IMPACT: International Journal of Research in Business Management (IMPACT: IJRBM)
ISSN (P): 2347-4572; ISSN (E): 2321-886X
Vol. 5, Issue 12, Dec 2017, 81-94

THE COST OF INDIGENOUS BANKS TO THE ZIMBABWEAN ECONOMY: A CASE STUDY OF HARARE

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ABSTRACT

The main objective of this study was to establish the impact of indigenous banks to the Zimbabwean economy since their introduction to-date Indigenous banks are just like any other financial institutions and they act as financial intermediaries who channel funds from those who have excess money for investing at an interest to those who want to borrow at an interest, thereby creating a lender borrower relationship. Indigenous banks also provide financial services that reduce the cost of moving funds between borrowers and lenders, leading to a more efficient allocation of resources and also faster economic growth among other roles. Consequently, phenomenology and a case study were used in this study and the sample was employed to select purposive sampling techniques. The data collected from the respondents was analyzed using qualitative methods and secondary data was also obtained from journals, reports and also from relevant publications. The research findings showed that indigenous banks have a negative impact to the Zimbabwean economy as they are closing down in their masses resulting in thousands of people losing their jobs and also their cash deposits. The closure of these indigenous banks has been blamed on weak supervisory just to name a few. Additionally, the closure of indigenous banks has resulted in failure to help entrepreneurs in different industrial sectors to gain access to capital which resulted in the negative growth of the Zimbabwean economy. The study recommends that all indigenous banks should have a strong lending policy and they should also refrain from abusing people's money as a result of unprofessional conduct.

KEYWORDS: Indigenous Banks, Banking Sector, Government Policies, Principal Regulatory, Financial Liberalization, Developing Countries, Zimbabwean Economy, Unprofessional Conduct, Unemployment

INTRODUCTION

The liberalization of the economy in general and consequently the financial sector started in the 1990s as noted by Makoni (2006) and new zimbabwe.com. As suggested by Moyo et al (2014) and Shehzad (2008), this then led to the explosion of indigenous banking institutions as a result of the profitability of the financial sector. The financial liberalization was meant to allow indigenous/local entrepreneurs to participate in a market that originally was dominated by foreign owned institutions such as Barclays Bank and Standard Chartered Bank and this was in order to bring about the so needed economic development (Sulaiman et al, 2012 and Odhiambo, 2011). This economic approach according to Romer (1994) and Parker (2012) was aimed at utilizing internal resources before resorting to external resources something known as endogenous growth theory. The endogenous growth theory which is an economic theory suggests that a well-developed financial system results in the efficient allocation of resources, accumulation of physical and human capital and faster technology which results in economic development (Kambango and Paloni, 2010; Ajayi, 1995; Munyoro and Dube, 2017).

However, there are mixed feelings as to the impact of indigenous banks on the economic development of Zimbabwe as Sibindi and Bimha (2014) and Levine (1996)'s studies on the foreign owned banks suggest that foreign owned banks bring competition and technology which improves the service quality in the domestic economy and the availability of excellent financial services. This proposition also suggests that foreign owned banks exert competition on domestic financial markets which enable a greater application of more modern banking skills and technology (Abdolmajid and Mahvash, 2012; Lio, 2010). Accordingly to Munyoro and Dube (2017)'s study on indigenous banks in Zimbabwe suggests that indigenization of banks is significant to the Zimbabwean economy but none have researched on the impact of these indigenous banks on the Zimbabwean economy. Thus, this study aims to establish the cost of indigenous banks to the Zimbabwean economy.

LITERATURE REVIEW

The Background of the Study

As noted by Brownbridge (1998) and Munyoro and Dube (2017), for several years, the financial services sector in Zimbabwe and other developing countries has been dominated by foreign owned financial institutions such as Barclays and the Standard Charted Bank. Unfortunately these western style financial institutions mainly British banks supported by large businesses such as British American Tobacco (BAT) among others have not been supporting local entrepreneurship making it difficult for third world entrepreneurs to benefit from this sector consequently creating opportunity for indigenous financial institutions to fulfill the role of supporting these new-fangled entrepreneurs who were emerging after independence from the colonial powers as suggested by Chamlee (1993). This little interest in supporting local entrepreneurs led to the liberalization of the financial services sector by most African countries including Zimbabwe thereby leading to the removal of tight controls in the sector (Sibindi and Bimha, 2014; Munyoro and Dube, 2017). The aim was to bring financial inclusion so as to allow those economic agents that were not serviced by the already established foreign owned banks to access financial services as argued by Berger et al (2000). As a result of financial liberalization, several indigenous banks entered the once foreign dominated financial services sector and Zimbabwe was not an exception as new policies to liberalize the banking sector in 1991 were set as part of the Economic and Structural Adjustment Programme (ESAP) as noted by Chigumira and Makochekanwa (2014) and Mumvuma et al (2003).

The Concept of Banking

A bank is defined as a person or corporation who performs the role of receiving from the public, deposits payable on demand by cheque as noted by Leaf (1952) and Shretha (2010). In addition, a bank is defined as an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use as suggested by Kinly (1979) and Uttarwar (2014). Furthermore, Oludaro (2015) defined banking as the business activity of accepting and safeguarding money owned by individuals and entities, and then lending this money at a profit to individuals who may require such monies for various reasons. Lastly but not least, Munyoro and Dube (2017) defined a bank as a lawful or legal institution which is in the business of accepting deposits that can be withdrawn on demand as well as lending money at an interest amount to individuals and businesses that need it over a given period of time. Thus, banks are regulated in terms of the Banking Act, which stipulates the nature and magnitude of services they should provide (Bonn, 2005; Munyoro and Dube, 2017). Additionally, banks such as merchant banks are not deposit takers at the same time commercial banks take deposits. Furthermore, some of the services offered by these banks are similar but differentiated (Munyoro and Dube, 2017). That said, banks can be defined according to their functions as noted by Bail (2002), Heffernan (2005) and Somashekar (2009).

According to the Banking Act Chapter 24:20 (2000) as noted by Munyoro and Dube (2017), in Zimbabwe a bank means a commercial bank or an accepting house which carries out banking business accepting deposits withdrawable or repayable on demand or after a fixed period or after notice and the employment of those deposits, in whole or in part, by lending or any other means for the account and at the risk of the person accepting the deposits (Munyoro and Dube, 2017). Thus, the activities covered by banking have widened leading to the introduction of various services that banks offer (IMF, 2014). In this case, the banking services now include the issuance of debit and credit cards, providing safe custody of valuable items, ATM services, lockers and online transfer of funds across the world (Masunda and Nyamutowa, 2013; Christopher and Jenkins, 2007). Thus, the banking sector plays a major role in the world economy as it accepts money deposits from savers and lending it to borrowers as noted by the Bank of International Payment Systems (2003). Most importantly, this activity encourages the flow of money to productive use and investments as suggested by Munyoro and Dube (2017). Thus, in the absence of banking business, savings will sit idle and people will be unable to transact with the world and entrepreneurs will not be in a position to raise money for their business adventures as argued by Goyal (2007), Bollard et al (2006) and Rahman et al (2012).

It is important to note that banks fall into different categories in Zimbabwe namely; Commercial Banks, Building societies, Merchant banks and Developmental banks as noted by Chagwiza (2012) and Munyoro and Dube (2017).

The Introduction of Indigenous Banks in Zimbabwe

Before the independence of most African countries, most of them such as Kenya, Nigeria, Uganda, Ghana, South Africa, Zimbabwe included, had their financial services sectors dominated mainly by few foreign owned banks, especially British banks (Frederick, 2014); Ongere, 2013; Adeyeni, 2011). After independence, governments were put under pressure to consider removing some of the financial market controls which were in place and seen to be keeping out local people from benefiting from the financial sector in terms of borrowing money. Thus the objective of the liberalization of the financial sector was to promote indigenous participation and to foster economic development as suggested by Munyoro and Matinde (2016). In the case of Zimbabwe, financial liberalization brought about the deregulation of the financial sector leading to the removal of tight controls that were put in place during the colonial era as noted by Munyoro and Dube (2017). Consequently, this led to the proliferation of indigenous banks as policy measures in Zimbabwe were designed to deregulate and transform the financial system and its structure with the view of achieving a liberalized, market-oriented financial system as noted by Makochekanwa (2013) and Munyoro and Dube (2017). At the time as noted by Mumvuma et al (2003) there were only 5 foreign owned banking institutions in Zimbabwe. Thus, the financial reforms adopted in the 1990s caused the emergence of indigenous banking institutions in Zimbabwe in line with the Economic and Structural Adjustment Programme (Bongani and Sibindi, 2014). As suggested by Harvey (1995) and Munyoro and Dube (2017), the objective was to allow indigenous players to participate in the economy in order to promote financial inclusion in the country. Consequently, the growth of the sector it was noted by the year 2002, when the country registered an increase in the number of participants to 40 banking intuitions (RBZ, 2003). The expansion of the banking sector was largely welcomed by mixed feelings but recent study see indigenisation of banks as a positive development in Zimbabwe (Munyoro and Dube, 2017). Thus, this study aims to establish the cost of indigenous banks to the Zimbabwean economy.

METHODOLOGY

The study used the phenomenology approach and it helped the researchers to understand how individuals construct reality as noted by Cooper and Schindler (2011) as well as Munyoro and Gumisiro (2017). The study concentrated on bank service users in the Harare Province. Thus, a case study approach was used to enable the researchers to intensively study the indigenous banks and their impact on the Zimbabwean economy (Thakur, 2003; Gurnmesson, 2003) but Yin (1984) and Munyoro and Gumisiro (2017) argue that even though the case study design is complex, it permits the induction of rich and reliable models. Questionnaires and focus groups were used to gather data from the indigenous banks on the knowledge pertaining to the cost of indigenous banks to the Zimbabwean economy (Munyoro, 2014). The population was made up of approximately 300 000 active account users represented in 8 operational indigenous banks in Zimbabwe. The banks used for the study are: CBZ Bank, FBC, ZB Bank, Steward Bank, NMB Bank, Agribank, Metropolitan Bank and POSB Bank (Polit and Hugler, 1999). In this study a non-probability sampling method was used (Krathwohl, 1993; McPhail, 2001; Saunders et al, 2008; Munyoro and Dube, 2017). The study also used the purposive sampling technique in coming up with the sample for the study. Thus the sample was composed of 400 respondents made up of service users and 100 respondents made up of management from 8 indigenous banks and their branches in Harare (Saunders et al, 2007; Bernard, 2002; Sheppard (2006). The study used a structured Likert scale questionnaire to collect data (Mellenberg, 2008; Greener, 2008).

Data Analysis

In order to produce meaningful results, the data that was gathered from questionnaires and focus groups was analysed using Qualitative Data Analysis (QDA), in which the data was transformed into some form of explanation of the respondents' views on the cost of indigenous banks in Zimbabwean economy (Seidel, 1998; Munyoro, 2014; Munyoro and Gumisiro, 2017). Consequently, the process of QDA involved coding and writing as suggested by Seidel and Kelle (1995). In this case, as noted by Munyoro (2014), the researchers looked into themes by identifying passages of text and applying labels to them that indicated some thematic idea. This labelling or coding of themes enabled the researcher to quickly retrieve all the texts that were associated with a particular thematic idea, and examine and compare them (Munyoro etal, 2016; Munyoro and Dube, 2017). Using Seidel's (1998) model, the researcher divided the model into three parts, namely Noticing, Collecting and Thinking about interesting things as noted by Munyoro (2014) and Munyoro and Gumisiro (2017). These parts are interlinked and cyclical. As suggested by Seidel, the researchers noticed interesting things in the data and assigned 'codes' to them, based on the topic or theme as shown in the findings section, and these 6 codes were in turn used to break the data into sections. As suggested by Gibbs (2002) the codes were then used to act as sorting and collection devices. Quantitative methods such as NOVA were also used to analyse data.

Table 1: Below were the Major Factors Leading to Collapse of Local Banks with their Means and ANOVA Values

Factors Causing Collapse of Banks	Mean	Std Deviation	ANOVA p.Value
poor leadership	2.1	0.82	0.30
extent of capitalization	1.8	0.71	0.07
liquidity problems,	1.4	0.84	0.24
small deposit base	2.6	0.57	0.13

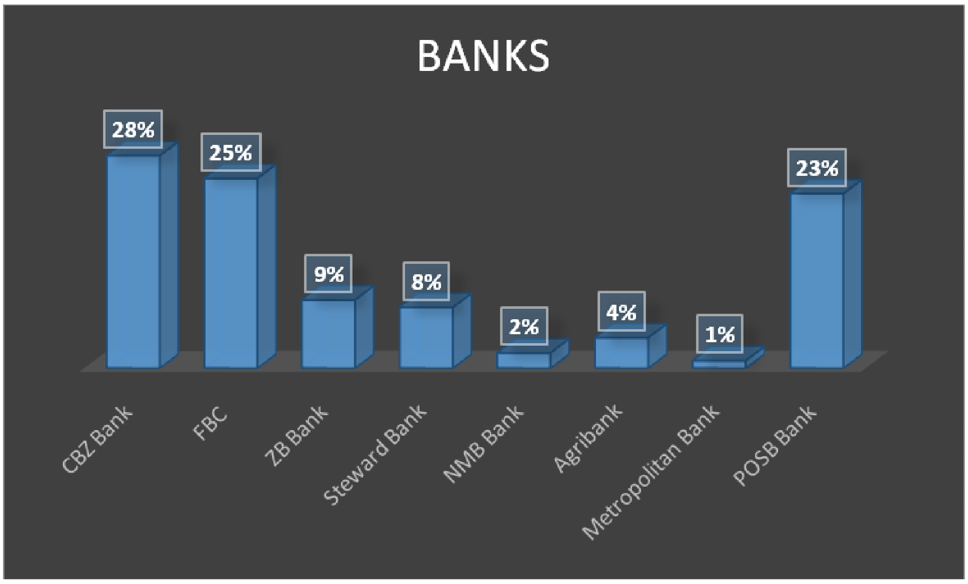

Figure 1

Table 2

Variable	Frequency	Percentage
Gender		
Male	160	46%
Female	190	54%
Totals	350	100%
AGE GROUP		
25 years and below	18	5%
26-35 years	35	10%
36- 45 years	122	35%
46-55 years	112	32%
above 55 years	63	18%
Totals	350	100%
Education		
Secondary	105	30%
Diploma	53	15%
Degree	168	48%
Post grad	24	7%
Totals	350	100%

Findings

The study indicates that the majority of the respondents blamed poor performance of many indigenous banks on poor leadership which was elevated by the liberalization policy which ended up accruing lethal non-performing loans by awarding easy credit to their relatives and friends which were then consumed rather invested and this leadership was elevated based on their political affiliation rather than competence and were tasked to protect the country from big banks, and this resulted in less deserving people securing bank licences (Makoni, 2005; www.theindependent.com). In addition, leaders were personally allowed to borrow from their own banks and even bank managers were allowed to borrow to build their for their own houses (Honhan, 1997; Makoni, 2005; www.theindependent.com).

Some blamed the closure of indigenous banks on the extent of capitalization. For example, Genesis was closed following its failure to meet its minimum capital requirement despite engaging more than 20 different potential inventors in three years (Honhan, 1997; www.theindependent.com). The bank which had a negative of capital of US$3.2 million was struggling due to gross undercapitalization, liquidity problems, small deposit base and persistent loses (Honhan, 1997; www.theindependent.com). Interfin is another example of indigenous bank which had a negative capital of about US$ 93 million and the bank's closure was a result of low capitalization, concentrated shareholding and the abuse of corporate structures, high levels of non-performing insider and related party exposures and chronic liquidity crises (Makoni, 2005; www.theindependent.com). RMB (ReNaissance Merchant Bank) was the same and was closed in 2011 after a looting spree and were liable to prosecution as this was a criminality and fraud but the got away with it at the expense of depositors and the economy at large (www.theindependent.com).

The research shows that best customers with the ability to repay loans were not many as the banks were lending excessive amounts of money to few individuals and companies on the basis of personal relationships without paying due regard to collateral and their capacity to pay back their loans (Honhan, 1997; www.theindependent.com).

The respondents were of the opinion that general good governance was at the centre of all these problems and evidence shows that non-performing loans were all tied up with the relatives of executives in banking institutions ((Honhan, 1997); Makoni, 2005; www.theindependent.com). An example is that of Nigel Chanakira, the former Afro-Asia owner who gave a loan to a friend named Zach Wazara of Valley Technology, which was proven to have been approved irregularly (Honhan, 1997); www.theindependent.com). Whilst, Trust Bank is believed to have loaned a huge chunk of their cash to RioZim and the loan was allegedly imprudent given the size of the bank's book and was advanced to a company whose managing director also sat on the Trust Board (Honhan, 1997; Makoni, 2005; (www.theindependent.com).

The closure of indigenous banks resulted in thousands of people losing their savings as the Zimbabwe's deposit Protection Corporation (DPC) did not have the capacity to compensate more than 100 000 depositors (Makoni, 2005; www.theindependent.com). In addition, the closure of indigenous banks left thousands of people unemployed and it had an impact on the livelihoods and the Zimbabwean economy at large. Additionally, this also eroded consumer confidence in the financial sector, posing sector viability challenges as well as further excluding the marginalized from using formal banking system (Munyoro and Matinde, 2016). This also impacted on the Zimbabwean economy because the unemployed people are no longer able to pay school fees, buy groceries, and pay other bills including tax.

CONCLUSIONS

The findings of the study revealed that indigenous banks have negatively impacted on the Zimbabwean economy by wrecking the economy through dodgey deals such as undercapitalization, poor leadership, lending excessive loans to undeserving customers and poor corporate governance (Honhan, 1997) as discussed in the study. The concentration of resources was in very few hands and this led to the inefficient allocation of resources and dawdling economic growth contrary to the objectives of the liberalization of the economy in addition to financial sector as noted by Sulaiman et al (2012) and Odhiambo (2011). Although the indigenous banks are significant to the economy in Zimbabwe and elsewhere (Sulaiman et al, 2012; Odhiambo, 2011; Munyoro and Dube, 2017) but in Zimbabwe the results show that the indigenous banks have failed to meet the expectations of the Zimbabwean people and the government as they brought misery to several families.

RECOMMENDATIONS

However, as suggested by Munyoro and Dube (2017) and Chamlee (1993) there is need for the government to restructure the capital requirements that will allow indigenous banking institutions to inject a lower level capital than what is paid by foreign owned institutions that are supported from their home country with already established institutions. This is in line with Nyamutowa and Masunda (2013), Adeyemi (2011), Liao (2010). The bank charges and service fees need be reduced to make banking affordable as well as the reduction of interest rates on loans as suggested by Ernest and Young (2010), Deloitte (2012) and Munyoro and Dube (2017). The banks need to be innovative as the competition is high in this sector as noted by O'Brien and Marakas (2009).

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