Environment for Mobile Banking in Africa" (Porteous 2006)

"Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation" (Lyman, Ivatury, and Staschen 2006)

"Transformational Potential of Mobile Transactions" (Vodafone Group Plc. 2007)



extend financial services. The thematic approach allows policymakers to determine a holistic course of action, avoiding the risk of a lopsided approach to enabling payment system development. From this perspective three main thematic categories emerge to frame the context in Zimbabwe, each of which consists of a number of framing questions:

Table 3: Thematic Categories

Theme	Framing questions
Government Policy Measures	1. Holistic NPS strategy
	2. Coordination strategy with regulatory bodies
	3. Position on the use of stored value and e-money
	4. Participation in the NPS
	5. Exchange control rules
	6. Competition
	7. Level playing fields for MNOs and banks
	8. Promotion of interconnection
Market Barriers	9. Business rules and incentives for interconnection
	10. Flexible account opening
	11. Agent network development
	12. Market for third-party providers
	13. Cost of expanding distribution network
Consumer Perspectives	14. Perceptions of formal financial institutions
	15. Attitudes toward electronic payments
	16. Importance of payment channels
	17. Use and nature of informal tools

Table three indicates:

**1) Government Policy.** The first of the thematic clusters relates to the development of retail payment systems by the public sector. This includes the issuance and development of policy and regulations as well as the role governmental authorities play in encouraging the market to develop affordable and accessible products and services. As summarised in Table 3, we include 8 framing questions or elements under this category to allow us to gauge the role of government policy, overall.

**2) Market Barriers.** The second cluster treats the main barriers to access. Such barriers can arise due to regulatory requirements or supply-side/market structure elements. This theme pays particular attention to the conditions necessary to extend distribution networks beyond urban centers as well as the state of the payment infrastructure to support a broad range of products across multiple distribution channels. As Table 3 indicates, 5 framing questions contribute to the assessment of this category.

**3) Consumer Perspectives.** Our third thematic cluster examines the behavioral aspects of payment services usage and addresses how consumers prioritize the services available to them. Generally, focus group discussions revolved around the availability, ease of access, affordability, and reliability of payment services as being the four dimensions that directly influence consumer perception of the value of payment products and hence are the primary factors driving payment instrument selection. They can be defined as follows:



- **Availability** – existence of payment services within a reasonable distance. This could also include the existence of agents, mobile banking products, or other services.
- **Accessibility**- extent of transaction costs, travelling and wait times, requirements for account opening, and inclusiveness of informal instruments.
- **Affordability**- in money terms, including transaction costs.
- **Reliability**- **Frequency with which services fail to deliver their supposed purpose, including delays and financial losses.**

For the consumer perspectives, the four core framing questions as outlined in Table 3 will each be assessed according to these four dimensions to understand how the consumer engages with payment services and whether the current environment adequately meets the demand for services

**A note on format:** Tables 5 overleaf has been formatted to explain at a glance how the existing conditions in Zimbabwe compare against these criteria. Each issue/framing question is coded with a symbol indicating whether each issue is characterized by *barriers to development*, *some limitations*, or *a favorable environment* (defined in Table 4).

**Table 4: Explanation of symbols**







	<b>BARRIERS TO DEVELOPMENT</b>	There are significant blockages that limit the development of retail payment services. From the consumer perspective, respondents report that barriers make it impossible to use a service, or the tool is not working for them.
	<b>SOME LIMITATIONS</b>	Although some progress has been made and favorable conditions may be developing, key limiting factors may be hindering progress. From the consumer perspective, payment systems are working reasonably well in this area, but full potential is not met.
	<b>FAVORABLE ENVIRONMENT</b>	Although further improvements might be possible, generally positive conditions for improved retail payment systems and access are in place. For clients, products are meeting needs.

Table 5: Assessment of Zimbabwean retail payment system against key framing questions

<b>Category 1: Government Policy</b>	
<b>What measures is the government taking to develop retail payment services?</b>	
<b>1. Is there a holistic NPS strategy that identifies regulatory priorities?</b>	
<p>There is no explicit NPS development strategy that has been communicated to the financial services sector by the RBZ. A previous strategy (agreed in 2000) between banks and the RBZ is due for review. However, given the developments in the economy during the past 10 years, the RBZ has stayed the process until the economic situation has stabilized.</p> <p>This is not to say that the RBZ does not have a sense of the priority areas of payment system development. The RBZ publishes bi-annual Monetary Policy Statements (January and July) that often make reference to NPS activities and are used to communicate regulatory expectations at the policy level. However, there is no publicly available document that clarifies the precise intentions of the RBZ regarding NPS development, listing objectives and committing to specified timeframes.</p>	
<b>2. Coordination strategy: does the NPS development impact other areas of regulation (e.g. banking supervision, telecoms)?</b>	
<p>Internal coordination between the NPS department and banking supervision is formal to the degree that letters and memos, minutes in place are used to manage overlap between the two areas of work. In addition, the two departments coordinated between themselves during the process of approving bank-led mobile payment schemes.</p> <p>The RBZ and MoF do not have a formal coordination strategy, as exemplified by the absence of a national financial inclusion or NPS development strategy.</p>	
<b>3. Position on use of stored value and e-money: is there “space” for institutions to develop stored value instruments as a solution to low threshold accounts?</b>	

There are no written regulations or policy guidance for stored value instruments or e-money issuers, although there are stored value products in the market. The RBZ considers applications to issue e-money on a case by case basis and to date have authorized three third party PSP's to issue e-money (although all are partnered with banks).

In the absence of regulatory clarity it is difficult for new institutions to navigate the application and approvals process with any real certainty. This has not inhibited some firms from seeking approval to offer stored value products. However, many of these firms have yet to gain traction in the market in Zimbabwe, which in combination with the absence of regulatory clarity may delay/discourage other innovative models from entering the market in Zimbabwe.

**4. Participation in the NPS: who can play in the NPS? 3<sup>rd</sup> party providers? Settlement? Clearing? Networks?**

Under the RBZ Act, the NPS Department only has the authority to oversee financial institutions, and financial institutions are defined as banks in Zimbabwe. Therefore the only institutions authorized to participate in the payment system are banks.

Due to this situation, current practice in Zimbabwe requires non-banks (such as MNO's or third party PSP's) to partner with banks in order to legally offer payment services to the market. Given that the market is still in early stages of development it is uncertain whether this model will inhibit growth. However compared to other global practices it is clear that this model limits the market from taking full advantage of the flexibility and innovation presented by the outsourcing of certain payment service functions (e.g. settlement, clearing or network management) to regulated institutions other than banks.

*Some limitations*



**5. Exchange control rules: under what conditions do FX enter/exit the market? How does this impact the availability and accessibility of services?**

There are no known regulatory barriers to foreign exchange entering or exiting the market in Zimbabwe. Since multi-currency, liquidity is in high demand and the market has worked to lower operational barriers to encourage inflows of foreign exchange (particularly US Dollars and South African Rand).

As noted previously, the regulatory requirements around foreign exchange do not address limits to foreign exchange transactions or subsequent reporting requirements.

Banks did not express any concerns or barriers with foreign exchange other than the desirability of cash reserves to meet customer

*Some limitations*



demand.

**6. Competition: what role does competition play in driving innovations, product design and pricing?**

Most banks in Zimbabwe are focused on improving the quality of services to (i) win back customers who exited the financial system during hyper-inflation and (ii) retain existing customers. This service focused strategy has created an competitive market environment where providers are keenly aware of the new products and services offered by competitors.

Mobile banking is a prime example of a service that many banks feel they must offer in order to remain competitive in the market for new customers. This has driven partnerships with third party providers as well as encouraged interconnection, due to the lower cost of entry by leveraging the ZIPIT platform (as opposed to purchasing a standalone system).

The prominence of EcoNet as the largest network provider may provide a competitive challenge for banks, who now must compete with a non-bank entity who has a distinct competitive advantage via its network and brand awareness. However, Telecel is offering an alternative outcome for those banks, and actively addressing the dominance of EcoNet by promoting an ecosystem where all banks can interconnect (via Zimswitch).

Whatever the outcome may be, it is clear that the competitive nature of the market is driving new products and partnerships that may ultimately benefit the consumer the most.



**7. Level playing field for MNOs and banks: is the market environment open to all players regardless of nature, size, scale and complexity?**

In the absence of regulations for new technology led payment system solutions (including, but not limited to, mobile phones) the RBZ has made special efforts to consider each application based on its own merits and have to date issued licenses to bank-led and bank-based partnerships involving MNOs and third party payment service providers. Due to the nascent stage of market development, it may still be too early to determine how “level” the playing field is. However, to date there are no indicators that any particular payment model has been given an explicit advantage over others, although all require the involvement of a bank.



**8. Promotion of interconnection: how involved is the regulator in promoting interconnection amongst financial institutions?**

The RBZ is a proactive advocate of interconnection in Zimbabwe and actively promotes the use the local retail switch, Zimswitch, to facilitate low value domestic retail payments. The RBZ also benefits from a relatively sophisticated banking sector that sought to use greater interconnection as a way to manage the recent period of hyperinflation..

Therefore the RBZ has not had to mandate interconnection to the market. Instead it has only utilized self-professed moral suasion to engage the industry and encourage the development of an agreed framework for interconnected retail payment services.



**Category 2: Market Access Barriers**




**What are the main Access Barriers to payment services?**

**9. Business rules/incentives for interconnection: how prepared is the market to organize and agree on an interconnected retail payment system across all e-channels?**

The perception amongst most banks is that Zimswitch can play a role in the development of a cost-effective system for interconnection, particularly for legacy channels such as ATM and POS. It apparent that the rules around transaction interchange for these channels have been well established. This is evidenced by the existing connection of the major retail banks to the ZimSwitch platform to drive the cost-effectiveness of the ATM and POS network by increasing access and usage.

However, business rules around the mobile platform have yet to be established given its nascent stage of development. The market for mobile payment remains somewhat fragmented as Econet and Kingdom Bank operate exclusive networks, while the Telecel has connected to the ZimSwitch ZIPIT platform, which has incentivized other connected banks to develop non-exclusive models for mobile payments. At the time of this research ZimSwitch was still negotiating pricing with banks that were not connected to ZIPIT.



<p><b>10. Flexible account opening: are there barriers to opening of low value accounts?</b></p>	
<p>There exists a reduced KYC standard in Zimbabwe that is focused on the broadening of allowable third party references to verify residence and identification.</p> <p>Although there is little penetration of low value accounts in Zimbabwe, or products that are geared towards that segment of the market the barrier likely remains largely within the banking industry, who (until recently) have not actively sought out customers for low value accounts, presumably due to the perception of limited opportunities (and interest) in that market.</p> <p>However, to fully realize the potential of the market the reduced KYC framework would benefit from the development of a standard that allows customers to open accounts without relying on a third party verification, but rather their existing government identification. This is already the defacto standard for existing mobile money programs.</p> <p>(See Annex 4 for an overview of current account opening requirements.)</p>	
<p><b>11. Agent network development: is there a framework to support the deployment of a broad network of cash merchants and agents?</b></p>	
<p>There are no published rules around the use of agent networks for the provision of financial services in Zimbabwe.</p> <p>However, the RBZ has authorized the use of agents to scheme operators as part of their license, if the RBZ deems the business model can be prudently managed. As noted previously, the merits of each application are evaluated individually, which remains the case with the use agents. Although banks remain liable for agent services (as per service level agreements), without a formal, public issuance on guidelines for agent banking (particularly for mobile based services) is it difficult to accurately assess how well the framework protects customer interests and whether the rules are sufficiently open to encourage further innovations in the market.</p>	
<p><b>12. Market for Third Party Providers: are third party providers enabled to capitalize on the opportunities in the market?</b></p>	
<p>The NPS Act in Zimbabwe does not make any reference to third party payment service providers that operate independent of a bank</p>	

partnership.

It is unknown if there is a clear market for third party service providers given the market's nascent stage of development. The early experience of independent firms indicate that the RBZ is not ready to allow third party providers to operate in the market without prudential supervision of business that handles customer funds through a bank partnership.

**13. Cost of expanding distribution network: is there a perceived return on investment in expansion of distribution channels?**

The greatest financial cost to the expansion of payment services is the investment in infrastructure to facilitate the distribution of cash to the far rural corners of Zimbabwe. The promotion of greater interconnectivity among financial institutions may contribute to the reduction of distribution costs and allow stakeholders to leverage each other's networks. The promotion of mobile banking via Zimswitch plays a central role in ensuring the conditions around interconnection further support the willingness of these institutions to incur the cost of expanding services via all available channels, not just mobile.

As of the timing of this research, the general consensus in the market is that interconnection will drive down cost of service distribution and therefore justify initial expenditures to introduce new products and technologies to customers.















**Category 3: Consumer Perspectives**

**How does Consumer Behavior impact use of payment services?**

**14. Perception of formal financial institutions: do customers trust the banks and telecom providers? Are impressions generally more positive or negative?**

Formal financial options are plentiful in Harare and likely in other large cities as well, but respondents perceive that there are not enough branches, and banks remain remote for many rural Zimbabweans. Once you get to the bank, respondents mentioned lack of identification documents as a barrier to banking. These factors result in "some limitations" for availability and accessibility. The perception of high bank fees contributes to the sentiment among focus group respondents that financial institutions are cheating people, so affordability has serious barriers.

There was a great deal of variety in impressions of reliability of financial institutions and mobile providers, resulting in "some limitations" coding. Focus group participants view the largest mobile provider as offering reliable services, but mention that other companies never have coverage. While banks themselves as seen as reliable, in the experience of respondents ATM and POS networks often fail.

<i>Availability</i>	<i>Accessibility</i>	<i>Affordability</i>	<i>Reliability</i>
			
<p><b>15. Attitude towards electronic payments: what are customers' impressions and preferences around electronic payment methods?</b></p>			
<p>Respondents were enthusiastic about mobile and stored-value card products. We probed fairly extensively about the willingness to pay for mobile remittances, and people seemed to think the 5-7% range of fees proposed by at least some mobile companies are fair. Thus, attitudes create a favorable environment for electronic payments from the consumer perspective in terms of availability, accessibility and affordability. Since ATM and POS networks are seen as less reliable than mobile coverage, there are some limitations in the reliability domain.</p>			
<i>Availability</i>	<i>Accessibility</i>	<i>Affordability</i>	<i>Reliability</i>
			
<p><b>16. How are most frequently used payment systems performing? What are current behaviors and requests from customers in remittance, G2P, and B2P payments? Are the methods currently in use available, accessible, affordable, and reliable?</b></p>			
<p>For many respondents, the payment systems people are using are failing them along at least one dimension of availability, accessibility, affordability and reliability. Informal and cash payment systems are most widely used and are available. However, there are limitations for accessibility, because respondents still travel long distances and experience long wait times to make and receive payments, through both formal and informal means. Formal channels are perceived as expensive, but sending money through bus drivers or money couriers is also expensive.</p> <p>Especially when transaction costs are taken into account, many Zimbabweans are paying a high price to use financial services, resulting in barriers in terms of affordability for the tools respondents use most. Furthermore, payment systems fail often- from ATMs being offline or jamming on old banknotes, to bus drivers stealing money. Both formal and informal tools were regarded by respondents to have limited reliability.</p>			
<i>Availability</i>	<i>Accessibility</i>	<i>Affordability</i>	<i>Reliability</i>
			






**17. Use and nature of informal tools: which informal payment and financial instruments are working, and which are not, along key dimensions?**

Given that our research did not include very remote or extremely poor areas, the respondents we met were able to access or create informal saving and borrowing options within their communities<sup>25</sup>. Availability and accessibility are given green for a favorable environment, with the caveat that the very poor may be excluded from social network-based financial instruments.

Although savings groups, bartering, and informal loans are more affordable than their formal alternatives, informal P2P options are expensive. Respondents mentioned that they can be charged twice for sending money informally (on the sending and the receiving end). There are some limitations to the affordability of the informal tools that Zimbabweans use most frequently, especially considering how far people travel and how long they wait to use services.

Popular instruments such as sending money through *kombis* or participating in *rounds*, or savings groups, fail some of the time, according to respondents. Reliability gets the stop sign because this failure comes at the time when money is needed urgently, and when people are counting on it.

<i>Availability</i>	<i>Accessibility</i>	<i>Affordability</i>	<i>Reliability</i>
			

In summary, it is clear that affordability and reliability are important for urban Zimbabweans, suggesting that in the urban environment, institutions have overcome the availability and accessibility challenges. But outside the cities, availability is still a challenge- banks and other payment options simply do not enter the day-to-day reality of low-income, rural Zimbabweans. And this is not due to any fault of their own: with a high literacy rate and strong English language skills, Zimbabwe has an impressively educated population, especially relative to other countries in the region.

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<sup>25</sup> If there is very limited economic activity and no small-denomination change in really poor places we will likely see different behavior. For example, savings groups are only possible among people who have somewhat frequent, regular income. We rarely see farmers who get income once a year using them. Similarly, money lenders or credit at the store also require a plausible way to repay.

Fundamental to discussions of priorities is the fact that many Zimbabweans are opting not to return to banks. Their confidence in the system has been shaken and they are making the rational choice not to pay what they see as high fees for banking services. Although enthusiasm for traditional deposits at banks is tempered, Zimbabweans are excited about proximate, low-cost savings and transfer products. The environment for well –designed mobile and card products is favorable from the demand side.

More generally, the discussion of issues in the tables above demonstrates Zimbabwe’s current state of payment system development, based on the evidence presented earlier in this report. The tables highlight the importance of understanding the interplay between the supply and demand components of the market and particularly clarifying how customers evaluate the quality of products and services. The thematic approach was designed to hone in on the key issues that impact the development of transformative payment services. By focusing on the most salient issues, we can now look to prioritizing any subsequent interventions to assist in the development clear roadmap for market development.

## 6. POLICY PRIORITIES AND WAY FORWARD

The findings of this study have demonstrated many progressive initiatives to address the low level of access to affordable payment services, driven by the public and private sector within Zimbabwe. Zimbabwe is unique in that there is a significant population of citizens who are former customers of formal financial institutions and have left the system, often due to mistrust in market stability. Harnessing the potential of this market may be a useful catalyst in paving the way forward to increase usage and access to payment services amongst all citizens, particularly those who have *never* had access to formal payment services.

However, there remain a number of obstacles to the development of payment services, as discussed throughout this report. Therefore any subsequent effort to improve the policy framework for payment system development should be prioritized to (i) take advantage of existing market activity and (ii) provide essential regulatory clarity for future development of innovative market solutions. The following paragraphs outline a series of recommended policy priorities.

### Priority #1: Formalize existing standards for participation in the NPS

Section 4.1 of this report highlights the numerous regulatory gaps in the current market environment for payment services in Zimbabwe. The NPSD's response to operating in an environment with little formal regulatory certainty has been to issue guidance using (i) the bi-annual Monetary Policy Statements and (ii) firm application approval letters to outline conditions for operating new payment services. Efforts should be made to consolidate such guidance into a more formal legal guidance that can effectively provide the needed certainty to the market without stifling innovation. These include, inter alia, risk-based rules on tiered KYC, criteria for non-banks to participate in the NPS, and conditions around stored value services.

### Priority #2: Agent banking rules

In the context of Priority #1, the NPSD has issued individual guidance to firms interested in using agent networks to distribute services. These rules should be formalized and published to ensure a level playing field between the stakeholders in the market who vary substantially in their nature, size, scale and complexity. A critical component of this would be added clarity around exclusivity of agents in an interconnected network and liability for agent activity.

### Priority #3: Introduce legal framework to address electronic retail payments mechanisms

The existing NPS Act (2001) does not reference or define electronic instruments such as cards, e-money or stored value mechanisms. Nor does it discuss a position on electronic signatures, transaction receipts, keeping of electronic records, or outsourcing of services to non-bank institutions. If the amendment process is prohibitively protracted then it may be necessary to explore the development of a new regulation on electronic payment services to operate in parallel to the NPS Act, adding clarity where it is currently lacking.

### Priority 4#: Push service distribution outside of urban centers

Incoming remittances should be "funneled" into a nationwide distribution channels that lower the transaction cost for receiving customers. The new mobile banking products begin to pave the road to do this but more needs to be done to ensure a sufficiently robust ecosystem for nationwide distribution of affordable and accessible retail payment services. An example of a potential solution to this issue is the

use of POSB and ZIMPOST to facilitate distribution of services outside urban centers. POSB and ZIMPOST have the single largest network of outlets in the nation and are a very well known “brand” in Zimbabwe. Initial efforts to reach the rural unbanked population may rely heavily on effectively incorporating these two institutions into not only the distribution of services but also in liquidity and cash management for agent networks outside the POSB/ZIMPOST outlets.

Priority #5 support financial empowerment and consumer protection to accompany new products

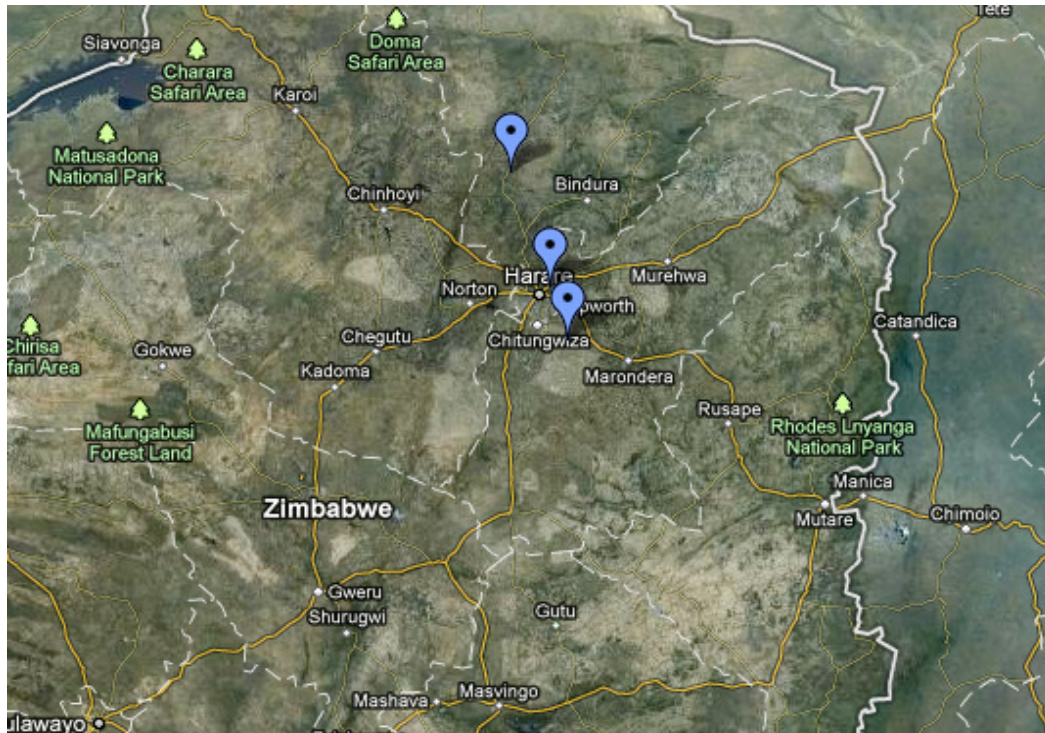
Helping payment service providers that are launching new products to work with new customers, especially lower-income and vulnerable clients, to feel confident in their understanding and use of mobile and electronic payments can help these individuals use payment systems successfully. While a number of new products can overcome proximity and accessibility challenges, their impact can be magnified if the introduction of products is accompanied by customer service support, to address the needs of new users and ensure that they know how to use new services and technology. Regulatory bodies may want to clarify disclosure rules about fees and functionality of new products, as well as providing consumers with redress options. Currently, advertising for new products does not seem to disclose relationships between banks and mobile operators, and the public may not be familiar with the regulations requiring this partnership.

**ANNEX 1: LOCATION AND DESCRIPTION OF FOCUS GROUPS**

**Figure 1: Focus Group Locations**

Focus group discussions, Zimbabwe		
	Target population	Number banked
Group 1	Remittance senders and receivers, Harare	5/8
Group 2	Remittance receivers, Dema, Seke	4/8
Group 3	Assistance recipients, Dema, Seke	3/8
Group 4	Farmers, Chiweshe	3/8
Group 5	Remittance recipients, Chiweshe	3/8
Group 6	Remittance senders and receivers, Harare	3/8
Group 7	Kingdom and CBZ customers, Harare	10/10

**Figure 2: Field Sites Visited**



## ANNEX 2: FOCUS GROUP DISCUSSION GUIDE

### *FinMark Trust Payment Systems Landscape Study (Mozambique, Malawi, Zimbabwe) &*

### *DfID Profiling of Financial Context for Workfare Payments (Mozambique)*

#### **Research Approach, Methods, and Instruments**

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**Background.** Bankable Frontier Associates has recently been contracted to conduct two studies in Southern Africa: One contracted by FinMark Trust aims to understand the landscape for electronic payments in the mass market in Mozambique, Zimbabwe, and Malawi. The second is focused exclusively on Mozambique where DfID would like to understand existing financial behaviors of the vulnerable poor as they consider their options for building financial inclusion into a workfare program in the early stages of the design process.

In each of the FinMark countries, we are seeking to sample the “mass market” of potential payment system users. In each country, we will distribute the sample to capture those with large, distant cash flows, like domestic and international remittances, government transfer recipients, and potentially cross-border traders. This will give us an opportunity to understand current payment options among people who may benefit most from e-payment systems.

For DfID in Mozambique, we are focused even further downmarket at potential beneficiaries of a workfare program, and we will be looking to understand their current financial management practices

and preferences looking for opportunities to strengthen the portfolios of beneficiaries through the cash transfer program.

In both cases, we will try to capture cash inflow and outflow patterns looking not just at assets and credit, but also the mechanisms for how money moves and what the implications are for choosing to transmit using different payment mechanisms. As such, we will use a common focus group and interview guide in Mozambique with a limited number of highlighted sections specifically targeting cash transfer-specific issues within the focus group discussion guide. This focus group discussion guide will be piloted and refined in Mozambique and then used to guide comparable discussions in Malawi and Zimbabwe.

### Demand Side Research Objectives.

FinMark	DfID
1. How do people pay and transact? Are there choices?	1. What financial management strategies are potential workfare beneficiaries already employing?
2. What features of the payment options shape peoples' preferences? Where are there problems and pain points?	2. What are potential beneficiaries' income and expenditure patterns?
3. What habits, attitudes, fears, etc. may need to be overcome to introduce innovative payment mechanisms?	3. What levels of understanding do potential beneficiaries express about different financial tools?

**Sampling.** In each country, we will distribute the sample to capture the general population of people who are engaged in relatively large movements of cash over distances who may be using formal or informal mechanisms to make those transactions right now. This will help us capture people who may benefit from e-payment mechanisms.

Country	Sample Size and Distribution	Explanation
Mozambique	<p>12 Focus Groups of 8 people:</p> <p><b>Site 1: 6 Maputo</b></p> <ul style="list-style-type: none"> <li>• 2 groups of market traders (including remittance senders)</li> <li>• 2 poor, urban youth</li> <li>• 2 groups of workers with regular jobs (including remittance senders)</li> </ul> <p><b>Site 2: 2 Chokwe (town in Gaza)</b></p> <ul style="list-style-type: none"> <li>• 1 traders/market women</li> <li>• 1 general population (hopefully with some remittance recipients)</li> </ul> <p><b>Site 3: 4 Rural Gaza</b></p> <ul style="list-style-type: none"> <li>• 2 (1 male; 1 female) in low income community A (no one w/regular job)</li> <li>• 2 (1 male; 1 female) in low income community B (no one w/regular job)</li> </ul>	<p>We have tried to distribute the sample to cover populations relevant to FinMark (traders and remitters) and DfID (very low income likely beneficiaries of the cash transfer/workfare program). As more information becomes available about the DfID targeting, we may need to adjust the sample.</p>

10 individual interviews prioritizing DfID sample (very poor)

Malawi	<p>Six Focus Groups of 8 people</p> <p><b>Site 1: 3 Lilongwe</b></p> <ul style="list-style-type: none"> <li>• 2 Government or aid transfer recipients</li> <li>• 1 domestic remittance senders</li> </ul> <p><b>Site 2: 3 Mangochi</b></p> <p>1 Government or aid transfer recipients</p> <ul style="list-style-type: none"> <li>• 2 remittance receivers (1 international if possible)</li> </ul>	<p>With only six focus groups we thought it best to concentrate discussions in Lilongwe and one rural area. In order to understand how people receive transfers, the sample is split between recipients of government or aid transfer</p>
Zimbabwe	<p>Six Focus Groups of 8- 10 people</p> <p><b>Site 1: Harare:</b></p> <ul style="list-style-type: none"> <li>• 2 respondents sending and receiving money</li> <li>• 1 respondents operating bank accounts targeted at the low end of the market</li> </ul> <p><b>Site 2: Seke</b></p> <ul style="list-style-type: none"> <li>• 1 respondents sending and receiving money</li> <li>• 1 respondents receiving financial or other assistance</li> </ul> <p><b>Site 3: Chiweshe</b></p> <ul style="list-style-type: none"> <li>• Respondents receiving money</li> <li>• Respondents receiving assistance from the government/ NGOs</li> </ul>	<p>With an estimated one million Zimbabweans living in South Africa, the South Africa- Zimbabwe remittance corridor represents an important market for payment systems. Therefore we will focus our research on urban and rural remittance recipients, as well as exploring the domestic remittance channels in Zimbabwe.</p>

## Focus Group Discussion Guide



A. Introductions and Warming Up	
Topics	Probes and specific questions
Introduce the objectives of the focus group	<ul style="list-style-type: none"> <li>• Study commissioned by FinMark and DfID, because they want to help improve financial services in Mozambique;</li> <li>• Best to start by understanding how people like you manage their money, where and why you save and borrow, how you earn, how you spend, how you send money when needed.</li> </ul>
Initiate some discussion to help respondents feel comfortable	<ul style="list-style-type: none"> <li>• Can you tell us a little bit about your community?               <ul style="list-style-type: none"> <li>○ How do people here earn money?</li> <li>○ What is your community known for/famous for?</li> </ul> </li> </ul>

B. Earning money	
Topics	Probes and specific questions
Sources of income	<ul style="list-style-type: none"> <li>• Can we go around the room and each person tell me how your family earns a living?               <ul style="list-style-type: none"> <li>○ Who in the family earns money?</li> <li>○ How do they earn money?</li> <li>○ About how often do they get paid for each activity?</li> </ul> </li> </ul>
How income is paid	<ul style="list-style-type: none"> <li>• When you earn money [in each way], how do you actually get paid?               <ul style="list-style-type: none"> <li>○ Does your employer [your spouse's employer]/client/etc. give you cash in person?</li> <li>○ Do you have to make a special trip?</li> <li>○ Has anyone ever been paid in another way? [bank account, voucher, check, in kind etc.]</li> <li>○ Which ways are most common?</li> </ul> </li> <li>• What are the advantages and disadvantages of being paid in these different ways?               <ul style="list-style-type: none"> <li>○ How far do you have to go to collect your payments?</li> </ul> </li> <li>• Has anyone ever experienced a problem getting paid with one of these methods? (What happened? Did you have to go back again? How long did it take to resolve the problem?)</li> <li>• Are the ways people are paid these days any different than they were maybe 10 years ago?</li> <li>• What is the best way to be paid? Why?</li> </ul>
Extent of remittances	<ul style="list-style-type: none"> <li>• Does anyone send money to family and friends to help out, maybe they are working or living in Maputo, Jo'burg, South Africa, or elsewhere?</li> <li>• Who sends money?</li> <li>• Is this common in this community?</li> <li>• How often do you send and about how much each time?</li> <li>• How do people send money? [probe for many ways]               <ul style="list-style-type: none"> <li>○ How do these systems work?</li> <li>○ How much do they cost?</li> <li>○ Are they reliable? Has anyone ever lost money using this?</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>▪ Has anyone experienced any other problems, like a delay or other problem? What happened? How was the problem resolved?             <ul style="list-style-type: none"> <li>○ What types of problems are associated with these systems?</li> <li>○ Are they convenient? How far do you have to go to get the money? How long does it take to get it? How much time do you spend waiting in line?</li> </ul> </li> <li>▪ Are these ways of sending money any different than maybe 10 years ago?</li> <li>▪ What is the best way to send/receive money? Why?</li> </ul>
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C. Uses of Money	
Topics	Probes and specific questions
Expenditure frequency	<ul style="list-style-type: none"> <li>• How often do you buy your big groceries? (Maize meal, cassava, oil, etc?)</li> <li>• Where do you normally do a big shop?</li> <li>• How do you normally buy your main groceries (cash, etc.)?</li> </ul>
Weekly expenditures (regular, recurring expenses)	<ul style="list-style-type: none"> <li>• Walk me through a week and what your budget is and how the money gets spent (may be a month in urban if formal jobs)</li> <li>• Where do you normally spend on [each major category that arises]?</li> <li>• How far away are these places? How long does it take to get there? How much do you spend on transport round trip?</li> <li>• How much do you normally spend on each trip?</li> <li>• How do you typically pay?</li> <li>• What about last week specifically? Can a few of you walk through what you spent specifically last week?</li> <li>• What was your biggest expense in the last <b>month</b>? How did you pay for it?</li> </ul>
Infrequent/occasional	<ul style="list-style-type: none"> <li>• What was your biggest expense in the last <b>year</b>? How did you pay for it?</li> <li>• How often do you spend money on...             <ul style="list-style-type: none"> <li>○ School, planting, weddings, funerals, other major expenses, when, where, how managed?</li> </ul> </li> <li>• What are the advantages or disadvantages of each payment mechanism used? [probe convenience, cost, reliability, etc.]             <ul style="list-style-type: none"> <li>○ Have you ever had any problems making these payments or you try to make the payment and run into a problem completing the transaction or being charged too much?                 <ul style="list-style-type: none"> <li>▪ What happened? Is this common? How was it resolved?</li> </ul> </li> </ul> </li> </ul>
Savings and credit	<ul style="list-style-type: none"> <li>• Do you separate your money for business from your money used to take care of yourself and your family?</li> </ul>

- How many of you have bank accounts? Where? How far away? How do you normally take money out? How long does it take to transact? Do you ever use a debit function? What do you mainly use the accounts for? Why did you open them?
  - What do you like/dislike about bank accounts?
  - Have you ever lost money using a bank account? [if yes, probe for story]
  - What types of people use bank accounts?
  
- How many of you have ever used a savings group?
  - What type of person uses a savings group?
  - For what purpose? Why do you use them?
  - How often do you contribute?
  - How often do you get a payout?
  - How far do you travel to contribute or withdraw?
  - How long does it take to transact?
  - What do you like or dislike?
  - Have you ever lost money or heard of someone who lost money in a group? What happened? Is this common?
  
- How many of you had to pay school fees? How much? How did you get the money together to pay for them? (what instruments?)
  
- How many of you have had to pay for big medical expenses? How much? How did you get the money together?
  
- How many of you had to pay for planting/ funerals/ weddings/celebrations? How did you get the money together to pay for them? (what instruments?)
  
- If you had an emergency and needed to come up with twice your monthly income, where would you get the money? (what instruments?)
  
- What other financial instruments are people using?
  - Saving in the house
  - Saving with another person (money guard)
  - Saving with a deposit collector (they pay someone to collect and hold their money)
  - Borrowing from friends and family
  - Borrowing from a moneylender
  - Credit at local shops or from suppliers
  - Loans from banks, MFIs, other institutions

	<ul style="list-style-type: none"> <li>○ Buying things on installments</li> <li>○ Any type of insurance</li> <li>○ Any type of long term investment</li> </ul>
<p>Mobile banking, electronic payments</p>	<ul style="list-style-type: none"> <li>• How many of you have cell phones?</li> <li>• Have you ever sent airtime (credit) to someone else, or paid for a good in airtime?</li> <li>• Have you heard about Mkeshe?</li> <li>• Would you like to use a service that allowed you to transfer money through your phone? What do you think of such a service</li> </ul>

### ANNEX 3: PEOPLE MET

INSTITUTION	TEAM MEMBER	CONTACT DETAILS	POSITION
RBZ	Josephat Mutepha	Josephat Mutepfa <JMutepfa@rbz.co.zw>	Senior Executive National Payment Systems (NPS)
RBZ	Douglas Muranda	Douglas Muranda <DMuranda@rbz.co.zw>	Principal -Oversight and Risk Management (NPS)
RBZ	Amon Chitsva	Amon Chitsva <AChitsva@rbz.co.zw>	Principal –Policy and Research (NPS)
RBZ	Julia Njobo	Julia Njobo <JNjobo@rbz.co.zw>	Principal -Operations and Support (NPS)
Ministry of Finance	Margireta Makuwaza	<a href="mailto:mmakuwaza@nao.co.zw">mmakuwaza@nao.co.zw</a>	Director, Domestic and International Finance
CABS	Kevin Terry	<a href="mailto:kevint@cabs.co.zw">kevint@cabs.co.zw</a>	Managing Director
CABS	Frances Pickering	Pickering, Frances <FrancesPickering@cabs.co.zw>	Mobile Banking Project Team
CABS	Emily Crookes	Crookes, Emily <emilycrookes@cabs.co.zw>	Mobile Banking Project Team
ZIMSwitch	Adam Roscoe	<a href="mailto:aroscoe@zimswitch.co.zw">aroscoe@zimswitch.co.zw</a>	Business Development Manager
ZimSwitch	Derek Vincent	<a href="mailto:dvincent@eftcorp.co.zw">dvincent@eftcorp.co.zw</a>	Consultant
Tetrad E - Mali	Thule Lenneiye	Thule Lenneiye <thule.lenneiye@e-mali.co.zw>	Head of Operations
Stanbic	George Versfeld	<a href="mailto:versfeldg@stanbic.com">versfeldg@stanbic.com</a>	Head Personal and Business Banking
POSB	Jackson Dambuka	J Dambuka <jdambuka@posb.co.zw>	Head of Retail Banking
Agribank	Olam Marufu	<a href="mailto:omarufu@agribank.co.zw">omarufu@agribank.co.zw</a>	Marketing & Sales Manager
Agribank	S.C. Gonondo	<a href="mailto:sgonondo@agribank.co.zw">sgonondo@agribank.co.zw</a>	Head of Banking Operations
Stanbic	George Versfeld	<a href="mailto:versfeldg@stanbic.com">versfeldg@stanbic.com</a>	Head Personal & Business Banking
Bankers Association	Andrew Mugari	Mugari A <amugari@zb.co.zw>	

INSTITUTION	TEAM MEMBER	CONTACT DETAILS	POSITION
MobiKash	Ben Zinyemba	Ben Zinyemba <ben@paafrica.biz>	Commercial Officer
Econet	Nkosinathi Ncube	<a href="mailto:ncuben@econet.co.zw">ncuben@econet.co.zw</a>	Mobile Money Executive
Econet	Francis Matseketsa	FMatseketsa@econet.co.zw	Mobile Money Executive
Kingdom	Sylvester Dendere	<a href="mailto:sdendere@kingdom.co.zw">sdendere@kingdom.co.zw</a>	Deputy Managing Director
CBZ	Tawanda Matembo	<a href="mailto:tmatembo@cbz.co.zw">tmatembo@cbz.co.zw</a>	Head, Retail Banking Support
CBZ	Colin Muchirahondo	<a href="mailto:cmuchirahondo@cbz.co.zw">cmuchirahondo@cbz.co.zw</a>	Senior Manager - Business Development
DFID	Martin Zhou	<a href="mailto:m-zhou@dfid.gov.uk">m-zhou@dfid.gov.uk</a>	Economist

**ANNEX 4: BANKING FEES AND ACCOUNT OPENING REQUIREMENTS, ZIMBABWE**

Banks	CABS	POSB	AGRIBANK	STANBIC BANK	CBZ	Kingdom CellCard	EcoCash	TextaCash	e-Mali
<b>Documents required to open an account</b>	Proof of residence, copy of ID, Passport photos.	Proof of residence, copy of ID, Passport photos.	Proof of residence, copy of ID, 2 Passport photos.	Proof of residence, copy of ID, Passport photos. Minimum Salary of USD300.	Copy ID, Proof Residence, 2 Passport photos, Pay Slip	Copy of ID, Registered Cellphone/\$5 Deposit	Copy of ID, Registered Cellphone	Copy of ID, Registered Cellphone	Copy of ID, Registered Cellphone
<b>Minimum balance to open an account</b>	\$5.00 Blue Card/\$25 Gold Card	\$10.00	\$10.00	\$5.00	\$5	0	\$5.00	Nil	Nil
<b>ATM withdrawal</b>	\$1	1.5%	1% minimum of \$3/\$20	1%	\$1	1	3% registered user, Free Non Registered User	0.01	0.25
<b>POS Purchase</b>	\$0.15	1.5%	0.5% up to maximum \$10	\$0.00/ Zimswitch Charge	\$0.1	\$0.30	N/A	0.08	\$0.10

Banks	CABS	POSB	AGRIBANK	STANBIC BANK	CBZ	Kingdom CellCard	EcoCash	TextaCash	e-Mali
<b>Withdrawal at the counter</b>	1% Min \$2	1.50%	1% minimum of \$3	1%	0.25%	0.75% (Min \$0.10 Max \$1.00)	3% registered user and free for non-registered	1%	\$0.25
<b>Internal Transfer at the counter</b>	\$0 counter/\$0.20 Online	\$0.20	\$2.00	\$1	\$2	\$3.00	2%	\$0.20	\$1.00
<b>Transfer to another bank</b>	\$5.00	\$5.00	\$10.00	1% min \$5/ Max \$10	\$2	\$3.00	7%	N/A	1% below \$1000/\$5
<b>Transfer to another mobile (same network)</b>	N/A - Textacash	N/A	N/A	N/A	\$0.20	\$0.15	2% to registered user and 7% to non-registered Max \$6	\$0.20 plus 1% of value	1
<b>Transfer to another mobile (different network)</b>	N/A - Textacash	N/A	N/A	N/A	\$0.20	\$0.15	2% to registered user and 7% to non-registered Max \$6	\$0.20 plus 1% of value	1



Banks	CABS	POSB	AGRIBANK	STANBIC BANK	CBZ	Kingdom CellCard	EcoCash	TextaCash	e-Mali
<b>Annual fee</b>	\$180 Platinum/\$36All other Cards	\$2.80	\$24	NIL	\$60	\$15.60	Nil	Nil	Nil
<b>Cost for lost card</b>	2.5	\$3.30	\$4	\$5	\$5	\$5	\$1 to repalce sim card no additional fees	\$0	\$3
<b>Balance Inquiry</b>	0.25 Cellphone	\$0/\$0.2 statement	\$0.25	\$0/\$0.5 mini statement	NIL	0.01	\$0.03	Nil on CABS, 8c on Zimswitch	Nil/0.10 mini statement