

Comparative Analysis of Financial Inclusion Strategies in Zimbabwe and Selected SADC Countries: Bridging the Gap for the Informal Sector

Abstract

The paper presents a comparative analysis of financial inclusion strategies in Zimbabwe and selected SADC countries, with a focus on bridging the gap for the informal sector. It evaluates financial inclusion indicators, highlighting Zimbabwe's lag behind comparator countries in access to formal financial services, particularly for informal sector participants. The study emphasizes the pivotal role of mobile banking and fintech innovations in driving financial inclusion, noting their positive impact across countries but identifying challenges in affordability and accessibility in Zimbabwe. Cost structures, including banking fees, were found to be a significant barrier to informal sector access. Key recommendations include enhancing mobile money infrastructure, reducing transaction costs, and fostering partnerships between fintech firms and traditional financial institutions to improve the inclusivity of financial services for the informal sector.

1. Introduction

Financial inclusion is widely regarded as a catalyst for economic growth and poverty reduction, particularly in developing regions like Southern Africa. In Zimbabwe and other Southern African Development Community (SADC) countries, financial inclusion strategies have been implemented with a focus on expanding access to financial services for underserved populations, particularly in the informal sector. The informal economy, which accounts for a large portion of the workforce in Zimbabwe, remains predominantly excluded from formal financial systems, limiting its potential to contribute meaningfully to the national economy. According to the Reserve Bank of Zimbabwe (RBZ, 2022), financial inclusion efforts such as mobile banking and fintech innovations have expanded access to some extent. However, challenges including high transaction costs, limited infrastructure, and regulatory hurdles continue to impede progress, particularly in rural areas where informal sector workers are concentrated.

Comparatively, some SADC countries, such as South Africa, Mozambique and Zambia, have made more significant strides in promoting financial inclusion, especially within

the informal economy. Mozambique, for instance, has effectively leveraged public-private partnerships to reduce mobile money transaction costs and expand financial services to rural and informal populations (GSMA, 2020). Similarly, Zambia has made notable advances through the introduction of agent banking and digital financial services, which have enhanced the accessibility of financial products to underserved communities (FinMark Trust, 2021). In contrast, Zimbabwe lags behind in reducing the cost of accessing digital financial services, with high fees and an unstable infrastructure limiting the informal sector's engagement with the financial system. As such, this study aims to conduct a comparative analysis of financial inclusion strategies in Zimbabwe and these selected SADC countries, with the goal of identifying best practices and recommendations to enhance financial inclusion, particularly for the informal sector.

1.1 Overview of Financial Inclusion in Zimbabwe and Comparator SADC Countries

Financial inclusion is a key driver of economic growth and poverty reduction, especially in economies where a large proportion of the population operates outside the formal financial system (Khan et al., 2022; Ofoeda et al., 2024). Zimbabwe, like many other countries in the Southern African Development Community (SADC), faces significant challenges in achieving broad-based financial inclusion, particularly for its informal sector, which employs more than 60% of the population (AfDB, 2022). The financial exclusion of these groups has negative implications for both economic growth and social equity.

As of 2023, financial inclusion in Zimbabwe remains limited, with only 55% of adults having access to formal financial services, compared to higher rates in countries like South Africa (90%), Mozambique (65%), and Zambia (58%) (World Bank, 2023). These disparities are largely due to differences in infrastructure, regulatory frameworks, and the availability of financial technology (fintech) innovations. Zimbabwe's informal sector, which is heavily reliant on cash-based transactions, remains particularly underserved, with limited access to savings, credit, and insurance products.

By comparing Zimbabwe to other SADC countries such as South Africa, Mozambique, and Zambia, this study aims to identify the key financial inclusion strategies that have worked in these countries and evaluate their potential for adoption in Zimbabwe. South Africa, with its highly developed banking system and widespread mobile banking adoption, provides a benchmark for effective financial inclusion strategies, while Mozambique and Zambia demonstrate how mobile money can bridge the gap for underserved populations in less-developed financial systems.

1.2 Understanding Financial Inclusion Strategies

1.2.1 Definition and Characteristics of Financial Inclusion

Financial inclusion is defined as the process of ensuring that individuals and businesses have access to useful and affordable financial products and services that meet their needs, delivered in a responsible and sustainable way (Demirgüç-Kunt et al., 2018). This includes access to basic services such as banking, savings, credit, and insurance. For the informal sector, access to financial services is essential to enhance productivity, manage risk, and support income generation activities (AFI, 2023).

In Zimbabwe, key characteristics of financial inclusion include the accessibility of mobile banking services, the affordability of financial products, and the level of financial literacy among the informal sector. Mobile money, which was initially hailed as a solution to financial exclusion, has seen limited success in Zimbabwe compared to other SADC countries. Transaction fees, limited interoperability, and regulatory barriers have hindered widespread adoption. In contrast, countries like Mozambique and Zambia have significantly expanded access through mobile money platforms, which have lower fees and are more widely accepted.

1.2.2 Theoretical Framework

The theoretical foundation of this study is the "Theory of Inclusive Finance," which suggests that inclusive financial systems are essential for achieving sustainable economic growth, particularly in emerging economies (Beck, 2020). This theory emphasizes the role of financial institutions, regulatory policies, and fintech innovations in providing accessible financial services to all segments of the population, including the informal sector.

In the context of Zimbabwe and comparator SADC countries, this framework allows for the examination of how financial innovations, such as mobile money and digital banking, can enhance financial inclusion. The study will analyze how differences in regulatory approaches, market development, and technological adoption across these countries have either facilitated or hindered financial inclusion. This theoretical perspective will also highlight how addressing barriers such as cost, accessibility, and financial literacy can improve financial access for the informal sector.

1.2.3 Global and Regional Trends in Financial Inclusion

Globally, financial inclusion has been recognized as a key factor for poverty alleviation and economic development, particularly in low- and middle-income countries (Demirgüç-Kunt et al., 2018). In the SADC region, countries like South Africa, Mozambique, and Zambia have made significant progress in expanding financial access through mobile banking and fintech innovations. South Africa, in particular, has one of the highest rates of financial inclusion in Africa, driven by a robust banking sector and widespread adoption of digital financial services.

Mozambique and Zambia have leveraged mobile money platforms to increase financial inclusion, especially in rural areas where traditional banking infrastructure is limited. In Mozambique, over 65% of the adult population has access to financial services, primarily through mobile money (GSMA, 2023). Zambia, with a similarly high level of mobile money penetration, has also seen significant growth in financial inclusion, although challenges remain in terms of financial literacy and regulatory frameworks.

In contrast, Zimbabwe lags behind its peers, with mobile money penetration at around 38% (World Bank, 2023). Regulatory challenges, such as high transaction fees and a lack of interoperability between different mobile money platforms, have impeded progress. Furthermore, financial exclusion remains particularly acute in rural areas, where banking infrastructure is sparse and mobile money services are limited by poor network coverage and high costs.

Objectives

- Assess the extent of financial inclusion in Zimbabwe and comparator countries by analyzing key financial inclusion indicators.

- Examine the role of mobile banking and fintech innovations in fostering financial inclusion in the informal sector across the countries.
- Compare the cost structures of banking services, including bank charges, transaction fees, and mobile money fees, and how they impact access to financial services for the informal sector
- Identify barriers to financial inclusion for the informal sector in Zimbabwe compared to other African countries, focusing on affordability and accessibility of financial products.

2. Methodology

The study adopted quantitative research design. The quantitative analysis in this study involves a comparative examination of key financial inclusion indicators across Zimbabwe, South Africa, and Mozambique. Data will be sourced from reports by the World Bank, the International Monetary Fund (IMF), and national statistics agencies in the respective countries. The primary indicators to be compared include account ownership rates, mobile banking penetration, and the cost of financial services such as transaction fees and mobile money charges (World Bank, 2023). Descriptive statistical techniques, including the use of means, standard deviations, and comparative ratios, will be employed to analyze the data and present the differences and similarities in financial inclusion progress across the three countries.

To compare these indicators effectively, the study will calculate and contrast the proportion of the adult population with access to formal financial services, including banks and mobile money platforms, in each country. The study will also analyze the transaction fees associated with these services to assess affordability, particularly for participants in the informal sector. Regression analysis will be conducted to identify relationships between mobile banking penetration and the degree of financial inclusion in the informal sector (IMF, 2022). This will help highlight the role of fintech innovations in expanding access to financial services.

Moreover, the study will utilize cross-country ratio comparisons to evaluate the cost of accessing financial services in each country. For example, bank charges and mobile money fees will be normalized against the average income levels in Zimbabwe, South Africa, and Mozambique to assess affordability for the informal sector (African

Development Bank, 2021). The analysis will provide insights into how cost structures in these countries either enable or hinder financial inclusion, contributing to the formulation of strategic recommendations.

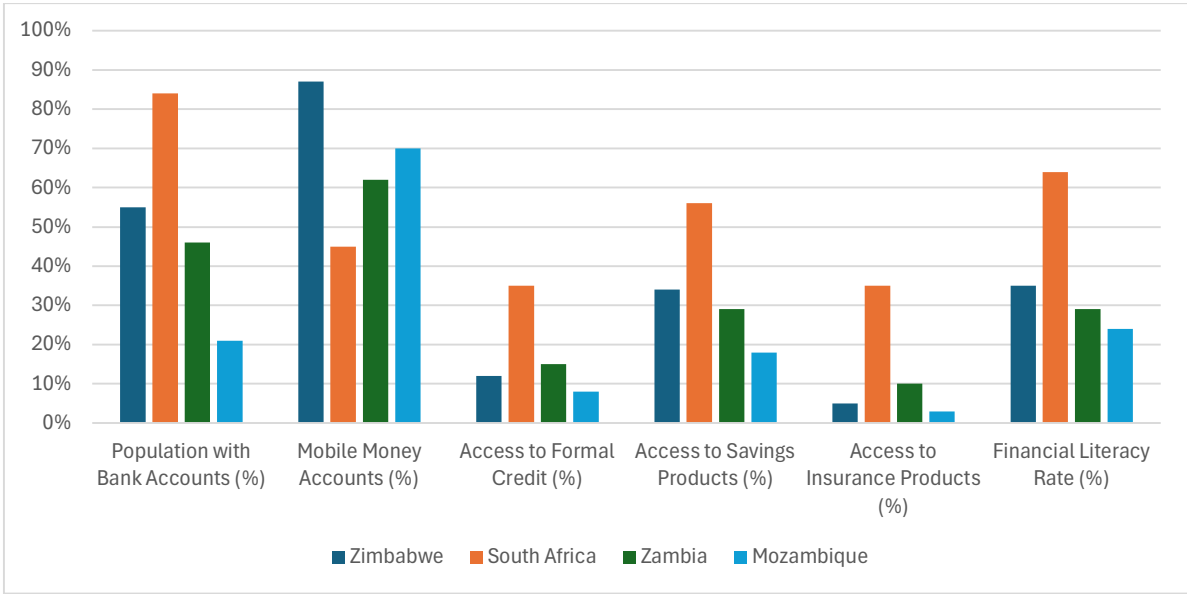
3.Results

This section presents a comprehensive analysis of the case studies, focusing on respective key findings and a comparative examination across South Africa, Mozambique, Mozambique and Zambia.

3.1.1 Financial Inclusion Indicators

The section highlights performance of Zimbabwe on financial inclusion indicators compared to some SADC countries.

Figure 3.1: Financial inclusion indicators



Source: World Bank Global Findex Database, AFI (Alliance for Financial Inclusion) Reports, FinMark Trust's Finscope Surveys (2024)

Zimbabwe has a high rate of mobile money usage (87%), reflecting a heavy reliance on mobile money services, particularly in rural areas where traditional banking infrastructure is lacking. However, formal financial inclusion remains low, with only 55% of the population holding bank accounts. Access to formal credit is limited (12%), a critical issue for informal sector entrepreneurs. This highlights the need for

alternative credit mechanisms to bridge the gap between formal financial services and the needs of the informal sector.

In comparison, South Africa has the highest percentage of banked individuals (84%) and strong access to credit (35%) and savings products (56%). However, mobile money penetration (45%) lags behind Zimbabwe and Mozambique, indicating that the traditional banking system meets most financial needs in the formal sector. Financial literacy in South Africa (64%) is notably higher than in the other countries, promoting greater participation in formal financial services.

Zambia and Mozambique are more dependent on mobile money services (62% and 70%, respectively) due to limited banking infrastructure. Low access to formal credit (15% in Zambia and 8% in Mozambique) and insurance products (10% and 3%) highlights significant gaps in financial inclusion, especially for those working in the informal sector. Financial literacy is also a challenge in both countries, with rates below 30%, further restricting the ability of individuals to access and utilize financial services effectively.

3.1.2 Role of Mobile Banking and Fintech Innovations

Table 3.1: Role of Mobile Banking and Fintech Innovations

Country	Mobile Money Transaction Volume (USD Billion)	Number of Fintech Startups	Mobile Banking Penetration (%)	Internet Penetration (%)	Mobile Phone Subscription (%)	Average Mobile Transaction Value (USD)
Zimbabwe	11.4	50	87%	36%	89%	34
South Africa	13.6	225	45%	60%	98%	52
Zambia	2.5	25	62%	27%	85%	15
Mozambique	1.2	18	70%	20%	79%	10

Source: World Bank Global Findex Database and GSMA Mobile Economy Report (2023)

Mobile banking and fintech innovations have been key drivers of financial inclusion across all the countries. In Zimbabwe, the mobile money transaction volume is substantial (\$11.4 billion), demonstrating the critical role mobile money plays in the economy. With 87% mobile banking penetration and a growing fintech ecosystem, mobile money platforms like EcoCash have become vital for both urban and rural populations. The relatively low internet penetration (36%) limits the full potential of digital financial services, but the high mobile phone subscription rate (89%) offsets this challenge by enabling mobile-based financial services to reach most of the population.

South Africa boasts a more developed fintech landscape with 225 startups, although mobile banking penetration (45%) is lower than in Zimbabwe and Mozambique. High internet penetration (60%) and widespread access to smartphones have facilitated a growing digital financial ecosystem. South Africa's high average transaction value (\$52) suggests that mobile banking serves both lower and higher-income groups, potentially due to the more formalized financial systems.

In Zambia and Mozambique, mobile banking is more prevalent, with penetration rates of 62% and 70%, respectively, largely due to inadequate banking infrastructure. The relatively low internet penetration in these countries (27% in Zambia and 20% in Mozambique) restricts broader digital financial services like online banking. The number of fintech startups is also relatively small compared to South Africa, pointing to a less mature fintech ecosystem.

3.1.3. Cost Structures of Banking Services

High cost structures in banking services, such as elevated bank charges, transaction fees, and account maintenance costs, significantly hinder financial inclusion, particularly for low-income individuals and those in the informal sector. These fees can make formal financial services unaffordable, discouraging people from opening bank accounts or accessing credit, thereby pushing them toward informal or unregulated alternatives. In many low-income economies, these costs exacerbate the financial exclusion of vulnerable populations, limiting their ability to save, invest, and

participate in the formal economy (Bongomin & Munene, 2023). Table 3.2 shows cost structures of banking services indicators.

Table 3.2: Cost Structures of Banking Services

Country	Bank Charges (Average Monthly Fees, USD)	Mobile Money Transaction Fees (%)	ATM Withdrawal Fees (USD)	Interest Rate on Loans (%)	Transaction Fees for Informal Sector (%)	Mobile Money Deposit Fee (%)
Zimbabwe	5.00	3%	2.50	12%	4%	1.5%
South Africa	3.00	2%	1.80	7%	2%	1%
Zambia	2.50	4%	2.00	9%	5%	2%
Mozambique	1.50	5%	1.50	10%	6%	2.5%

Source: WDI, GSMA (2024)

The cost structure of banking services significantly affects financial inclusion, particularly for the informal sector. In Zimbabwe, bank charges are relatively high (\$5.00 per month), which, combined with a 3% mobile money transaction fee and 4% transaction fees for the informal sector, can discourage the use of formal banking services. The cost of borrowing is also steep, with interest rates on loans averaging 12%, creating barriers for informal businesses seeking credit.

South Africa offers more affordable banking services, with lower bank charges (\$3.00), mobile money transaction fees (2%), and borrowing rates (7%). These lower costs contribute to greater accessibility of financial services for both the formal and informal sectors, and combined with a robust financial ecosystem, encourage higher financial inclusion.

Zambia and Mozambique exhibit higher transaction fees for mobile money (4% and 5%, respectively), making digital financial services less attractive, especially to the informal sector. Bank charges are lower in Mozambique (\$1.50), which may be why

some still prefer formal banking despite the lack of infrastructure. The high mobile money deposit fees (2-2.5%) in both Zambia and Mozambique also represent a significant barrier to wider adoption of mobile-based financial solutions.

3.1.4. Barriers to Financial Inclusion

Country	Main Barriers	Proportion of Population in Informal Sector (%)	Proportion of Rural Population (%)	Bank Branch Density (per 100,000 adults)	Mobile Network Coverage (%)	Unemployment Rate (%)
Zimbabwe	High banking costs, limited rural banking services	90%	67%	4.5	90%	5%
South Africa	Banking formalities, low mobile money penetration	34%	35%	9.8	98%	34%
Zambia	Limited financial literacy, mobile money costs	83%	58%	3.8	87%	13%

Mozambique	Low financial literacy, high mobile money fees	95%	72%	2.5	82%	18%
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WDI (2024)

In Zimbabwe, the primary barriers to financial inclusion include high banking costs and a lack of banking infrastructure in rural areas, where 67% of the population resides. The informal sector, which makes up 90% of the economy, remains largely underserved by formal financial institutions. Mobile network coverage (90%) is high, providing a solid foundation for mobile-based financial services, but gaps in financial literacy (35%) and the high costs associated with mobile money transactions continue to restrict broader inclusion.

South Africa faces fewer barriers, with relatively high bank branch density (9.8 per 100,000 adults) and near-universal mobile network coverage (98%). However, banking formalities and paperwork can be daunting for those in the informal sector, which represents 34% of the population.

Zambia and Mozambique face similar challenges, including limited financial literacy and high mobile money costs. The high proportion of rural populations (58% in Zambia and 72% in Mozambique) and a lack of banking infrastructure (bank branch densities of 3.8 and 2.5, respectively) further exacerbate the problem, making it difficult for the informal sector to access financial services.

4. Policy Implications

Enhance Mobile Money Affordability

One of the key findings of this study is the high reliance on mobile money for financial inclusion in Zimbabwe, particularly within the informal sector, where mobile money penetration stands at 87%. However, transaction fees for mobile money services are relatively high, which limits broader adoption and usage. Policy measures should focus

on reducing mobile money transaction fees, especially for low-income users in the informal sector. This could be achieved through regulatory interventions that cap transaction fees or incentivize mobile money providers to offer more affordable pricing structures. Lowering these costs would make financial services more accessible to underserved populations, helping bridge the financial inclusion gap.

Increase Access to Credit for the Informal Sector

The study reveals that only 12% of Zimbabweans have access to formal credit, which is a critical challenge for the growth of the informal sector. The Government and financial regulators should introduce targeted credit products specifically designed for informal sector entrepreneurs. Policies could promote the development of micro-lending platforms or partnerships between traditional banks and fintech companies to offer flexible, low-interest credit options. Additionally, implementing credit guarantee schemes can reduce the risk for financial institutions, encouraging them to extend credit to informal sector players. Expanding access to credit would stimulate entrepreneurial activities, promoting economic growth in the informal sector.

Improve Financial Literacy Programs

Zimbabwe's financial literacy rate remains relatively low at 35%, which hinders the effective use of financial services, particularly in the informal sector. Enhancing financial literacy should be a key policy priority to foster financial inclusion. The Government, in collaboration with financial institutions and NGOs, should scale up financial education programs tailored to the needs of informal sector participants. These programs should cover essential topics such as budgeting, savings, and the use of mobile and digital financial services. Increasing financial literacy will empower individuals to make informed financial decisions, thus increasing their engagement with formal financial services and fostering economic resilience in the informal sector.

Promote Interoperability of Mobile Money Platforms

One of the barriers identified in Zimbabwe's mobile money system is the lack of interoperability between different platforms, which limits the ease with which users

can transfer funds across services. To address this, policymakers should promote regulatory frameworks that mandate interoperability between mobile money providers. This would facilitate seamless transactions across different platforms, enhancing the usability of mobile money services, particularly for informal sector participants who often rely on multiple service providers. Interoperability would also increase competition among providers, driving down transaction costs and improving service delivery, which could significantly boost financial inclusion.

Expand Rural Banking Infrastructure

The study highlights that 67% of Zimbabwe's population resides in rural areas where banking infrastructure is sparse, contributing to low formal financial inclusion. To address this, the government could implement policies that incentivize banks to extend their services to rural areas. This could include subsidies or tax incentives for banks that open branches or deploy mobile banking units in underserved areas. Furthermore, partnerships with mobile network operators to establish agent banking in remote locations can increase access to basic financial services. Expanding rural banking infrastructure would be crucial in reducing geographic disparities in financial access and boosting economic activities in rural regions.

Develop a Comprehensive Digital Financial Ecosystem

While mobile money penetration in Zimbabwe is high, internet penetration remains relatively low at 36%, limiting the potential for advanced digital financial services. To fully realize the benefits of digital financial inclusion, policymakers should focus on expanding internet connectivity, particularly in rural areas. Initiatives could include public-private partnerships to invest in telecommunications infrastructure and the introduction of affordable internet packages targeted at low-income households. Additionally, promoting digital literacy programs to complement the increased connectivity will enable informal sector workers to use digital financial tools more effectively. A more robust digital ecosystem will enhance financial inclusion by offering a wider range of financial services, such as savings, insurance, and credit, via digital platforms.

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