Rural Banking for Development in Zimbabwe: a Conceptual Analysis

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Rural poverty and underdevelopment is one of the challenges of President Mugabe's political administration. The challenge is a result of the policies of the colonial era, which emphasized on urban development at the expense of rural development. The new political dispensation in the country has shifted towards improving the lives of millions of people who reside in the rural areas. Land reform is one of the many ways the government of Zimbabwe has tried to empower the poor. According to Moyo and Yeros (2004), at the turn of the 21st century, many land hungry people in Zimbabwe had access to arable land. Despite a positive policy shift by President Mugabe's government, finance remains one of the fundamental issues in rural development. Something ought to be done to increase financial intermediation in rural areas in the country. This conceptual analysis addresses the issue of rural financial intermediation in Zimbabwe. More specifically, the paper examines the opportunities and challenges of introducing rural banks in Zimbabwe. The paper discusses the issue with reference to the Ghanaian experience as propounded by Asiedu-Mante's thesis of rural banking in Ghana. The paper highlights several challenges and opportunities of establishing rural banks in Zimbabwe. Possible solutions were proffered against their challenges.

Keywords: Rural banking, Development, Zimbabwe

Introduction

Financial intermediation in the rural economy of Zimbabwe is at a very low level when compared with that of the urban economy. The gap between the urban economy and the rural economy is growing at a time when globalisation is shrinking the world. The difference between the urban economy and the rural economy is that the former is integrated whilst the later is not integrated with the global economy. It is this economic, technological and social integration that is responsible for the economic disparity between the two economies. According to the United Nations Development Programme (UNDP) in Buthelezi (2010:54), "those who are integrated live in a charmed circle of prosperity. But for those outside, the turbulence of continued marginalisation and poverty is creating a volcano of despair." Commenting on world poverty, Martin Ravallion, the director of the World Bank's Research Group, said:

> The developing world as a whole has made progress in fighting extreme poverty, but the 663 million people who moved above the

> poverty lines typically of the poorest countries are still poor by the standards of middle and high income countries. This bunching up just above the extreme poverty line is indicative of the vulnerability facing a great many poor people in the world. And at the current rate of progress, around 1 billion people would still live in extreme poverty by 2015 (Chakwakwama, 2012:04).

Most rural communities in Africa languish in poverty and underdevelopment whilst the urban economy is relatively stable. Put succinctly, the urban economy is charmed in prosperity while the rural economy live in poverty. This paper defines poverty as a state of deprivation. Poverty can either be relative or absolute (Bunwaree and Kasenally, 2007). Relative poverty is one that is based on comparison; Harare could be defined as poor when compared to Los Angeles in the United State of America. Absolute poverty is not comparable. A person who is not able to meet his/her basic needs for survival such as food, shelter, clothes and water is poor irrespective of age, sex, height, political affiliation or place.

The poverty in our rural economy in Zimbabwe is a result of a lack of financial intermediation to support development. Existing traditional banks in the country seem to deem that their operations are already profitable without taking on board the financial needs of the rural areas. Traditional banks are financial institutions that are created primarily to service the integrated economies. Examples of these institutions are Barclays Bank and Standard Bank. A technological revolution has helped to integrate economies. By contrast, rural banks are financial institutions that are formed for the purpose of availing the finances to the disintegrated economy (rural sector). The absence of adequate financial intermediation for the rural economy in Zimbabwe calls for an alternative financial sources to support productivity in our rural communities. This theoretical analysis examines the rationale for rural banks in the country. The discourse is based on the rural bank model of Ghana as expressed by Asiedu-Mante in his book, 'Rural Banking in Ghana', which was published in 2011. The author has been a senior employee of the Central Bank of Ghana since 1965. The author's vast experience in rural banking in Ghana gives a sense of credibility and validity to his scholarship on rural banking. The first section of the paper is a discussion on the link between banking and rural development in general. The second section is an attempt to explore opportunities and challenges for establishing rural banks in the country.

Conceptual and Theoretical Framework

A bank is a financial intermediary. It brings together people who need money and those with excess cash. Banks use interest rates to attract deposits from people who have excess cash and they charge interest to those who seek credit (borrowers). Credit is a form of assistance given to an institution or individual with the intention of repaying within a specified period under agreed terms with interest. There is an obvious risk in credit transactions and security is required to safeguards depositors' funds. The security that is required by traditional banks is not readily available among rural farmers (Chambers, 1983). This creates a void in institutional credit for rural communities. A rural bank, which is essentially the same as community bank, is a financial institution which is owned by residents in a locality. The institution is managed and patronized by the people in a locality. The absence of intermediaries for the rural residents affects their ability to mobilise financial resources to meet their developmental needs, whose effect is low acreages under cultivation, poor farm maintenance practices, inadequate fertilizer application, poor agronomic, and animal husbandry practices. In Ghana, such negatives resulted in poor yields which translated into poor incomes for the rural farmers (Asiedu-Mante, 2011).

Traditional banks in Zimbabwe are reluctant to modify their operations to suit the needs of small scale farmers in the rural areas. A study by the Central Bank of Zimbabwe noted that;

> Commercial banks continue to shun rural areas, preferring urban areas. This had constrained efforts to bring the poor and marginalised into the mainstream economy . . . A study conducted by the RBZ established that only 30 percent of the adult population had access to financial services. The study noted that while about 70 percent of the population were in rural areas, only 11.7 percent of the banks' total branch network served them. Banks shun establishing branches in rural areas because they claim high information, transaction and monitoring cost, inaccessibility due to poor infrastructure, dispersed and intermittent demand for financial services, seasonality deposits and lack of collateral (The Herald, 24 June 2011).

The central bank's chief bank examiner, Mrs Rachel Mushosho, was speaking at a meeting of the African chapter of the International Association of Depositor Insurers in Victoria Falls. The conference was running under the theme "Financial Stability: Role of Deposit Insurers and Financial Inclusion". It is evident that if economic activities in the rural areas of the country are to be enhanced, then some kind of institutional arrangements has to be put in place to address the problem of inadequate credit. According to Bornstein (2005), rural banks are a sustainable option for addressing rural poverty in a developing country.

Opportunities for Establishing Rural Banks in Zimbabwe

The rural bank initiative subscribes to the empowerment policy of President Mugabe's administration. Economic empowerment is about creating conditions that allow poor people to ascend out of poverty (Kabeer, 1995; Coetze, 2010). The idea of economic empowerment of the poor in Africa was underscored by Kwame Nkrumah in 1960 when he told Tito of Yugoslovia that all people are created equal, born equal and have an equal right to full life. Apparently, Prime Minister Nkrumah's drive for industrialisation could be seen in his determination to lift the people of Ghana out of their terrible poverty. It is therefore not surprising that the rural bank concept gained favour in Ghana. The rural bank initiative creates an opportunity for Africa to deal with the poverty and underdevelopment in the continent, which has been a lifelong dream of early politicians like Kwame Nkrumah and his friend Martin Luther.

Zimbabwe has an opportunity to learn about rural banks from other countries. In Ghana, Central Bank requires the communities to apply for a licence to operate a rural bank. The thinking is that if the local people owned the bank, then they would subscribe to its shares and do all that was necessary to get a rural bank operational. Rural banks would be required to register with the Registrar of Companies as limited liability companies. Just as is the case in Ghana, the rural banks in Zimbabwe would be expected to float shares that are subscribed to residents of a rural locality. To ensure that the rural banks are owned by residents of the locality, controls/limits should be put in place. For instance, without regulations on limits of preference shareholders, share ownership could be problematic. Rich people might own the banks and put in place operational regulations that shut the rural residents out of the rural banking system. Limits are necessary to control the board of directors. Issues of fiduciary and corruption are rampant where there are no clear controls (Matunhu, 2011). In Ghana, the regulations of a rural bank were so crafted that the holder of the preference shares was vested with a veto power exercisable in the board room. The exercise of the veto power is meant to shape the mission and vision of a rural bank and also to ensure operational efficiency. The veto power gives a Central Bank some powers on decision making in the board rooms of rural banks (Asiedu-Mante, 2011). A senior lawyer and an experienced banker could be posted as Bank of Zimbabwe's representatives to a first rural bank. These learned people would provide the badly needed experience in establishing a rural bank in Zimbabwe.

Rural banks provide an opportunity for the rural residents to access credit. This is the missing service in our traditional banks. The niche market of rural banks would handle small deposits and small credits for the rural communities. The Grameen Bank has been successful in supporting rural development initiatives. The bank was established in 1976 in Bangladesh by a Nobel Prize Winner, Professor Muhammed Yunus. The bank caters for the rural people (Bornstein, 2005). In Zimbabwe, rural banks could seek to avail cheap financial support to women, which is one of the most neglected members of our society. According to Matunhu (2011), women are more likely to honour their credits than men. Loans could be in the form of salary/pension credits. These credits are granted to salary or pension earners who collect their monthly emoluments from a bank. Salary/pension credits are usually used for payment of medical or educational bills, home improvement or furnishing. The banks could also offer other services such as money transfer, processing of cheques and offering business consultancy. The idea of rural banks is timely as some companies are beginning to respond to the government of Zimbabwe's indigenisation and empowerment policy. The policy requires that foreign-owned companies transfer 10 percent of their stake to indigenise Zimbabweans. The Indigenisation, and Economic Empowerment Act [Chapter 14:33] defines an indigenous Zimbabwean as, "any person who, before 18th April, 1980 was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of members or hold the controlling interest." Unki Platinum Mine in Shurugwi, an Impala subsidiary has already paid funds to the Shurugwi Rural District Development Trust Fund. These are some of the funds that would be deposited into rural banks to increase their viability share in the banking sector.

One of the opportunities available is that the Government of Zimbabwe is currently rural development focused because the stronghold of President Mugabe' party is in the ruling areas. Because of that political scenario, the presence of the Central Bank of Zimbabwe in the rural areas has been very high. The role of the Central Bank in the initial stages of the rural bank would be to; provide suitable banking premises, office furniture and equipment, stationery, appoint board directors, recruit and train staff. It would also be advisable that the Central Bank provides 50 percent of the finances that are required to establish a rural bank. The funds could be availed in the form of "redeemable preference shares". Preference shares or stock is a share capital that has characteristics of a debt. The idea of preference shares serves as morale –booster to the people in the locality. In Ghana, the idea of preference shares was able to send a clear message that if the Central Bank of Ghana was a part-owner of a rural bank, then it was an activity worth supporting. The involvement of the Central Bank of Zimbabwe in rural banks would create public confidence in the rural bank system. The Central Bank would be expected to off-load its shares unto the local people for subscription as a rural bank showed signs of growth, liquidity, profitability and sound management. Asiedu-Mante (2011) warns that it is the responsibility of a rural community to apply for a rural bank licence. This creates a sense of ownership of the bank by the rural residents. According to de Wet (2008), impeded in a sense of ownership is commitment to succeed.

The Government of Zimbabwe's support for entrepreneurship provides an opportunity for the rural residents to venture in venture into the banking sector. By holding ordinary shares in a rural bank, members of a local community automatically become true owners a bank. Ordinary shareholders have the right to influence decisions in a bank. The importance of shareholding or partnership in business has been emphasised in sustainable development conferences, including the Rio Earth Summit in 1992 and the Johannesburg World Summit on Sustainable Development (WSSD) in 2002 (Hamann, Woolman and Sprague (2008). According to Matunhu (2012), the Millennium Development Goals (MDGs) and Sir Mark Moody-Stuart, chairperson of Anglo American argue that all the best examples of the application of principles of sustainable development involve partnerships/ shareholding.

Challenges affecting Rural Banks in Zimbabwe

The rural bank initiative has a fair share of distress or operational problems. In Ghana, the most pronounced of these challenges were those related to liquidity, loan recovery, profitability, poor staffing, weak managements , wrong citing if agencies, low capitalisation, poor service delivery, breach of oath of secrecy, weak internal control, connected lending, cumbersome cheque clearing arrangement, poor technology, and lack of adequate communication facilities and inadequate training (Asiedu-Mante, 2011). The challenges above have motivated Littlefield (2003) incorrectly conclude that; "microfinance offers an illusion of poverty reduction. As in any lottery or game of chance, a few in poverty, do manage to establish microenterprises that produce a decent living...these isolated and often temporary positives are swamped by the largely overlooked negatives . . ." The negative view above fails to recognise that most rural communities are poor and isolated because they do not have the finance to support their ideas. A study of rural poverty and micro-finance by Prof Yunus demonstrated that micro-credit supports rural development.

Notably, most of the challenges mentioned by Asiedu-Mante, above are interrelated related. For example, liquidity is directly related to loan recovery which has an impact on profitability. Poor staffing, inadequate training of staff, poor service delivery and weak internal control can be traced to poor management. The institution of rural banks in Zimbabwe requires paying a close attention to the above mentioned challenges.

The major challenge that the rural bank system in Zimbabwe is likely to face today is that of liquidity of the Central bank of Zimbabwe. The bank is facing liquidity problems, which came as a result of the 2000 to 2009 economic recession in the country. The bank could start the project at a lower scale. Apart from that, the bank could link up with rural development financial institutions like the African Rural Agricultural Credit Association (AFRACA), which is an association of banks and financial institutions that offer financial support to rural development. Rural residents could contribute labour in the infrastructural development of the banks. The Central bank would be advised to provide the fittings and fixtures in the banks. Currently, the Central Bank of Zimbabwe is very particular about statutory reserves in the banking sector. This requirement could be relaxed in the case of rural banks until they have reached financial independence, which come with increased viability. Ntabeni-Bhebe (2011) defines financial independence as the state of being able to generate enough money to save, invest and sustain life sufficiently.

Liquidity problem is a factor to consider in rural banks. In Ghana, most liquidity problems in rural banks can be traced to rapid and uncontrolled credit expansion, which was fuelled by over lending tendencies and practices of rural banks. It should be remembered that Ghana experienced negative interest rates between December 1994 and June 1996. The failure of the Central Bank of Ghana to provide adequate supervision and monitoring of the banking sector created the 1990s liquidity crises in many rural banks (Asiedu-Mante, 2011). The Central Bank of Zimbabwe is currently performing well in supervising and monitoring the banking sector. This evidenced by the stern measures that Dr Gono has put in place to bring about sanity and discipline in the traditional banking sector. The same aptitude and competencies would be required to instil and sustain financial discipline by the rural bank system.

Non-recovery of loans is one of the institutional challenges that the rural bank system should be concerned about. The experience of Ghana is that many rural banks were good at disbursing loans but poor at recovery. The assumption was that once loans were disbursed, the beneficiaries would automatically service their loans. This assumption had a disastrous effect on the viability of the banks. The non-collection of loans impacted adversely on the capital and profits of the rural banks. One lesson from the Ghanaian experience is that most loans granted by rural banks were not backed by security. In cases where securities were provided, most of them could not be foreclosed because there were no enforceable documents. The credit worth of applicants would require closer appraisal by qualified bank staff. In this regard Asiedu-Mante (2011:177) reports;

> Reliance on the court system to collect outstanding loans was ineffective. This was because most rural properties, be they land or buildings did not have documents of title. In instances where there were documents, the slowness of the court system made that option unattractive. Where . . . a default on repayment had resulted in a repossession of the item financed . . . a rural bank was unable to resell the items seized because no one in rural Ghana would like to buy a confiscated item seized from belonging to a neighbour. It is either a taboo or an unforgivable act on the part of the one who bought that type of property.

The rural bank system in Zimbabwe would be expected to consider the issue of security seriously in order to avoid a repeat of the Ghanaian experience. One of the challenges is that of agreeing on the level of representation in a rural bank by the Central Bank of Zimbabwe. On one hand, too high a representation by people from the Central Bank might affect the rural residents' feelings about ownership of the banks. On the other hand, too low a level of representation by the Central Bank in a rural bank board might affect board room decisions. The Central Bank of Zimbabwe in consultations with traditional leaders may have to agree on the size and composition of rural banks. In Ghana, the Central Bank books two seats of the board of a rural bank, which gives a rural bank a greater representation in the board? The Central bank representatives must be well grounded in banking and finance. This is to allow the transmission of current knowledge, skills and best practices from the experienced bankers to the local community. In Ghana, Central Bank representatives on the board of a rural bank were carefully chosen members of staff who were not only fairly senior in rank but were also knowledgeable in the operations of a rural bank.

Agreeing on the structure of a board of directors and such other issues that are related to ownership of a bank might be a challenge. Government of Zimbabwe could offer a legislation governing the structure of board of directors in rural banks. In Ghana, the board of directors who are formally elected from among the shareholders numbered five, and this is to increase to eleven as a rural bank grew and its activities expanded. People, who were not shareholders, but possessed exceptional qualities or expertise, could be co-opted unto the board. These would normally be prominent citizens for the area who possessed special knowledge, skills and expertise that could be brought to bear on the operations of a rural bank to enhance its performance. Co-opted members did not have voting rights but were showed to participate fully in the deliberations of a board.

One of the challenges of the rural bank initiative is that of setting the operational jurisdiction of rural banks in Zimbabwe. In Ghana, initially the operational jurisdiction of rural banks was limited to twenty mile radius. This was to ensure even distribution of rural banks in the country. Currently, the number of rural banks is determined by population and viability. A more densely populated and viable area could have more banks established in a radius of 25miles (Asiedu-Mante 2011). In Zimbabwe, the viability of a bank could also be established as a basis for the establishment of a rural bank. Viability could be assessed on population size, sufficiency of infrastructure and vibrancy of economic activities to support a rural bank. If these are found to be meeting the minimum requirements set by the Central Bank of Zimbabwe, the area should be granted a license to operate a rural bank it applied for one.

Shortage of skills and knowledge on rural banks could be a challenge in Zimbabwe. Rural banks in Ghana did not attract good quality staff in the initial stages of the scheme (Asiedu-Mante, 2011). Two major factors are linked with the shortage of competent staff in rural banks. First, rural banks are cited in rural areas which most people consider to be hardship posts. Second, the remuneration of an average rural bank worker is likely to be far below that of his/her counterpart in a traditional bank. Zimbabwe would be expected to learn from the Ghanaian experience. Fieldwork on rural banks might be required. A few rural community leaders could be seconded to rural banks in Ghana to understudy the operations of the rural banks in that country. With a high literacy and numeracy rate in our rural communities (Chimhowu, Manjenwa and Feresu 2011), this would not be a challenge. After a tour of nations that have benefitted from the rural bank concept, resource persons from such countries could visit Zimbabwe to train the rural residents on rural banks. Writing about the importance of training, Confucius claimed that knowledge is power (Matunhu 2012). Given the dire economic posture of the Government of Zimbabwe, it would be advisable that AFRACA be involved in the initialisation of the rural bank initiative in Zimbabwe. This rural bank system in Zimbabwe would benefit tremendously from the experiences of AFRACA. The organisation (AFRACA) was formed in 1977 and has a liaison link with the Food and Agriculture Organisations of the United Nations.

The challenge of viability of the rural banks is real. The people of Zimbabwe are just moving out of a decade of financial crisis. Many people lost their investments as the economy shrunk. In some cases banks liquidated, resulting in many people losing their deposits. Resuscitating depositor confidence might be a problem. The government of Zimbabwe could increase the viability by making sure that all civil servants operating in the rural areas receive their incomes in rural banks. Presently, many rural agri-businesses and retailers transfer large sums of cash to and from urban areas, and there is an inherent risk in that. The rural bank initiative has the capacity to mitigate the risk. To minimise the risk of insolvency, which might result from mismanagement and malpractice, the banks would be regulated by the Central bank of Zimbabwe. This regulation could be in the form of issuance of guidelines and directives with respect to the procedures for the establishment and continuing monitoring of the banks. In Ghana, the Central Bank undertakes off-site supervision and annual on-site examination visits to the rural banks (Asiedu-Mante, 2011). The process of establishing a bank in Zimbabwe is long and taxing. Government of Zimbabwe is advised to make the process simpler for the benefit of the rural communities in the country.

Conclusion

Financial intermediation in the rural economy of Zimbabwe is low. This paper explored the opportunities and challenges for establishing rural banks in the country. The rural bank initiative subscribes to the empowerment policy of Zimbabwe. The role of the Central Bank of Zimbabwe in the initial stages of the rural bank would be to provide the finances, monitoring and supervision that are required to establish a rural bank. The funds could be provided to a rural bank in the form of "redeemable preference shares". In Ghana, the idea of preference shares was able to send a clear message that if the Central Bank was a part-owner of a rural bank, then it was an activity worth supporting. The local residents would be expected to own common stock in rural banks. The paper highlighted some of the operational problems associated with rural banks. Non-recovery of loans is one of the challenges that the rural bank system should be concerned about. The experience of Ghana is that many rural banks were good at disbursing loans but poor at recovering the loans. The non-collection of loans impacted adversely on the capital and profits of the rural banks. Loans granted by rural banks should be backed by security. The challenge of viability of the rural banks is real. The government of Zimbabwe could increase the viability of rural banks by encouraging all civil servants operating in a locality to receive their incomes in the rural banks. Despite all these challenges, the rural bank initiative is a noble idea for rural development in Zimbabwe.

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