

Access to Bank Credit as a Strategy to Re-Industrialisation in Zimbabwe: The Issues



Cornelius Dube

Sanderson Abel

Everisto Mugocha



Zimbabwe Economic
Policy Analysis and
Research Unit

ACKNOWLEDGEMENTS

The authors would like to acknowledge the invaluable contributions from all the stakeholders who participated in the study. Our sincere appreciation goes to Mr Smith of Steelforce; Mr Mpfu, a Judicial Manger based in Bulawayo; Ms Utete, National Blankets; Mrs Kodzanai, Tanganda Tea Company; Mr Muguta, Border Timbers Limited; Mr Shonhiwa, Mutare Border and Paper Mills; Mr Kudakwashe CABS; Mr Zimunya, CBZ; and Mrs Nyazenga, FBC Holdings Limited.

In addition the study benefited from comments from stakeholder's participation during the dissemination workshop held on 27 June 2013 at the Crown Plaza Hotel. Special mention goes to Mr C. Mawadza from World Bank and Mr J. Mverecha from Agribank who were the discussants during the dissemination workshop.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	i
LIST OF FIGURES	iii
LIST OF TABLES	iii
EXECUTIVE SUMMARY	iv
1. INTRODUCTION	1
1.1 Background	1
1.2 Context of the study	1
1.3 Study objectives	3
1.4 Methodology	3
2. COST AND ACCESSIBILITY OF BANK CREDIT IN LOW INCOME COUNTRIES- REVIEW OF LITERATURE	4
2.1 Firms' sources of finance.....	4
2.2 Factors determining creditworthiness of firms	6
2.3 Spread in interest rates	8
2.4 Bank-based financial systems versus stock market-based financial systems	10
2.5 Policies on easing credit constraints of firms in developing countries.....	11
3. OVERVIEW OF THE BANKING SECTOR.....	14
3.1 Market structure	14
3.2 Bank deposits	16
3.3 Interest rates and interest rate spreads	18
3.4 Loans to the private sector	19
3.5 Bank profitability	23
4. ASSESSMENT OF FINDINGS FROM STAKEHOLDER CONSULTATIONS.....	25
4.1 Banks' lending conditions	25
4.2 Issues regarding government negotiated funding schemes	27
4.3 Firms' creditworthiness	29
4.4 Collateral and collateral to loan ratios	31
4.5 High spread in interest rates	33
4.6 Other alternative sources of credit.....	34
4.7 Lending cost drivers in the banking system.....	36
4.8 Policy issues for improving credit.....	38
5. CONCLUSION AND RECOMMENDATIONS.....	41

LIST OF FIGURES

Figure 1	Financing Patterns across Firms of Different Size.....	5
Figure 2:	Level of Total Banking Sector Deposits as at different month (US\$ billion), 2010-2012.....	17
Figure 3:	Composition of Total Banking Sector Deposits in January 2013	17
Figure 4:	Loans and Advances (US\$ billions) to the Private Sector, Zimbabwe, 2010-2012...	20
Figure 5:	Sectoral Breakdown of Loans and Advances (US\$ thousands), 2012.....	21
Figure 6:	Loan to deposit Ratio for Zimbabwe, 2010-2012.....	22
Figure 7:	Ratio of Non-Performing Loans for Zimbabwe.....	22

LIST OF TABLES

Table 1:	Corporate Rating Criteria by Banks.....	6
Table 2:	Share of Deposits.....	15
Table 3:	Loans and Advances Concentration of Top 5 Banks	16
Table 4:	Interest Rates Level (Annual Percentages).....	18
Table 5:	Interest Rate Spread for SADC Countries for 2010	19
Table 6:	Ratio of Non-performing Loans for SADC Countries in 2011	23
Table 7:	Select profitability measures for banks for the year ended 31 December 2012	24
Table 8:	Funds Raised Through the Stock Exchange for all Sectors, Zimbabwe (2009-2012)	35
Table 9:	Bond/Bills Trading on the Zimbabwean Market	36

EXECUTIVE SUMMARY

The performance of the private sector continues to be sluggish, with firms failing to access the necessary credit to replace the antiquated plants and machinery they are currently using, a legacy of the hyperinflation period. This study explores why credit in Zimbabwe is difficult to access for the private sector with the aim of providing recommendations to improve the situation.

Although the liquidity position of the country has continued to improve since dollarisation, firms continue to obtain lines of credit from banks at very high costs and on very short terms that are not in line with manufacturing cycles. The short term credit does not allow the companies to earn a return before it is due. The Government tried to facilitate access to cheaper funding for the private sector through the Zimbabwe Economic and Trade Revival Fund (ZETREF) with Afreximbank to provide funding for the manufacturing sector. The government also responded to de-industrialisation in collaboration with local financial institutions by initiating the Distressed Industry and Marginalised Areas Fund (DIMAF), aimed at mobilising funds to address working capital challenges faced by distressed and marginalised industries. However, challenges continue to characterise both ZETREF and DIMAF disbursement with low take up being witnessed at a time when industry is desperate for money. The study thus tries to explore the challenges leading to the low disbursements.

The study establishes that although the lending conditions by banks are mostly the standard bank lending conditions, they become too stringent for most of the firms in the manufacturing sector due to the effects of hyperinflation. Based on the standard template, most of the firms are not creditworthy. Some home grown template is called for, which is able to reveal some potential that exists for some firms if properly funded. At the same time, banks should also continue to exercise caution in dealing with business. Since dollarisation, the non-performing loan ratio has rather been on an upward trend, revealing that there are instances where undeserving firms were able to get credit. Banks are accountable to their shareholders and their depositors; hence fiduciary duty is an essential consideration for them.

Banks have generally been showing some willingness to lend as revealed by the high loan to deposit ratios. There is generally a huge demand for credit, which exceeds the capacity of banks to fulfil. In addition most of the distressed firms are already highly indebted, with creditors already expecting to be paid. Thus the bank giving out new credit to such a firm would want some assurance that it would be prioritised in payment, which might not happen as other creditors are also owed. Thus banks would only give out loans to distressed firms if such firms have a clear turnaround strategy which is deemed feasible to eliminate risk. Firms have been experiencing difficulties in demonstrating that they have a clear turnaround strategy.

Thus although DIMAF is well intended, it is difficult for distressed firms to access loans when they are lent through banks as they would always find it difficult to lend to distressed firms. The government thus could either lend directly through other platforms besides banks or outline separate access requirements for its own share in DIMAF if distressed firms are to access credit.

Although such lending would be done under riskier conditions than under banks, it would be able to serve the true purpose which DIMAF was established.

There is still more to be done by firms to become creditworthy as their conditions are also not enhancing their chances of getting credit. Since some blue chip companies are able to get credit at reasonably favourable terms, improving creditworthiness is the key towards access to suitable lines of bank credit. Partnerships with internationally renowned companies, investment in new technology through FDI or otherwise, and mergers with better performers could enhance companies' creditworthiness.

The study has established that there are several reasons why there is a high interest rate spread on deposits and loans. It is possible that the high regulatory minimum capital requirements in Zimbabwe could be a contributing factor to the high spreads, as banks also try to generate profit from high level of capital invested. Information asymmetries also exist, which results in costs associated with screening and monitoring borrowers being factored into the interest rates on loans as risk premiums. The sources of the funds for the majority of the banks differ and come at different costs leading to different interest rates being charged on loans across banks. The limited capacity of the stock exchange to act as a substitute for bank finance also contributes to the high interest rate spread.

The study recommends the creation of a government credit reference bureau to assist banks and micro-finance institutions to avoid lending money to individuals and companies over-exposed to debt. Although all banks are insured under the Deposit Protection Fund, there is need to enhance credibility of the DPC through good management as well as prompt and fast reimbursement of depositors' funds. Although government credit guarantees can be an important source of risk elimination, government is known in the market to be fiscally constrained, such that banks would be hesitant to accept a government guarantee as some form of collateral or risk cover. The study also recommends the reform of the bankruptcy laws and procedures, to allow viable companies to restructure their debts and emerge with a clean balance sheet that can qualify for financing.

I. INTRODUCTION

1.1 Background

The introduction of multi-currency system in the country brought about economic stabilisation, as most critical sectors of the economy registered growth. The overall Gross Domestic Product (GDP) growth increased from -14.8% in 2008 to 5.4% in 2009. GDP growth has been sustained since then at 8.1% and 9.3% in 2010 and 2011 respectively, although economic pressures have seen the 2012 projection being revised downwards from 9.4% to 4.4% in the 2013 National Budget.

One of the major concerns in the country remains the sluggish performance of the private sector, amid concerns that supply of goods and services remains largely skewed in favour of foreign enterprises exporting into the country. Given that the private sector is coming from a period of hyperinflation, access to credit remains a key determinant of performance. However, concerns have been raised on the difficulties that companies experience in having access to lines of credit for internationally competitive production.

This study makes an attempt at understanding why credit in Zimbabwe is difficult to access for the private sector. It is intended to identify the causal factors for this problem, from the point of view of both the banking institutions and the private sector players. The study would also provide recommendations to improve the situation.

1.2 Context of the study

Access to credit can be defined from three perspectives². Firstly, access to credit can be defined from the point of view of whether financial services are available in the right quantities. Secondly, access to credit can be defined in terms of whether credit is available at the right prices, which would include all costs (including the opportunity costs of waiting in queues and travelling long distances to a bank). Thirdly, access to credit can be assessed based on the range, type and quality of financial services being offered. This includes reliability, convenience, continuity, and flexibility (Claessens, 2005).

Access to cheaper and long term lines of credit is a key challenge for the private sector in Zimbabwe. Although the liquidity position of the country, as reflected by the size of bank deposits, has continued to improve since dollarisation, lines of credit from banks are available at very high costs as banks are also struggling to manage risks.

The wide spread in the average lending rates for banks is also a concern, as this implies that some players, especially with strong balance sheets, get credit on very good terms, while others are charged much higher interest rates. It becomes critical to understand the distribution of

²See Claessens S (2005)

interest rates for different types of borrowers and have an in-depth look at reasons behind the differentials in cost of credit.

It is largely short term credit that is readily available, which does not augur well with firms that have antiquated infrastructure and still trying to catch up with the latest technology being used globally. The short term credit does not allow the companies to earn a return that is necessary to recoup the cost of the investment they would have used the credit for.

It is on the realization of these difficulties that the Government has also been trying to facilitate access to cheaper funding for the private sector. On 9 March 2011, Government signed the US\$100 million Zimbabwe Economic and Trade Revival Fund (ZETREF) with Afreximbank. This was specifically intended to provide funding for the manufacturing sector, particularly for refurbishment of plants and procurement of raw materials.

The government also tried to respond to de-industrialisation that is taking place in some areas of the country especially those in Bulawayo, Mutare and other parts of the country. Through the 2011 Mid-Year Fiscal Policy Review Statement, the government, in collaboration with local financial institutions initiated a scheme; the Distressed Industry and Marginalised Areas Fund (DIMAF), aimed at mobilising funds to address capital challenges faced by distressed and marginalised industries. DIMAF was supposed to be capitalised to the tune of US\$40 million, of which the Government committed US\$20 million and the balance coming from Old Mutual Zimbabwe. However, due to fiscal space challenges, the government failed to raise its share, leaving only Old Mutual share available.

Under the 2013 National Budget Statement, government introduced ZETREF II and DIMAF II, which are extensions of the schemes. Afreximbank agreed to avail another US\$70 million towards ZETREF II, to which Government will be also making a US\$30 million contribution to make a total of US\$100 million. Under DIMAF II, Government was expected to avail US\$10 million, which it had committed to in 2012 and defaulted. Old Mutual, which availed US\$20 million in 2012, was expected to chip in with another US\$10 million.

However, challenges continue to characterise both ZETREF and DIMAF disbursement. The first phase of ZETREF saw only 38.5% of the available balances being disbursed, while only 30.5% was disbursed out of the \$40 million that was expected under DIMAF (Ministry of Finance, 2012). Challenges with disbursements thus need to be understood.

Due to lack of funding, some companies are finding themselves at virtually the same position they were before the economic decline in terms of technology uptake. They are now finding themselves having to produce using old fashioned and outdated plants, which require a total overhaul for competitive production. This results in higher per unit costs of production as well as failure to produce up to date products as the plants are not compatible with latest technology. This affects the companies' competitiveness in the globalised markets.

It is within the context of improving the status quo that the study is being undertaken.

1.3 Study objectives

The following constitute the key objectives of the study:

- To understand the reasons for the challenges that firms face in accessing credit (including government initiated facilities);
- To understand the reasons for the high cost of credit vis-à-vis other countries in the region;
- To analyse how firms can establish creditworthiness and policies to help them do so;
- To understand the basis for the huge spread between interest rates on bank deposit and interest rates in loans;
- To suggest some policy and practice changes for dealing with the identified problems.

1.4 Methodology

The study employed a mixed methodology to execute the assignment. The approach involved desk research and face to face interviews with a sample of key stakeholders in the corporate world and banking sector among them commercial banks, distressed companies, blue chip companies, and one organisation under judiciary management. Literature review allowed the researchers to get an insight into the evolution of the challenges with regard to credit as well as to gain a global understanding of what different authors have written regarding the challenges of credit to the private sector in both the developed and developing economies.

Interviews were conducted with key informants in the private sector and banking industry to get the information. This allowed the study to identify and learn from the collective experience of practitioners in the field. This enabled the study to allow for improved understanding of the issues.

Structured questions were used to gather the data from both the corporate and the banking sector. Given the need to understand de-industrialisation, interviews were conducted with firms in the most distressed areas, namely Mutare and Bulawayo. Organisations based in Harare were also included in the sample for completeness. This was helpful as the researchers had the opportunity to actually get information prevailing on the ground, assess the situation for them as well as get the firms' opinion on what needs to be done in order to revive the growth of the different sectors in these areas.

2. COST AND ACCESSIBILITY OF BANK CREDIT IN LOW INCOME COUNTRIES- REVIEW OF LITERATURE

2.1 Firms' sources of finance

Firms in developing countries face problems of access to lines of credit, which has caused many developing countries to come up with policies which try to address this challenge. In most cases government has availed funds to small firms, which has introduced more financial innovation tools such as factoring, credit scoring, relationship banking and creation of small banks which are conducive of financing firms. To administer these funding schemes, governments work with local banks, set up new institutions or work with developmental banks.

Government development banks and government credit institutions have been introduced in most countries and these often have products designed towards providing credit to small and growing firms. For example, a Mexican government development bank, Nafin, developed a financial product: the electronic brokerage of reverse factoring that allows small firms to use their receivables from their creditworthy buyers to receive working capital financing (Beck and Demirgüç-Kunt, 2008). BANSEFI, a Mexican government-owned institution also introduced a programme that centralized back office operations of semi-formal and informal financial intermediaries to help them reduce operational cost (Beck and Demirgüç-Kunt, 2008).

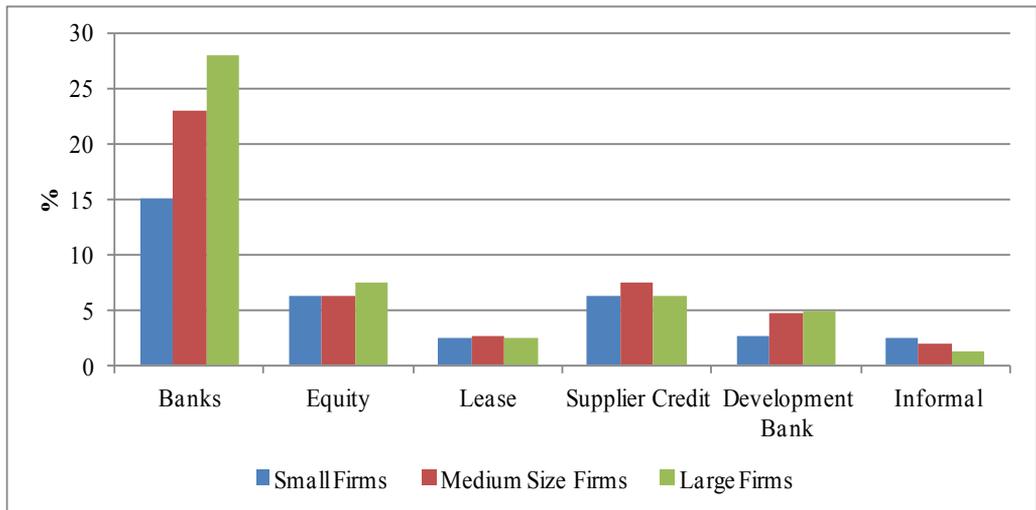
Credit lines are also difficult for most small and growing firms because they lack collateral and their cash inflows are not steady, which makes it difficult for the firms to leverage against future inflows. Some firms also often borrow small amounts which become too costly for financial institutions in terms of associated transaction and monitoring costs. To circumvent these challenges formal and informal financial institutions have tried to cluster firms according to size and financial demands. Financial institutions would then avail funds to the clusters. This measure would also include programmes that educate borrowers on credit management and increase incentives to repay the loans since the members would monitor each other. This innovation is effective as it increases the size of loans and reduces default rates. However problems would arise when the financial need of cluster members start to diverge.

There have been a remarkable growing number of informal institutions which give credit to firms. In most cases informal institution are willing to advance to small firms, small and short loans, but with relatively higher interest rate. There has been a debate on the effectiveness of these informal institutions. Ayyogori *et al* (2008)³ used firm level survey data in a study which evaluated the effectiveness of formal and informal loans to firms in China. The study established that formal finance is highly related to faster growth of firms, while informal finance is not. This study thus recommended that informal financing institutions should embrace governance and mirror the formal finance structures and mechanisms to help ensure growth of firms.

³As reported in Beck and Demirgüç-Kunt (2008)

Beck *et al* (2005)⁴ carried a cross country study on small and medium access to finance. The study established that generally firms have six sources of finance which are: banks, equity, lease, supplier credit, development banks and informal finances. Figure 1 shows the findings of the study. Small firms get 15% of their finances from banks compared with larger firms who get about 28% from the same source. The main source of finance for small firms are banks with the least sources being lease and informal sources of finance which contribute 2.4% and 2.5% respectively. The study report that friends and families contribute significantly in developing countries due to networks within ethnic groups.

Figure 1: Financing Patterns across Firms of Different Size



Source: Beck and Demirgüç-Kunt (2006)

Over the years financial institutions have come up with different techniques to avail funds to firms with no collateral. This includes the relationship lending technique in developing countries (Beck and Demirgüç-Kunt, 2006). This is when the lender avails loans to the borrower who has limited or no collateral based on soft or hard information between the two. The lender will first offer small amounts to the borrower and then increase loanable amounts as the borrower earns the trust to pay back. Asset base lending and leasing finance techniques have also emerged over the years. These innovations however depend on an efficient legal system (Beck and Demirgüç-Kunt, 2006).

The stock market is another reputable source of finance for firms. One of the functions of stock markets is to provide an avenue for growing companies to raise capital at lower cost. The other functions of stock market are to efficiently allocate resources, provide a fair, efficient,

⁴As reported in Beck and Demirgüç-Kunt (2006)

transparent and secure price discovery mechanism in a well regulated environment. Stock markets also provide individuals with an additional financial instrument that may better meet their risk preferences and liquidity needs. Firms in countries with developed stock markets are less dependent on bank financing which reduce credit crunch risk. In developing countries, where banking sectors often fails to adequately mobilize long-term finance, stock markets have thus been the alternative source of finance for firms.

There could also be scope for use of remittances as a source of firm finance in developing countries, especially since these are the second largest source of external finance for developing countries after foreign direct investment (Beck and Demirgüç-Kunt, 2008). However, formal remittance services are often costly, which would pose some challenges for firm access to such resources as they are mostly intermediated through informal channels. However, there is still scope for remittances to be a source of finance if incentives are found to formalise them, as they have the capacity to increase loanable funds in financial institutions (Beck and Demirgüç-Kunt, 2008).

Another highly recommended source of finance for growing firms in less developed countries is profits reinvestments. This source largely depends on the countries rule of law. Based on a survey of new firms in post-communist countries, Johnston, McMillan and Woodruff (2002) establish that weak property rights discourage firms from reinvesting their profits from retained earnings, while property rights that are relatively strong would see firms reinvesting their profits. In the same vein, a study based on firm behaviour in 2002 in China by Cull and Xu (2005) established that secure property rights are a significant predictor of firm reinvestment of profits.

2.2 Factors determining creditworthiness of firms

Interest rates can be a reflection of the firm's general creditworthiness. In this context creditworthiness would be defined as the ability of a firm to pay back its obligations as per agreed borrowing terms. The extent to which a firm is creditworthy can be determined by assessing the likelihood that its future cash flows will be sufficient to cover debt service costs and principal payments (Ashbaugh-Skaife and Collins, 2004).

Determining a firm's creditworthiness is however a difficult task for banks. There is always a need to get around the adverse effect of information asymmetry, as banks always face an adverse selection problem when deciding whether firms are the right candidates for loans. Among the most preferred tool are the firms' credit ratings. Banks would need to have an idea of a firm's credit rating before they can decide on giving out a loan to the firm. A credit rating is an assessment of the creditworthiness of a firm, based on its history of borrowing and repayment, its assets and liabilities as well as its overall business performance (Becker and Milbourn, 2009).

Credit ratings are normally constructed by specialised credit rating agencies, who happen to be important financial intermediaries in developed countries. Examples of such credit rating agencies at the international level include Moody's, Standard and Poor's (S&P), Fitch Ratings, and

Rating and Investment Information Incorporated. Rating agencies do not only help in reducing the information asymmetry and adverse selection problems, but also save firms from incurring high costs from credit analysis and monitoring. Credit ratings may also factor in confidential information on firms' credit quality which might otherwise not be made public. Thus credit agencies are also important since credit ratings allow them to incorporate inside information without disclosing specific details to the public (Tang, 2006).

However, in some countries, including Zimbabwe, credit ratings are not available for bank use due to the absence of credit rating agencies. This implies that in the absence of self-selection or signalling devices, such as collateralisation or credit rationing, banks have to rely on any relevant information available to assign the applying firm a certain risk class (Broecker, 1990). It is however very likely that the same variables that credit agencies normally use to create ratings would be the factors used by banks in countries without such ratings to determine whether firms are creditworthy. Variables used by rating agencies (Table 1) can thus be useful in understanding some factors banks would use to gauge a firm's credit worthiness.

Table 1: Corporate Rating Criteria by Banks

Business risk (Qualitative rating criteria)	Financial Risk (Quantitative rating criteria)
<p><i>Growth Prospect</i></p> <ul style="list-style-type: none"> • Industry sector and trend • Technology change in the sector • Company's stand in the sector and peer comparison • Management quality 	<p><i>Cash flow Adequacy</i></p> <ul style="list-style-type: none"> • Interest rate coverage ratios • Funds flow as a share of total debt • Free operating cash flow as a share of total debt
<p><i>Capital requirements</i></p> <ul style="list-style-type: none"> • Fixed or working capital intensive • Need for capital additions • R&D spending requirements 	<p><i>Capital Structure/Assets protection</i></p> <ul style="list-style-type: none"> • Leverage (total and net debt as a share of equity and total capital) • Debt structure, including assessments of lease, off balance sheet obligations
<p><i>Competitive environment</i></p> <ul style="list-style-type: none"> • Nature of product (commodity or differentiated) • Competitors (domestic and foreign) • Barriers to entry • Access to basic inputs of production • Regulatory environment 	<p><i>Profitability</i></p> <ul style="list-style-type: none"> • Specific financial targets: return on equity, return on assets, return on permanent capital • Historical, current and projected performance • Performance through the business cycles • Earnings volatility
<p><i>Diversification and ownership structure</i></p> <ul style="list-style-type: none"> • Ability to manage diversification • Strength of linkage to parent company including financial, management, operational, R&D and technical support, position in the group and relative size 	<p><i>Financial flexibility</i></p> <ul style="list-style-type: none"> • Considerations related to legal problems, insurance coverage, restrictive covenants in loan agreements or obligations to affiliated entities

Source: Lui and Ferri (2001)

Table 1 reveals some information which can be used to highlight some of the factors that are used to determine credit worthiness. Critical factors are the quantitative rating criteria, based on the firms' income statements, balance sheets and indicative financial performance ratios. These

are useful in determining the ability of the borrower to generate future income to make debt repayment obligations in time. The debt structure reveals whether a firm has overly extended itself while profitability can also be used to track the firm's management quality (Lui and Ferri, 2001).

Other important factors that can measure creditworthiness include growth prospect of the firms, as the banks would feel comfortable to lend to a firm with high growth prospects. The competitive environment would also play a part in determining creditworthiness, as the ability of a firm to withstand competition would also influence lending decision. A firm that is part of a group of companies also stands a high chance of getting a loan if the group is financially sound. Thus a sound ownership structure would also serve as concealed collateral.

Lending decisions are thus based largely on a firm's perceived creditworthiness. However, a firm that is considered risky can still be able to secure loans from banks, although the banks would be factoring in the risk into the interest rate charges. In a study Strahan (1999), establishes that riskier firms and firms more prone to adverse selection and moral hazard problems pay more when they borrow. Such firms included smaller firms, firms with less cash and greater leverage, and firms that are harder for outside investors to value. The study also concludes that loans to small firms, opaque firms, firms with low ratings and firms with low profits and little cash available to service debt, for example, are more likely to be secured by collateral, and to have a short contractual maturity.

2.3 Spread in interest rates

Interest rate spreads can be defined as the gap between lending and deposit rates (Beck and Hesse, 2006). High interest rate spreads are usually interpreted as an indicator of low efficiency and lack of competitiveness of the financial sector (Vera, Zambrano-Sequin and Faust, 2007). However, there is no consensus as to whether high spreads are good or bad, especially from a developing country's point of view.

A small spread could either be due to low interest rates on loans or due to high interest rates on deposits. Such situations could arise when there is too much competition among banks for a limited pool of deposits and loan demands. This can see banks including risky borrowers in their books without adjusting for that risk through high lending rates. If deposits are the major source of finance for loans, the competition would also see banks offering high deposit rates, without a proportional increases in loan rates. Thus if the spread is too low then banks would be very vulnerable in cases of default as their margins would be too low to cover risk; hence low spreads could signify that the banks are risky.

High spreads generally result in higher income for banks and thus can be regarded as a measure of bank profit orientation. They can however also be a result of high regulatory minimum capital requirements, which could push the system toward higher spreads as a way of ensuring profitability, especially if banks face increasing credit risk exposure (Vera, Zambrano-Sequin and Faust, 2007).

In general, interest rate spreads should be a response to market frictions such as transaction costs and information asymmetries (Beck and Hesse, 2006). In this case, costs associated with screening and monitoring borrowers and processing savings and payment services would be expected to determine the interest rate paid to depositors and the interest charged to borrowers. Interest rate spreads can also be related to the particular sector a bank is targeting, for example banks whose loan portfolios are dominated by volatile sectors such as agriculture would be expected to have higher interest rate spreads (Beck and Hesse, 2006). Thus when the lender is not able to ascertain the creditworthiness of the borrower with certainty, a risk premium is added to cater for adverse selection and moral hazard possibilities, thereby pushing the interest rate spread.

Banks with larger overhead costs, with less exposure to mining as well as domestically owned banks are normally characterised by higher spreads, while larger banks generally charge lower spreads, but earn higher margins (Beck and Hesse, 2006). In a study, Demirgüç-Kunt and Huizinga (1999) establish that variation in overhead and other operating costs among banks is reflected in variation in bank interest margins, as banks pass on their operating costs to their depositors and lenders. However, a larger stock market capitalization to bank assets is negatively related to margins because well-developed stock markets can be a substitute for bank finance.

The ownership structure of the banks can also play a role in determining the interest rate spreads. Based on a study involving bank-level data from 81 developing countries, Rashid (2011) establishes that increased foreign bank presence is associated with increased reliance on non-deposit based funding by domestically owned banks. This is because foreign owned banks would tend to attract the bulk of deposits and thus reduce locally owned banks' share of deposits. However, since foreign banks typically allocate less of their assets and deposits to lending; increased foreign banks would result in less credit to the private sector. Since domestically owned banks would lose their deposit base, they would rely on non-deposit based funding; whose higher costs and uncertainty force them to reduce their lending activities as well as impose higher interest rate spreads.

As explained by Rashid (2011), the dominance of foreign owned banks in an economy can also result in the 'cherry-picking' effect taking place, which also result in high interest rate spreads. The 'cherry-picking' models are based on the fact that foreign banks primarily compete with domestic banks in the lending market. However, foreign lenders capture the low-risk borrowers, who usually meet their accounting standards and procedures, leaving domestic banks with a larger pool of risky borrowers with a higher probability of default. In order to cover this risk, as well as the associated monitoring costs, the banks would then raise their lending rates and hence high interest rate spread (Rashid, 2011).

The importance of foreign banks in developing economies however cannot be overruled. They bring improved financial regulation reporting, improved technology and good management to the host country, such that in the event of domestic shocks, foreign banks can remain strong and offering a safe haven for funds which might otherwise have been externalised (Makina, 2012).

2.4 Bank-based financial systems versus stock market-based financial systems

Financial institutions play a crucial role in an economy as they have a variety of functions that contribute to better capital provision and allocation. Such functions include decreasing informational asymmetries, transaction costs and alleviating moral hazard problems through information production, specialization and monitoring. Different mechanisms, however, are employed to achieve these functions by capital markets and banks, as they have varying advantages and effectiveness in performing different functions. These financing mechanisms have advantages and disadvantages of which literature has failed to conclusively highlight to be superior to the other; whether bank financing is superior to market based financing (stock market) or vice versa. Tadesse (2002) argues that the relative importance of bank-based and market-based systems depends on how effectively markets perform the information feedback function (the supply side) and the value of this information for the firm (the demand side). Levine (2002) is of the view that as long as quality financial services are provided in an economy, it does not matter whether it is a bank-based or market-based system in relation to economic performance.

The arguments for bank based financing system hinges on the various aspects that the banks can control rather than the market based system like the stock market. Stulz (2000) argues that banks effectively provide staged financing, which is crucial for entrepreneurs in realizing their projects. At each stage of the project, banks re-evaluate and apply their specialized skills to increase the success probability of the projects that they are lending. Stiglitz (1985) argues that mechanisms that equity markets offer for capital control are not as effective as those offered by bank financing. Raising capital through banks results in more effective capital control. Banks focus their attention on the events associated with the probability of default and exert control through explicit and implicit contract terms as well as reward structures that affect the behaviour of managers to take more accorded actions in the interests of lenders. Allen and Gale (1995) suggest that bank-based systems provide better inter-temporal risk sharing. The bank-based system view basically hinges on the monitoring function of banks and the advantages of the long-term relationships with borrowers. Ariccia (1998) argue that over time lenders resolve the informational problems. In the process of lending, financial intermediaries are able to gather some proprietary information about borrowers' creditworthiness. Hence they acquire some degree of informational monopoly about their clients and thus market power.

In a market-based economy system, the stock market is generally seen as providing powerful signals about market mood and perceptions of the economy. The market based proponents argue the superiority of market system as compared to bank based system is based on the superiority of the market mechanism in allocating capital and the detrimental effects of costs in bank financing. Allen (1993) argues that stock markets provide incentives for a large number of investors to check what the firm is doing. This repetitive checking process is the great advantage of stock markets over banks, which allow checking to occur only relatively few times. Rajan (1992) draws attention to the costs of bank financing. He argues that banks have bargaining power over the firm's profits obtained from the projects implemented. In such a case, there is a reduction in the firm's incentives to exert effort to increase project returns, because the firm no

longer obtains the entire surplus from the project. In their investigation of the Japanese system, Weinstein and Yafeh (1998), realised that while there is a close relationship between banks and firms' improved access to capital, benefits from this relation accrue largely to banks through high interest payments and pressure on firms to use bank-financed capital inputs.

In a recent study, Uzunkaya (2012), summarised the relative merits of bank-based and market-based systems by arguing that bank-based systems can survive in environments of poor contract enforcement and greater moral hazard while market-based systems are superior in solving incomplete information problems that are pertinent in valuation and real investment decisions.

2.5 Policies on easing credit constraints of firms in developing countries

Although financial sector liberalisation has been embraced, some interventionist policies are still being introduced into the market to try and force the system to meet government objectives. Thus without departing from the general broad objectives of financial liberalisation, the government also introduces policy tools to influence credit availability and hence the interest rates.

Through policy, the government can introduce priority sector lending, which includes lending to those sectors that are considered critical to the economy. This has been used mostly in China and India after banks had been found to be reluctant to fund certain sectors considered a priority by the government. For example, until 1994 the Chinese banks were obliged to make policy-loans, which were loans granted out of policy considerations. It is estimated that policy loans accounted for 35 percent of total loans made by the state banks in the first half of the 1990s (Lu et al., 2005).

However care needs to be taken to ensure that such lending is done without compromising the general norms of bank lending. For example, in China, the policy loans were known for their lower quality compared to commercial loans and as a result Chinese state banks constantly used policy lending as an excuse for their poor records of lending decisions (Lu et al., 2005).

Priority sector lending has now been in practice for a long time in India. This was after an observation that lending from commercial banks was directed mostly towards large industrial companies, with the agriculture sector, small scale industries and weaker sections of the economy being neglected due to both risk factors and urban bias (Dasgupta, 2002). The government thus took a deliberate stance where all banks were to ensure that their lending portfolio would encompass the priority sectors. This policy is still in existence, where banks are mandatorily expected to ensure that 40% of their lending goes to priority sectors⁵. Priority sectors include agriculture, micro and small enterprises, education and housing. However, like China, the policy has been observed to have caused some negative effects on the past. By the mid-1980s, the health of banks was observed to have started deteriorating, with the priority sector lending requirement being cited as one of the causal factors (Dasgupta, 2002).

⁵http://articles.economicstimes.indiatimes.com/2013-02-22/news/37242299_1_priority-sector-private-sector-banks-new-banks accessed 07 March, 2013

Governments can also grant deposit insurance as a way of reducing the risk of systemic failure. Deposit insurance is mostly a government sponsored system that is intended to insure depositors against the loss of their balances in the event of a bank failure⁶. In most cases, deposit insurance is provided for by law. Many countries have created independent institutions which would compensate depositors of failed banks. The institutions would be funded by government although all deposit taking institutions would be required to pay an annual levy to ensure that it has the resources to perform the required task.

Deposit insurance encourages excess risk-taking by existing banks and removes the discipline of the market, which normally would prevent some firms from having access to funds (Calomiris, 1990). In addition, deposit insurance can also increase the size of deposits as the fear of losing out their money in the event of a bank failure is lessened. However, the effect of deposit insurance would depend largely on the ceiling set for the coverage, which would determine how much they would be compensated. This would also increase access of some smaller banks to deposit funds, as depositors would have little incentive to discriminate with respect to where and with whom they place their funds since they would all be covered by insurance (Calomiris, 1990).

However, the deposit insurance system needs to be properly structured for it not to be counterproductive. Although it is intended to ensure that credit availability is enhanced through increased size of deposits, it can also weaken market discipline and create a moral hazard problem, since there is now an incentive for depository institutions to engage in excessively high-risk activities (Cull *et al.*, 2005). Thus the prudential regulation functions of the central bank would still be required to ensure that high risky lending is controlled.

Governments can also use credit guarantees as an industrial tool to overcome financial market imperfections and institutional weaknesses. Credit guarantee schemes are programs that insure the repayment of a loan, in part or in full, in order to motivate lenders to lend to groups which would not have access to credit under normal circumstances (Navajas, 2001). These groups that would have failed to access credit from banks, mostly because they belong to a group considered as high risky customers by the banks, who would stand a chance of getting loans if there is a credit guarantee. Banks would however require a very high guarantee level to be willing to take loans that they would otherwise have rejected. Making very high level of guarantees has the negative consequence of creating incentives for dodgy loans which would never be repaid.

Credit guarantees are often used for small businesses, although this can be extended to struggling but critical players. The rationale for credit guarantees is that interest rate setting cannot often work as a screening device for selecting creditworthy small businesses, since information asymmetries leave enough room for adverse selection. This would be worsened by moral hazard challenges, which arise due to difficulties and costs involved in monitoring the behaviour of small borrowers (Zecchini and Ventura, 2009).

⁶It is also possible to find a deposit insurance scheme being managed by the banks

The role of the government or Central Bank would be to sponsor these guarantee systems. This can be done through the establishment of a state institution, which would receive funding from the state (including donor sourced funds) and use it as insurance to banks to lend to risky customers. However, there is need for proper monitoring on both the lending institutions as well as the benefiting firms to ensure that moral hazard would also not cause laxity in performance.

3. OVERVIEW OF THE BANKING SECTOR

3.1 Market structure

The structure of the banking sector can play a role in determining cost and availability of credit. The Zimbabwe banking sector is composed of 16 commercial banks, three building societies, two merchant banks and one savings bank (People's Own Savings Bank (POSB)). In addition, there are some 150 microfinance institutions that are also active in the Zimbabwe financial sector (RBZ, 2013). There is also one development bank, the Infrastructure Development Bank of Zimbabwe (IDBZ) which offers long term loans for development oriented projects. All these institutions could thus be possible sources of finance for the private sector. Another commercial bank, Interfin Bank, is currently under recuperative curatorship while two commercial banks, Genesis Bank and Barbican Bank had their licences cancelled.

The difference between these types of banks might not be quite apparent from a customer who wants to deposit money. However, the mandates of the banks would be different. Commercial banks focus on short term lending with the source of their resources expected to be largely deposit driven. Sources of revenue for commercial banks are loans, issuing mortgages, fees on account, ATM charges and safety deposit box rentals. Merchant banks act as financial consultants to large companies. They offer advice to companies seeking to become larger by means of mergers or acquisitions. Rather than making loans, merchant banks often invest their own money into their customers' businesses, back stock transactions and manage large amounts of money for their customers. They make much of their profit from fees charged to customers for the services. Often, these banks invest into growing private companies, then benefit by selling their stake once the company's value has been maximized⁷.

The distinction between building societies and commercial banks is becoming blurred, as commercial banks are also very active in the mortgages market. Building societies were originally formed to ensure that members (who would be the depositors) would be able to get loans to build houses. As a result, these would be expected to be characterised by better rates on mortgages, but higher rates on savings and lower transaction fees. However, in Zimbabwe building societies are no longer member owned as two are owned by commercial banks while the other one by a leading life assurance company. Thus their activities have also become increasingly commercial oriented and overlap with commercial bank activities.

Development banks specialise in long term financing, which are projects that would take even up to twenty years to mature and they are very selective in the projects they finance; the focus is largely investment financing where there is demonstrable value addition. Development banks also do not rely on deposits as a source of funding but borrowed funds from multilateral institutions such as Africa Development Bank, World Bank and European Development Banks etc, which would be available at very cheap rates.

⁷Differences Between Commercial Banks & Merchant Banks | eHow.com http://www.ehow.com/list_6802257_differences-commercial-banks-merchant-banks.html#ixzz2Nste645n, accessed 18 March, 2013

A microfinance bank provides loan based micro-finance services as well as some few commercial bank products such as individual lending and current accounts. Microfinance banks become different from commercial banks in that there is a limitation in the range of products they can offer. Zimbabwe does not have microfinance banks at the moment although there are active microfinance institutions. Microfinance banks are different from microfinance institutions which operate on a very micro-basis and are non-deposit taking entities that mainly channel funds to specific clients for poverty alleviation programmes. Microfinance institutions are generally intended to service those low-income clients or solidarity lending groups including consumers and the self-employed who traditionally lack access to banking and related services (ZIMSTAT and Finmark Trust, 2012). In Zimbabwe these range from small non-profit organizations to departments of large commercial banks.

Zimbabwe is characterised by five majority foreign-owned commercial banks, namely Stanbic Bank Limited, Merchant Bank of Central Africa (MBCA), Ecobank Zimbabwe, Standard Chartered Bank and Barclays Bank. The country's largest building society, Central Africa Building Society (CABS) is also 100% owned by Old Mutual Zimbabwe which in turn is majority owned by Old Mutual South Africa. Agribank is the only wholly-owned state commercial bank, while the POSB, which is the only savings bank, is also wholly-state owned. Two commercial banks have a significant degree of state ownership, namely, Commercial Bank of Zimbabwe (CBZ) and ZB Bank (Makina, 2012).

Although there are twenty two banking institutions in Zimbabwe, a look at the market shares based on banking deposits would reveal that the market is mostly driven by commercial banks, as commercial banks' market share is about 94%, while building societies account for about 4%, with merchant banks having only 1% of the total deposits. At the end of 2012, the top five banks commanded about 61.23% of the total deposits, which was an increase from 57.01% and 55.9% in 2011 and 2010 respectively (Table 2).

Table 2: Share of Deposits

Bank	2010 share of deposits (%)	2011 share of deposits (%)	2012 Share of deposits
CBZ	22.50	32.10	26.01
BancABC	11.7	9.67	9.76
CABS	6.0	7.07	9.23
Stanbic	8.6	9.48	8.50
Standard Chartered	7.1	7.69	7.73
Total	55.9	57.01	61.23

Source: Makina 2012; MMC Capital Research 2013

The deposits are mostly confined in one bank, CBZ which had about 32% of the total deposits in 2011 and 26.01% in 2012. However, this cannot be regarded as a sign of efficiency on the part of the bank, since the bulk of these deposits are government deposits, for which the bank was selected largely based on shareholder relations with the government. This can be regarded as

unfair competition as all banks would also have welcomed such deposits. As a result there is no competitive neutrality on the part of government as it cannot treat all banks the same regardless of shareholding structure.

The same pattern is also apparent when the market structure is looked at based on loans and advances (Table 3). About 61.22% of loans and advances were issued by only five banks, in 2012.

Table 3: Loans and Advances Concentration of Top 5 Banks

Bank	2011 market share (%)	2012 Market Share (%)
CBZ	24.78	26.14
BancABC	8.55	11.83
CABS	6.60	9.39
Stanbic	9.57	7.20
Standard Chartered	3.97	6.65
Total	53.48	61.22

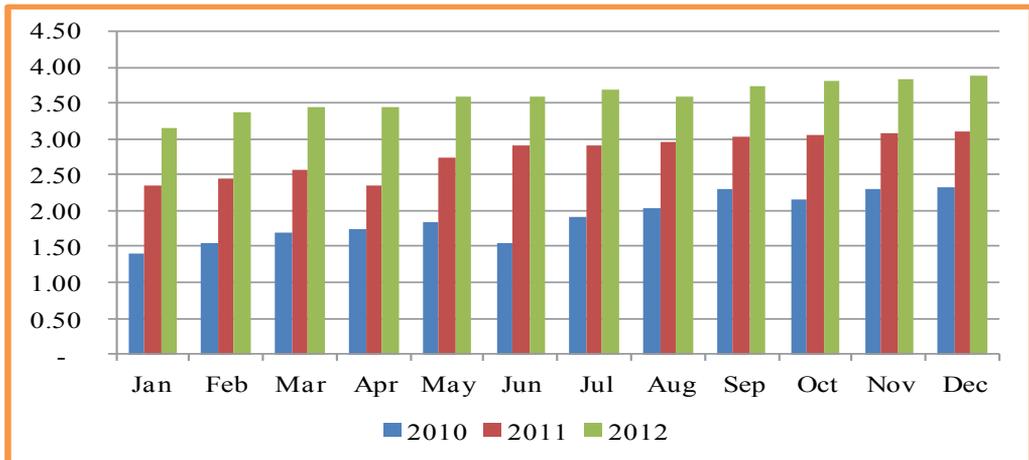
Source: Makina 2012; MMC Capital Research 2013

The remaining seventeen banks shared the remaining 38.78% of the loans and advances. This shows the market for loans is also concentrated among a few banks. As is the case with the deposit market, CBZ is the dominant player in the loans market, with a market share of 26.14%. The large gap in terms of market share with the second placed bank, BancABC, underscores the extent of the dominance of CBZ

3.2 Bank deposits

Trends for Zimbabwe's banking sector deposits reveal an upward trend. A look at this growth trend from 2010 across all the months would reveal that it is consistent and does not appear to be largely affected by seasonal factors in each year (Figure 2). This shows an increase in confidence with the banking sector following dollarisation, as the public had lost confidence with the sector during hyperinflation. However, the deposits are now increasing at a decreasing rate, largely due to a lower base when dollarisation was introduced. For example, although the deposits increased by about 33% between December 2010 and December 2011, they only increased by 25% between December 2011 and December 2012. Statistics from RBZ for 2013 also shows that banking sector deposits increased from US\$3.15 billion in January 2012 to US\$3.81 billion in January 2013, an increase of about 21%.

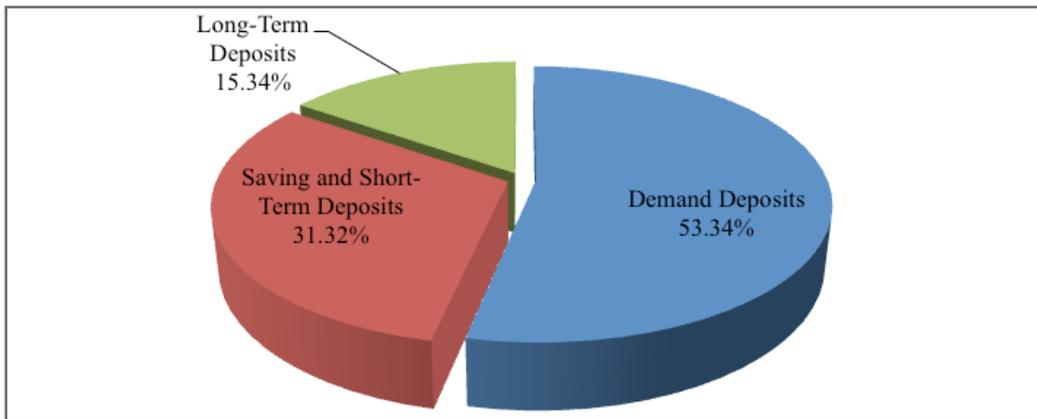
Figure 2: Level of Total Banking Sector Deposits as at different month (US\$ billion), 2010-2012



Source: RBZ Monthly Economic Review

While the increase in banking sector deposits over the years is encouraging, the composition of the deposits is worrisome, as it is largely short term deposits that are dominant. An economy with a significant amount of long term deposits would be more poised to lend more to the private sector compared to the one characterised by short term deposits. The composition of total bank deposits in January 2013 showed that demand deposits constituted about 53.3%, savings and short-term deposits 31.3% while long-term deposits constituted only 15.3% (Figure 3). Banks might show some reluctance in lending out from deposits of a short term nature to guard against bank run possibilities.

Figure 3: Composition of Total Banking Sector Deposits in January 2013



Source: RBZ Monthly Economic Review

A comparison of Zimbabwe's deposit to GDP ratio could also help in giving an indication of whether the deposits have been growing at a rate that is similar to that of other countries in the region. As at December 2011, total deposits constituted about 35% of GDP in Zimbabwe, 22% in Zambia, 37% in Botswana and about 86% in South Africa⁸. Although the country is still far below South Africa, it is relatively within the same range as Botswana and Zambia, which shows that given the size of the economy, the financial sector is performing well.

3.3 Interest rates and interest rate spreads

In January 2013, commercial bank weighted average lending rates for individuals and corporations firmed to 15.58% and 10.81%, from 15.08% and 10.40% in December 2012, respectively. Merchant bank weighted average lending rates firmed for individuals from 17.93% in December 2012 to 17.96% in January 2013. There were no major monthly variations from March 2012 to June 2013 (Table 4). In January 2013, the range of commercial bank 3-month and savings deposit rates remained at the November 2012 levels of 4-20 % and 0.15-8 %, respectively.

Table 4: Interest Rates Level (Annual Percentages)

End Period	Commercial Banks Lending Rates			Merchant Banks Lending Rates			3-Month Deposit Rate	Savings Deposit Rate
	Nominal Rate	Weighted Average		Nominal Rate	Weighted Average			
		Individuals	Corporates		Individuals	Corporates		
Mar-12	8.00-30.00	16.04	12.53	14.00-35.00	18.17	13.26	5-20.00	0.01-12.00
Apr-12	8.00-30.00	15.00	13.06	13.00-25.00	18.37	16.36	5-20.00	0.00-12.00
May-12	6.00-30.00	14.98	11.86	15.00-30.00	15.78	14.47	5-20.00	0.00-12.00
Jun-12	6.00-35.00	13.81	11.58	15.00-30.00	17.86	14.04	5-20.00	0.00-12.00
Jul-12	6.00-35.00	14.32	10.88	15.00-30.00	17.92	13.93	5-20.00	0.00-12.00
Aug-12	6.00-35.00	15.65	10.74	15.00-30.00	17.94	13.95	5-20.00	0.00-12.00
Sep-12	6.00-35.00	13.25	11.14	15.00-30.00	17.98	13.92	5-20.00	0.00-12.00
Oct-12	6.00-35.00	13.35	11.03	13.00-30.00	17.98	13.95	5-20.00	0.00-12.00
Nov-12	6.00-35.00	15.25	10.88	13.00-25.00	17.91	14.42	4-20.00	0.15-8.00
Dec-12	10.00-35.00	15.08	10.40	15.00-25.00	17.93	14.43	4-20.00	0.15-8.00
Jan-13	10.00-35.00	15.58	10.81	13.00-25.00	17.96	14.42	4-20.00	0.15-8.00

Source: RBZ Monthly Economic Review

The interest rate spread in Zimbabwe is very high, averaging about 15% in 2010⁹ (Makina, 2012). Such a rate would imply that it is one of the highest in the region, based on World Bank data for 2010. Only the Democratic Republic of Congo, Madagascar, and Malawi had worse spread than Zimbabwe (Table 5).

⁸Based on information from various sources, including respective country central banks and external sources such as World Economic Outlook and World Bank

⁹The period 2010 was used instead of 2011 to allow for cross country comparison using data provided by the World Bank, which is available for 2010.

Table 5: Interest Rate Spread for SADC Countries for 2010

Country	Interest rate spread	Domestic credit to private sector (% of GDP)
Angola	9.8	21.80
Botswana	5.9	23.9
DRC	39.7	6.4
Lesotho	7.5	15.3
Madagascar	38.5	11.0
Malawi	21	19.7
Mauritius	0.5	90.9
Mozambique	6.6	23.9
Namibia	4.7	49.8
Seychelles	9.80	27.3
South Africa	3.40	135.1
Swaziland	5.90	27.1
Tanzania	8.00	17.9
Zambia	13.50	12.3
Zimbabwe	15.4	32.7

Source: World Bank Financial Indicators¹⁰ (except for Zimbabwe)

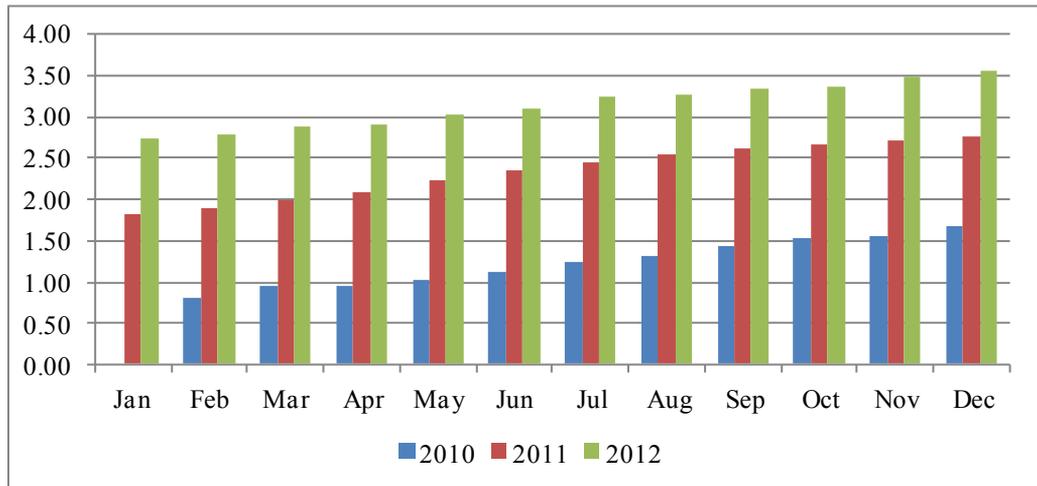
The high interest rate spread reflects the asset-liability mismatch and leads to declining depositor confidence. Very high spreads (especially those that are double digit) also reflects an inefficient banking system whose costs are passed on to customers (Makina, 2012).

3.4 Loans to the private sector

Loans and advances to the private sector have also been increasing over the years even though they are still not adequate for an economy recovering from hyperinflation. The total credit advanced to the private sector as at December 2011 had increased by about 64% to about US\$2.8 billion compared to the value as at December 2010, before increasing further by about 29.2% to the value of US\$3.6 billion as at December 2012. A strong relationship is exhibited by the increasing amount of credit and the amount of deposits that the banks have been generating.

¹⁰At website <http://data.worldbank.org/indicator/FR.INR.LNDP/countries> accessed 27 March, 2013

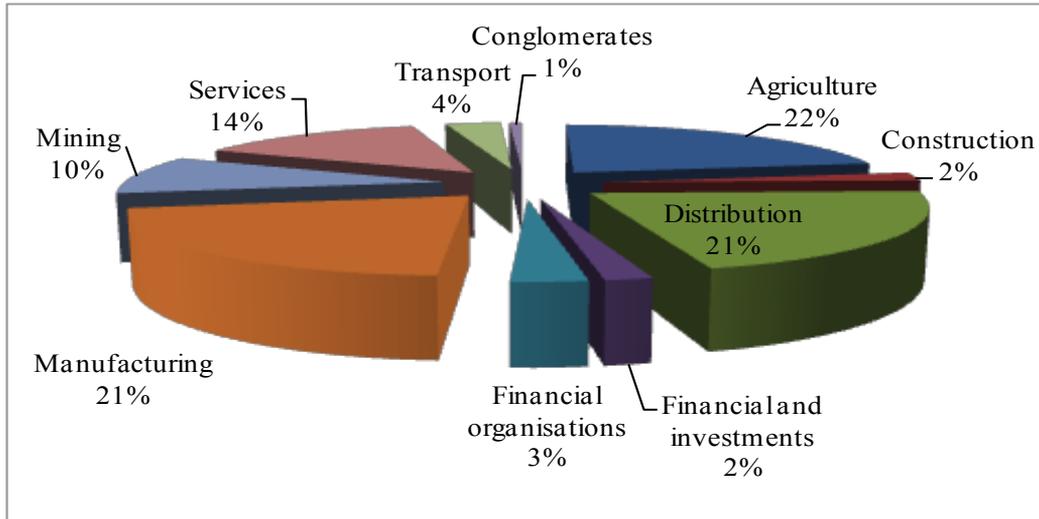
Figure 4: Loans and Advances (US\$ billions) to the Private Sector, Zimbabwe, 2010-2012



Source: RBZ

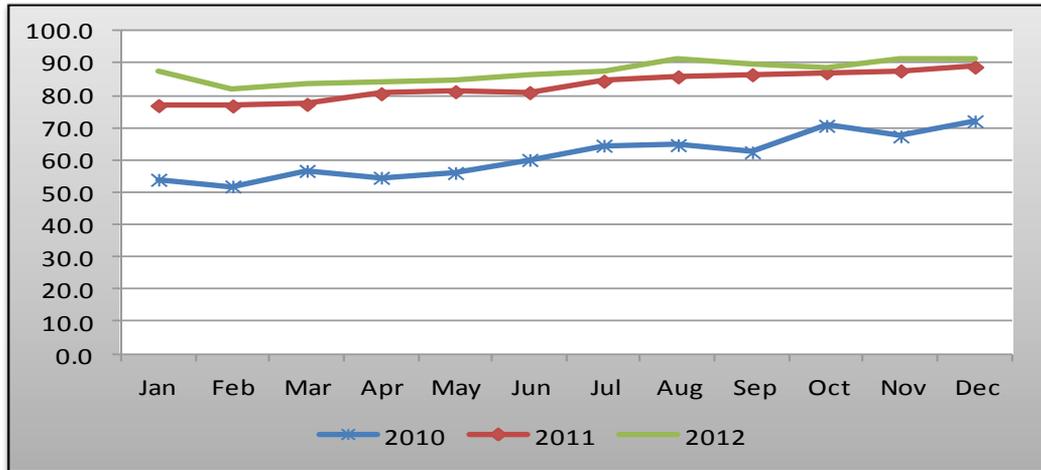
Although the credit to the private sector as a percentage of GDP can be used as a proxy for financial development, this can also give an indication about the adequacy of the credit with respect to generating economic growth. As reflected in Table 6, relatively more developed economies in the SADC such as South Africa, Mauritius and Namibia have higher private sector credit to GDP ratios than Zimbabwe, even though the country has higher rates than the rest of the SADC countries. Given the size of the economy, the amount of the credit being availed to the private sector is not significantly lower than the rest of the SADC countries. However, given the high demand for credit to deal with the hyperinflation effects, Zimbabwe would be expected to have a higher credit to GDP ratio than its neighbours, hence the current trend is not satisfactory.

Credit to the private sector was mainly channelled to the agricultural sector (22%), distribution sector (21%) and the manufacturing sector (21%) (Figure 5). Although the manufacturing sector is ranked third, the amount of credit received by December 2012 for the year was about US\$490 million, which is not enough for a sector that requires a total revamp of manufacturing plants and equipment.

Figure 5: Sectoral Breakdown of Loans and Advances (US\$ thousands), 2012

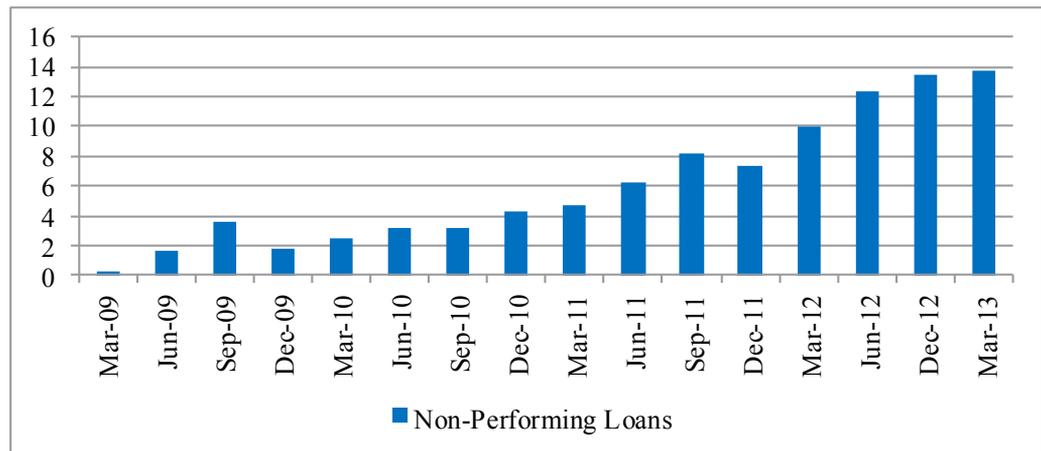
Source: RBZ

Besides the private sector, banks have also been demonstrating willingness to lend to individuals, especially given that the risks could be lessened by making such loans salary-based. Thus lending to the private sector can be increased by either tapping from idle resources in the banks or by shifting from individuals to companies. Over the years however, banks have been demonstrating willingness to lend more, if the loan to deposit ratio is anything to go by (Figure 5). The loan to deposit ratio has been increasing since 2010 and by December 2012, loans constituted about 92% of deposits. A ratio of between 70% and 90% is often considered ideal; hence in December banks had slightly exceeded this limit. This could either be reflective of excessive risk taking on the part of banks, since most of the deposits are short term, or could signal the reliance on non-deposit sources of funding by banks through borrowing from other institutions.

Figure 6: Loan to deposit Ratio for Zimbabwe, 2010-2012

Source: RBZ

Banks could also be forced to apply stringent lending conditions due to the presence of non-performing loans. Information available also reveals that these have been increasing as the loans and advances increased (Figure 6). Although these constituted only about 13.78% of loans in March 2013, this is still a concern, given that this was only about 9.92% in March 2012, such that if the economy maintained the same trend, it could be substantial by now¹¹.

Figure 7: Ratio of Non-Performing Loans for Zimbabwe

Source: RBZ

¹¹Latest statistics are not yet available

Based on statistics provided by the World Bank for 2011 for SADC countries, at 12% the non-performing loans rate is too high compared to other countries in the SADC region¹² (Table 6). This also implies that banks have to tighten their lending conditions to ensure that only those firms which are creditworthy get funding, which could also explain the failure to access credit by many firms.

Table 6: Ratio of Non-performing Loans for SADC Countries in 2011

Country	Non-performing loans
Lesotho	2.9
Mauritius	2.8
Mozambique	2.3
Namibia	1.9
Seychelles	5.4
South Africa	5.7

Source: World Bank

3.5 Bank profitability¹³

Private sector firms also raise a concern about bank charges and high interest rates on loans based on the observed trend, especially after dollarisation, where banks are reporting significant level of profits at a time when the real sector is struggling. For the year ending 31 December 2012, reporting banks reported profits amounting to about US\$132 million, which was an increase of about 23.4% compared to 2011. Banks with the leading market shares in terms of deposits (CBZ, CABS, Stan chart, Stanbic and Banc ABC) contributed about 78% to the total profit, a situation which also mirrored what prevailed in 2011 when these institutions contributed about 80%. Only two banks, Agribank and Allied Bank, reported losses after tax for the year ending 31 December 2012 (MMC Capital, 2013).

Bank profitability tendencies and ability can be reflected by their net interest margins, net interest to total income ratio and the cost to income ratio (Table 7).

¹²The selected countries are those for which data was provided by the World Bank

¹³Based on a report by MMC Capital Banking Sector Survey for year 2012, released in May, 2013

Table 7: Select profitability measures for banks for the year ended 31 December 2012

Bank	Net interest margin	Net interest to total income	Cost to income
CABS	11%	55%	52%
ZB Building Society	19%	24%	85%
FBC Building Society	12%	31%	50%
Standard Chattered	9%	27%	57%
Stanbic Bank	15%	44%	57%
Barclays Bank	8%	20%	90%
CBZ	11%	73%	61%
MBCA	12%	49%	66%
Allied Bank	7%	9%	221%
Kingdom Bank	8%	35%	98%
BancABC	9%	54%	61%
FBC	11%	49%	76%
TETRAD	9%	54%	98%
Metropolitan	11%	47%	76%
ZB Bank	15%	39%	85%
Ecobank	6%	42%	85%
Agribank	6%	27%	112%
NMB	12%	50%	59%

Source: MMC Capital, 2013

Generally, interest income for all the banks does not constitute the bulk of income, implying that banks rely largely on bank and administrative charges for income. The ratio of interest income to total income for the whole industry averaged only 46% in both 2012 and 2011, which implies that non-interest income contribute to the bulk of banks' income. However, on an individual basis, there are a lot of variations as some banks such as CBZ (73%), CABS (55%) and BancABC (54%) actually derived a lot of their income from interest rate charges. The dominance of these banks in this income head is also a direct result of the number of bank clients that deposit with these institutions.

Net interest margins are also an important indicator of profitability, as they reflect the premium that banks put for their operations. In general banks put a very high margin, as it averaged 11% for all the banks. Banks such as Agribank and Ecobank have the lowest margin at 6% while ZB Building Society was more profit oriented with a margin of 19%.

The general feeling in Government also appears to be that banks are charging exorbitant interest rates on loans, based on the recent policy pronouncements. Government initiated the signing of a Memorandum of Understanding (MoU) between the Reserve Bank of Zimbabwe (RBZ) and banks in January 2013 (effective 1 February 2013) in which banks were to be allowed only a 12.5 percent interest margin on loans, over and above the cost of funds. Many banks indicated that they did not have any problem with complying with this, as their margins were already below 12.5%. Since non-interest income constitute the bulk of banks' income, it is possible that some banks were already compliant.

4. ASSESSMENT OF FINDINGS FROM STAKEHOLDER CONSULTATIONS

4.1 Banks' lending conditions

The conditions that banks impose before lending in Zimbabwe are not significantly different from the normal lending practices, as they are intended to establish the qualitative and quantitative risk criteria described in Table 1 under section 2.2. Banks would request for company information intended to establish their risk category, which include cash flow statements for the past years, financial statements, ownership structure of the firm as well as the intended turnaround plan. Such information would be useful in giving an indication about the growth prospect of the company, cash flow adequacy, assets protection ratio and profitability, which are among the key factors used to determine a firm's credit worthiness.

In addition to these, banks also try to secure the loans through collateral. Collateral is accepted mostly in terms of immovable properties, which include buildings and land. Thus borrowing companies would need to register a mortgage bond for their properties. Banks are no longer accepting plants and machinery as collateral, after establishing that the plants are now too old and use old technology which is not attractive to any buyer. One failing company, Mutare Board and Paper Mills for example, had to sell their plant as scrap after failing to get any buyer. The biggest challenge with plants as collateral is that only a buyer from the specific industry would be willing to buy, which limits options.

Collateral can also be in the form of export cover for exporting firms, where export receipts would be used to secure the loan. In this case, banks would require CDI export forms as collateral and in the event of failure to pay, banks would have access to the export proceeds. However, the qualifying firm has to have a traceable record in the export market, where export receipts have been consistently banked in Zimbabwe to reduce risk. Few firms in Zimbabwe would thus qualify, hence the access to credit challenges for those struggling.

Credit can also be lent out without collateral for specific projects which are deemed less risky. However, this only happens in cases where the bank has managed to ring fence the payment system by ensuring that all payments would be made through the bank. This would enable the bank to be able to have access to the payment in case of challenges. In most cases, the bank would not give out the loan to the firm, but would simply pay service providers directly for the services to the borrower to reduce chances of the loan being used to finance overhead costs of the borrowing firm. This works for sound projects, where the bank also enters into agreements with service providers in addition to the borrowing firm.

Local firms are also able to negotiate with offshore financiers for credit, especially regional financial institutions such as the PTA Bank. Offshore banks also require mortgage bonds for properties, but in most cases would also be content with an export cover. In that case, they would ask for some export cover, in the form of CDI forms, worth about 1.5 times the value of the loan. As already explained however, given the dearth of manufacturing sector activity, this is also difficult.

Banks are also willing to give unsecured loans to companies that are considered blue chip, especially if they are part of a large group of companies or are owned by shareholders of repute. In most cases, such companies would be using the particular bank and thus would have the muscle to dictate terms. Most banks acknowledge that such companies are the ones that dictate lending conditions, as they can threaten to move to another bank with better terms. Such companies thus also enjoy low levels of interest even when the loan is unsecured. Thus the lending conditions are not uniform across all players in the market.

This is generally the basis for a wide spread between lending rates. There exists some firms that are doing well or with the necessary conditions that see them getting credit at reasonable rates. These are mostly bulk deposit firms that are usually not in a hurry to withdraw their money. Some firms indicated that they had managed to get loans for as little as 11% when the struggling ones are actually being quoted rates of about 30%. Thus low risk as well as a countervailing power on the part of firms can easily result in favourable rates, hence all firms should try to aim for such status.

Banks also give out loans to those firms that are willing to accept loans of a short tenure. Rarely do banks give out loans for a period exceeding one year, unless using funds through government negotiated schemes or other offshore lines of credit. As explained in section 3.2, bank deposits give a limited source for bank loans, since long-term deposits constitute only 15.3% of the total deposits. Banks are also struggling to get long term sources of credit, hence they also lend on a short term basis. This is where most firms can be assured of getting credit albeit at higher interest rates that are adjusted to factor in their risk. However, most firms indicated that this is not a route worth taking as they would not be able to pay back in such a short time.

The implication from all this is that although the lending conditions by banks are mostly the standard bank lending conditions, for most of the firms in the manufacturing sector they are too harsh. The conditions should not be deaf to the situation that prevailed in the previous years where the economy was on a decline. In that regard, financial statements for most firms are not healthy; their cash flows are limited and face several constraints towards meeting the ideal targets. Most of the properties that need to be mortgaged have lost value during the crisis period, making it difficult for them to raise the required collateral. Limited production by the firms implies that their cash flow statements are not yet in good shape, although credit availability for capital investment could enhance production. Income statements for the past years would also not be good, as dollarisation without the necessary balance of payment support implied that they had to start from zero. The companies had to produce first and sell in order to have cash flow, at a time when the country experienced suppressed demand. Thus the presence of losses in their books is generally inevitable.

On the other hand, the template that the banks are using in lending is the standard template, which might not take into account the country specific challenges that firms are facing. The general assessment of risk based on that template would indeed reveal that most of the firms

are risky, which is something the firms might need to work on. However, some home grown template could have revealed some potential that could exist for some firms if properly funded. For example, even firms that have a relationship with a bank dating back to more than 30 years are also failing to access credit based on the assessment factoring cash flows over the past three years. Pre-hyperinflation information can also be factored in to assess past behaviour.

There might be need for the banks to also consider the potential that order finance has in ensuring that firms get credit while at the same time banks have something to hold on to. Although the firm might not be in a healthy position, if they have secured orders and the buyers confirm that they are willing to buy, such confirmations can be used as collateral. Such order financing can involve payments made directly to the bank to eliminate any risk while the firms get the necessary take off into competitive production.

The need for caution on the part of banks however need not be overlooked. Since dollarisation, the NPL ratio has rather been on an upward trend, revealing that there are instances where undeserving firms were able to get credit. As described in section 3.4, the NPL ratio for Zimbabwe is one of the highest in the region. Banks are accountable to their shareholders and have to ensure that their lending criteria minimises risk. In addition, banks are also fundamentally accountable to their depositors as fiduciary duty is an essential consideration for every serious banker. Given that the lending conditions are the standard ones, banks can be given the benefit of the doubt in giving stringent conditions before lending out. The NPL has also become a stumbling block for the most banks in their quest to raise additional capital. Shareholders would feel that injecting resources under such a situation is not ideal as their shareholding is reduced through the NPL provisions on an annual basis.

As described in section 3.4, the loan to deposit ratio for banks in Zimbabwe stood at about 92% in December 2012. This generally implies that banks have been showing some willingness to lend with borrowers being able to access the credit. In addition, it also shows that there is a huge demand for credit, which exceeds the capacity of banks as many companies are still failing to access it. Such a high loan to deposit ratio makes it difficult to conclude that the lending conditions are stringent in Zimbabwe when agencies have been able to borrow heavily from the banks. This could imply that the banks might simply be lacking the capacity to accommodate all firms requiring credit.

4.2 Issues regarding government negotiated funding schemes

Both banks and the private sector appreciate the importance of government negotiated schemes such as ZETREF and DIMAF, which are intended to help companies finance working capital requirements. However, there are areas calling for attention, which could explain the low disbursement rates at only 38.5% and 30.5% for ZETREF and DIMAF respectively. Of the two, ZETREF is considered more beneficial by the manufacturing sector due to the fact that it has a long tenure of about two years, which can give the companies some time to make adjustments before the loan is due.

Firms that were able to access ZETREF funds also complained about the cumbersome and time consuming process that it takes to get access to the credit facility. For example, it can take about six months to complete all the requirements needed to get the credit. In addition, there are no significant differences between the interest rates charged on other general loan applications when compared to the ZETREF, although the longer tenure would imply that the interest rate becomes lower after being compounded over two years. In other words, the firms that accessed the funds indicated that the interest rate quoted on the funds converge with the normal rates, at around 20% or more, similar to what they get charged when making a general loan application. There is need for banks to work out mechanisms through which the process could be speeded up.

DIMAF is a facility that is reserved for distressed firms, and such firms are under normal banking conditions, not creditworthy. Banks thus are hesitant to apply any special conditions that would go against the prudential lending conditions they apply in giving out loans. Those that have been able to get access to the facility end up being quoted an interest rate that is more than the anticipated concessionary rate of about 10%, with the adjustment being the risk factor. The DIMAF facility, which is handled mostly through CABS is thus expensive for distressed firms. While Old Mutual avails the funds at about 10% to CABS, other administration costs and a mark-up would see the facility being availed at a minimum of 15%, which would also differ depending on the borrowing firm's risk exposure. Thus firms end up failing to appreciate any benefit from the facility when everything converges with the normal lending practice.

Discussion with the responsible bank however reveals how this issue arises. Firstly, most of the distressed firms are already highly indebted, with creditors already expecting to be paid. Thus the bank giving out new credit to such a firm would want some assurance that it would be prioritised in payment, which might not happen as other creditors are also owed. Thus CABS might need to engage other banks which are owed to know the position they would take to recover their debt. It is on this basis that most of the firms that are currently under judicial management have failed to access such facilities even though they are distressed. Secondly, banks are accountable to their shareholders for any non-performing loans, which calls for them to do risk assessment in lending out money. Thus banks would only give out loans to distressed firms if such firms have a clear turnaround strategy which is deemed feasible to eliminate risk. However, it is difficult for such firms to demonstrate that they have the key success factors to avoid failure. Thus the low disbursement rate would be reflecting the failure by the borrowing firms to demonstrate that they are creditworthy.

In other words, although the intentions behind the government facilities are good, it is difficult for distressed firms to access loans when they are lent through banks. Banks would naturally subject any lending to normal rules that are intended to ensure that the loan is secure. The government thus could either lend directly through other platforms besides banks or outline separate access requirements for its own share in DIMAF if distressed firms are to access credit. Although such lending would be done under risky conditions, it would be able to serve the true purpose which DIMAF was established.

4.3 Firms' creditworthiness

While the failure to access credit could be attributed to banks' response to market conditions, firms' creditworthiness is also a big issue. Most banks argue that although credit is in short supply due to liquidity challenges and limited sources, any firm that is creditworthy would be assured of getting credit. Thus a firm that has a good bankable project, with a low risk profile is assured of getting funding. However, given the challenges imposed by hyperinflation, it is difficult for most firms to come up with bankable projects. Most of the firms thus are not able to pass the creditworthiness test used by banks for fear of adverse selection problems arising from information asymmetry.

As explained in Table I in section 2.2, credit worthiness can be determined using the business risk and financial risk criteria. Business risk factors would reveal the following for most of the private sector firms in Zimbabwe:

- *Growth Prospect*
Most of the firms are considered risky based on an assessment of their growth prospect. A look at the industry sector and trends would not give a convincing picture, especially since industries such as steel, textiles and paper for example are caught up in a vicious circle of challenges which are proving difficult to get out of. In addition, hyperinflation created a technological gap between Zimbabwe firms and foreign competitors, calling for significant amount of investment to catch up. Some firms in specialised sectors such as pharmaceutical for example are struggling to meet international standards for production. As a result, most of the firms' growth prospect is not too pleasing due to failure to stand up to competition, a basis upon which they are considered 'risky'. Thus many companies are generally considered not creditworthy based on their growth prospects.
- *Capital requirements*
The companies are also considered risky based on the amount of capital investments that is required for competitive production. Most of the firms require fixed capital to replace obsolete plants and machinery as well as for operations. However, long term finance is generally not available; hence production would still be done using old equipment. Thus when firms make an attempt at sourcing working capital financing through bank credit, their ability to profitably produce and generate returns to pay back becomes questionable, given the high production costs associated with their old equipment. Banks would thus be reluctant to lend to such firms as they become risky.
- *Competitive environment*
Competitive environment assessment would assess risk based on the nature of the product, competitors and access to basic inputs of production. Unfortunately, Zimbabwe firms fail to compete due to failure to differentiate their products in a market that is composed of several better packaged and differentiated products from better equipped companies from abroad. Domestic competition would also become a factor in those sectors where some

bigger players in the same industry are doing relatively well, resulting in the growth prospect becoming questionable for smaller players who are struggling to keep up. Given limited production in the agriculture sector and other downstream industries, limited access to raw materials and other basic inputs into the production process would also be considered a risk factor as it affects competitiveness. The competitive environment thus works against Zimbabwe firms' creditworthiness.

- *Diversification and ownership structure*

The ease at which those firms that are part of a group of companies of repute can easily access credit also demonstrates the extent to which ownership structure is used in assessing risk in Zimbabwe. Those companies that have strong linkages to the parent company, whether financially, operationally or through technical support do not experience much challenges in accessing credit. This is also true for those companies that are part of a group that is highly diversified; if one business unit is considered successful, it would also work to their advantage. For example, while Tanganda Tea Company would be in the beverages business, the fact that it is linked to the Meikles Group, operating in totally different areas would also see them being considered creditworthy. Thus failure by companies to demonstrate that they are relatively diversified to cover risk as well as failure to be associated with reputable companies through ownership structure could explain why they are considered risky.

In addition to business risk, companies are also subjected to financial risk assessment factors when their application for credit is being assessed. Based on the factors outlined in Table 1 in section 2.2, it is also not surprising that most companies are considered risky:

- *Cash flow adequacy*

Most firms are also considered not creditworthy based on cash flow adequacy test. Suppressed demand following dollarisation as well as prior hyperinflation without the necessary balance of payment support implied that any cash flows had to emanate from sales. Thus companies started on a very low base, which delayed their ability to have much flow of funds. As a result, both their interest coverage ratios and the flow of funds as a share of total debt are too low to be considered creditworthy, which could also explain their failure to secure credit.

- *Asset Protection*

Most of the companies indicated that they are already highly indebted, with the huge portion of the debt having been carried forward from the hyperinflation period. It was on this basis that a number of firms saw it prudent to apply for judicial management, as a way of getting a temporary relief from pressure from creditors. Thus the balance sheets for most companies are not healthy as they are heavily geared, with the total debt as a share of capital being very high. It is on this basis that most firms are considered not creditworthy.

- *Profitability*

As a measure of creditworthiness, profitability would see many companies failing to access

credit. Companies are struggling to make a profit, as historical obligations and suppressed demand limit sales. Given the high cost of production per unit associated with the old equipment and technology, manufacturing firms are struggling to remain competitive in terms of pricing. Thus based on return on equity and on assets, as well as historic and projected earnings, most firms would also be considered not creditworthy.

It therefore follows that there is still more to be done by firms to become creditworthy. While banks can be accused of profiteering based on their declared profitability margins, the firms' conditions are also not enhancing their chances of getting credit. Given that some blue chip companies are able to get credit at reasonably favourable terms, access to credit can be enhanced if firms make some efforts to improve their creditworthiness. Partnerships with internationally renowned companies, investment in new technology through FDI or otherwise, and mergers with better performers could enhance companies' creditworthiness.

Business should also prioritise ensuring that their key management personnel participate in training programmes in financial management and methods for establishing credit worthiness. Such programmes could also encompass preparing business plans and packaging loan requests. Despite this process adding to the cost of doing business for the firms, there is a long term benefit through long term reduction in cost as the loan application process, business management and ancillary activities are done efficiently.

However, given that the success of these initiatives would also depend on other factors outside the control of firms, banks can also apply a flexible template to accommodate those companies with bankable projects. For example, some banks indicated that they are not prepared to do order financing, when it is one of the best ways in which a win-win situation can be obtained between both parties if measures are properly put in place to monitor cash flow movements. Thus there is need for banks to explore other options of ensuring that credit can still be availed while at the same time the risks being managed to ensure that firms' future borrowing capacity is enhanced by the credit. This calls for more innovation on the part of both banks and the private sector to get around the problem.

4.4 Collateral and collateral to loan ratios

Discussions around the issue of collateral reveal three major reasons for collateral (Greenbaum and Thakor, 1995) are;

- Collateral allows a reduction of the loan loss for the bank in the event of a default of the loan, as the collateral provides to the bank a prior title on specific assets.
- Collateral helps to solve the problem of adverse selection borne by the bank when lending, as it constitutes a signalling instrument providing some valuable information to the bank
- Collateral helps to solve the problem of moral hazard after the loan is granted, namely, the borrower is inclined to provide the optimal effort or the optimal level of investment.

As discussed previously, the financial services sector in Zimbabwe demands collateral security for loans. This is mostly in the form of residential and commercial properties; stock of debtors; registered bonds; plant and equipment.

Firms are generally not happy about the value of collateral that they are supposed to raise in order to get loans. Firms are asked to raise collateral of a value which is about one and a half to two times the value of the loan, which firms consider to be unfair. However, there are three values that banks place on properties: market value, replacement value and forced sale value. The market value is the current perceived value of the property on the market, the price to be realised if the property is to be sold on the open market. The replacement value is the amount required to purchase similar property at the market while the forced sale value is the amount that would be realised when the property has to be sold at a public auction to recover the loan. The forced sale value is the lowest of the three given that this would be sold on an emergency basis after the firm has defaulted.

When banks eventually dispose of the collateral, they would do so at the forced sale value and not at the market value. Banks consider the chances of realising the full value of their funds in the event of a forced sale to be very slim. Based on experience, banks have discovered that realising the value of credit in the event of default is difficult in Zimbabwe. The property market has solely become the buyers' market, where it is the buyer who determines the value of the property. In such scenario, the bankers end up being the losers as the amount fetched by the assets fall short of the amount that was borrowed. Forced sale can also entail high transactions costs for the banks, especially when they are forced into real estate business for which they do not have competence.

As a way of guarding against the risk, banks apply a discount on the value of the property to give an amount which is close to what the banks would get when the property is disposed at the forced sale value. Banks would thus advance the loan which is less than the perceived value of the loan by the firm; the collateral would be about one and a half to two times more than the value of the loan.

Another challenge associated with the use of immovable property as collateral that has been cited by the private sector is the issue around the valuation of properties in general. Firms believe that the banks are deliberately undervaluing their properties so as to award the borrowers less credit. On the other hand the banks argue that there has been a tendency on the market to overvalue the properties so as to access huge amounts of credit which is not usually realisable in a forced sale situation. Faced with such situation the banks are forced to use their own valuation agents, following which they would also apply a 30-50 percent discounting factor to cater for the forced sale value. Given the nature of the market and from a banking perspective, banks are justified in demanding collateral that is higher than the value of the loan. Banks have given examples of huge losses they encountered after failing to take the forced sale value into consideration. Banks need to base lending on the actual amount to be realised on sale of property and the private sector has to appreciate this.

4.5 High spread in interest rates

The cost of credit is another factor that has been identified as a hindrance by some of the organisations in accessing credit. Currently the interest rates being charged by the banks can get to as high as 30%, which is deemed too high. Most of private sector players interviewed felt that these rates are discouraging because most of the investments are not giving a return commensurate with such high interest rates.

One of the arguments that have been put across by the private sector players is the high spread between the interest rates on deposits and loans. Private sector firms argue that since the banks award very low interests rates on deposits or none, they should also be selling the same funds at a lower interest rate hence reducing the spread between the loans and deposits. They further allude to the fact that this high spread does not augur well with their operations since there are extra costs that are borne by the players hence making it difficult to attain a positive return on the amounts borrowed. The other associated costs on top of the interest rate include the establishment fees; draw down fees; cost of preparing relevant documentation and the associated red tape in the processing of the loan. Given that some of these costs have no monetary value, they greatly impact on the operation of the firm and hence consequently on the cost of the firm.

As explained in section 2.3, there are several drivers of interest rate spreads. These include the following:

- *Minimum capital requirements*
It is possible that the high regulatory minimum capital requirements in Zimbabwe could be a contributing factor to the high spreads, as banks also try to generate profit from high level of capital invested. The profitability for banks is mostly derived from non-interest sources of income such as bank charges for the various services and maintenance costs. Interest rates on loans are currently not the main source of bank profits in Zimbabwe.
- *Market frictions*
Market frictions are playing the major role in pushing interest rate on loan upwards, hence the high spreads. There are a lot of information asymmetries, which results in costs associated with screening and monitoring borrowers being factored into the interest rates on loans as risk premiums. Thus market frictions could explain the high interest rate spreads.
- *Bank cost structures*
As explained in section 3.1, the banking market has some few large banks which dominate the market. The differences in the bank sizes would also imply differences in overhead costs. Thus naturally, those banks with larger overhead costs would be expected to try to cover them in the interest rate structures. However, Table 7 reveals that this might not be the case in Zimbabwe. Banks such as Agribank, Ecobank, Allied Bank, Tetrad and Kingdom have a high cost to income ratio and are also characterised by the lowest net interest rate margins compared to banks such as CBZ, Standard Chartered, CABS and Stanbic with low cost to

income ratio. This could imply that smaller banks actually have lower spreads compared to the larger banks. There are two possible reasons for this. Firstly, income is mostly composed of non-interest sources; hence the small banks might be trying to attract more deposits through lower bank charges than bigger banks. Secondly, the smaller banks might also be lending out at lower rates than the bigger banks as a competition strategy to attract loans from the bigger banks. The resultant effect under both scenarios is that the smaller banks would tend to have lower interest rate spreads than the bigger banks.

- *Sources of the funds*

The sources of the funds for the majority of the banks differ, and these also come at different costs. Given the limited role that deposits play due to their short term nature, the sources of the funds within and across banks are also different leading to different interest rates being charged on loans across banks. The major sources of the funds are from other non-banking sectors in the local market (e.g. pension funds and NSSA) and offshore sources (PTA bank, Afreximbank).

- *Limited role of the stock market*

A well-developed stock market can push the interest rate spreads down by reducing the demand for bank loans as companies can get finance from it. While the stock exchange is doing relatively well in Zimbabwe, its capacity to act as a substitute for bank finance is limited, which would also explain the high interest rate spread.

These factors explain the reasons behind the high interest rate spread currently experienced in the country. These factors require attention so as to reduce the interest spreads.

4.6 Other alternative sources of credit

One alternative to bank credit is supplier credit. Under supplier credit, the seller grants the buyer a deadline for payment, effectively granting the buyer credit for a limited period of time. This saves the buyer having to obtain funds some other way and eases its short-term financial plan. Prior to the economic crisis that affected the country (1998-2008), the majority of the firms were able to operate based on supplier credit. There were able to obtain these facilities from both the domestic market and offshore as the country was still perceived to be less risk. The onset of the crisis in the country brought about the challenges of failure to pay on time or outright failure. This precipitated a situation where the suppliers started to demand cash upfront for any supplies to the local firms.

Firms that were interviewed highlighted that there were facing challenges accessing alternative sources of funding especially supplier credit. In cases where this has been provided, the time period has been short making it hardly possible for the firms to productively use it before repayment is required. Given that the majority of firms have production cycles greater than a month, firms would require a period more than a month to be able to make a repayment for the supplies provided.

Companies that rely on importing raw materials have not been accessing supplier credit from foreign suppliers because of the perceived country risk. The country risk has been mostly as a result of huge national debt and the associated arrears.

The failure of the supplier credit system in the current operating environment puts pressure on the demand for bank credit and government financing facilities. Most of the organisations highlighted that the unavailability of supplier credit has resulted in most organisation failing to fulfil orders that would have been placed by the clients. This has impacted on the organisation's reputation resulting in loss of trust with existing and potential clients. This cycle has been witnessed since the beginning of dollarisation.

Self-financing and retained earnings are also important sources of finance. The unavailability of credit for the private sector has forced some of the organisations to resort to the use of self-financing mostly through retained earnings. The injection of new capital by the shareholders has been difficult given that the majority of them have not been able to get dividends in the last decade due to the poor performance by the organisations. Given that there has not been much return on their investment, most shareholders are sceptical of injecting fresh capital. In order to circumvent this challenge most businesses have been using retained earnings for working capital purposes. Most of the organisations have not been able to have sufficient earnings for capital expenditure.

Another important source of financing the business is the stock market. However, the stock market has not been a significant source of financing for the manufacturing sector, given that over the past four years, only about US\$235,5 million was raised through the stock market for all industries (Table 8), an amount which might not be enough even for capital requirements for the manufacturing sector requirements alone.

Table 8: Funds Raised Through the Stock Exchange for all Sectors, Zimbabwe (2009-2012)

Year	Amount Raised
2009	26,577,595.00
2010	82,466,802.00
2011	No initiative to raise money by companies
2012	126,408,175.00

Source: Zimbabwe Stock Exchange

Interactions with the majority of the companies show that, they have not been using the stock market as source of raising capital or working capital purposes. This is mostly because the majority of the organisations interviewed are private companies hence are not listed on the stock exchange. For those organisations that are listed on the stock market, they have been able

to leverage on this to get additional funding. On top of getting additional funds from floating of shares, these have been able to approach the banks and international financial institutions to get additional funding for their working capital purposes. Hence the listing on the stock market and the performance of the shares were too critical issues for harnessing additional resources for the firms.

The bond market is also an important source of finance for industry. The market channels the wealth of savers to those who can put it to long-term productive use. Currently the bond market is very weak in Zimbabwe, although there have been some few bonds that have been traded (Table 9). These have been used mostly as a source of short-term funds for quite a few businesses and are of limited use for reindustrialisation.

Table 9: Bond/Bills Trading on the Zimbabwean Market

Bond/Bill	Terms
Government Special Bond	<ul style="list-style-type: none"> • Worth US\$81 million • Converted from statutory reserves • 2-year (2.5%); 3-year (3%) and 4-year (3.5%) • Payments at maturity have been honoured. • Interest payment is semi-annually
IDBZ Infrastructure Development Bond	US\$30 million was offered and only US\$17.8 million Allotted at 10%.
Agri-Bills	<ul style="list-style-type: none"> • Private placement guaranteed by CBZ & Government • US\$4.5 million guaranteed by CBZ • US\$17.6 million guaranteed by Government • US\$10 million was offered and US\$5.8 million was allotted • Interest rates of 7-12% • 1st batch paid in full at maturity on August 17, 2012 • 2nd batch matured on 10 October 2012
AMA bills	<ul style="list-style-type: none"> • US\$25 million was offered and US\$12.5 million was allotted at 10.5% interest • Bill s issued for soya bean support • Included tap issue (continuous float) • Tender opened on 13 December 2013 • Minimum application of US\$50,000 in multiples of US\$10,000

Source: Zeparu (2013)

4.7 Lending cost drivers in the banking system

Findings from interviews revealed that credit is expensive in Zimbabwe. Firms raised concerns over the high interest rates, high establishment fees, undervalued collateral, high cost of preparing relevant documentation and the associated red tape in processing the loan. These high lending rates are unfavourable for firms, which are looking for cheaper and long-term capital for re-capitalization and re-tooling among others. On the other hand banks have attributed the high credit cost to a number of factors including the liquidity crunch currently prevailing in the country, limited lines of credit, the short term nature of the bank deposits, poor quality

of business proposals, high credit demand, high bank operating costs, limited bank sources of income and a low bank deposit base of US\$3.8 billion as at August 2013.

Currently banks have limited lines of credit mostly due to the inactivity of the interbank lending and the lack of the lender of last resort function of the central bank. The interbank lending market is a market in which banks extend loans to each other under specific terms. These interbank loans are usually of a short duration of one week or overnight. The interbank market was rendered dysfunctional following the collapse of confidence among banks and the rise of financial risk. Prior to the hyperinflation era, banks used to extend unsecured loans to each other. The failure of a number of banks increased the financial risk which limited interbank lending. Currently banks are using Bankers Acceptances as collaterals, but given their low quality, this is done on a low volume. This resulted in limited liquidity smoothening in the banking industry.

Banks are currently charging firms interest rate ranging from 15% to 30% except for blue chip companies which are being charged interest rate ranging from 6% to 13%. Banks highlighted that they are importing credit for on lending, which is expensive. They said interest rates from their source of funds are usually low, but the additional costs such as establishment fees, draw down fees, legal fees, and insurance cover on collaterals are high. These additional costs are the ones which then push interest rate up. In addition to these costs banks also add their margin plus the inflation factor to come up the interest rate.

The issue of liquidity crunch as a result of the adoption of the multicurrency regime also emerged as a prominent challenge from the interviews with banks. The liquidity challenges emanated from the fact that the country had less foreign currency reserves at the back of a dwindling export market. In addition the poor performance of the manufacturing industry meant continual importation of goods thus exacerbating the liquidity crunch. With GDP estimated at about US\$9 billion as of 2011, being supported by a money supply of only US\$3.8 billion as of February 2013, challenges would be expected. The government has in the past tried to open external credit line but the funds were not enough to meet the growing credit demand. The RBZ tried to put restrictions on offshore account balances but still the money supply level did not improve significantly. In 2012 the Ministry of Finance pledged US\$100 towards reducing the liquidity problem through the RBZ through the lender of last resort facility. Only US\$20 million of the US\$100 pledge was actually injected in the economy.

Another factor which has been driving interest rates is the risk factor. Credit bureaus are usually tasked with a function of risk assessment. Currently the country does not have a credit rating bureau. Credit rating bureaus give rating to borrowers according to their creditworthiness. Credit ratings are then used by investors, investment banks and broker dealers to assess the risk levels of borrowers. Credit rating bureaus increase the range of investment alternatives and provide independent, easy to use measurements of relative credit risk. This generally increases the efficiency of the market through lowering costs for both borrowers and lenders. This in turn increases the total supply of risk capital in the economy, leading to stronger growth. It also opens

the capital markets to categories of borrower who might otherwise be shut out altogether. The absence of a credit bureau thus also drives up cost of credit, as the risk premium goes up.

Banks raised concern about the absence of a viable government paper to guide interest rates. A government paper in the form of Treasury Bills (TBs) can be used to control interest rate. Treasury can reduce interest rates by buying treasury bills from the public (who would have bought them previously) which would increase the supply of money and hence reduce its cost. Since the adoption of multicurrency in 2009, the Reserve Bank of Zimbabwe (RBZ) and the Ministry of Finance (MoF) have issued treasury bills at four different times. The participation in all the four auctions has been classified as poor. Banks rejected the TB's because they were not happy with the auction system. There was no open tender auction system and bid rates were calculated as the average bid rate of the auction. The lack of a proper TB market in Zimbabwe is also a cost driver.

Firms are really in need of long term credit which they need for retooling and improving technology. Banks are currently giving out short term loans due to the short term nature of deposits, which make it difficult for business to repay them as they are not in line with production cycles. The short term nature of deposits is thus a cost driver. Banks believe that raising the deposits rate as a way of encouraging long term deposits is not a significant factor in attracting loanable funds since the public has no confidence in the local banking industry. The public lost confidence in the banking industry during the crisis period when their savings were eroded.

Banks appear to be failing to perform one of their basic functions, which is the transformation of maturities for deposits to ensure that they pool short term deposit liabilities to support medium and even long-term loans. This failure can be attributed to economic risks, especially uncertainty regarding the multicurrency horizon due to political risk. In addition, the failure can be due to the fact that commercial banks in most countries obtain long-term funds through the bond market and equity market, which are not performing well in Zimbabwe. Banks would also try to bridge the maturity mismatch risk by securitising long-term loans through the capital markets to enable long term lending without the banks having to hold long-term illiquid assets. The weak capital markets in Zimbabwe could thus explain why only some few banks with stable deposit base are able to do medium-term lending. This is worsened by the central bank's failure to play its lender of last resort function through the introduction of relevant paper on the market.

Firms highlighted that a delay in the processing of credit applications has a bearing on the cost of the credit. Those interviewed also highlighted that the time it takes for the loan to be processed is too long sometime spanning over a period of six months, over which period the firm will be incurring transaction costs. Thus the lag in processing loan applications is also a cost driver.

4.8 Policy issues for improving credit

Currently there are no binding or enforceable interest rates policies. The RBZ is using moral suasion to influence the cost of credit, as it lost most of its monetary policy role after dollarisation. However, an environment where TBs can be easily traded would give the central bank an option

to influence the interest rates. In addition, the lender of last resort role of the central banks would also place RBZ in a position to influence interest rates by reducing risk taking behaviour of banks after they are able to borrow from the central bank. Thus policies towards ensuring that these happen should be enhanced.

Most companies need huge amounts of credit of a higher tenure such as 10 years. Given the difficulties that banks have in funding such requirements, the government should continue with efforts aimed at sourcing such funding to compliment existing schemes such as Afreximbank and PTA Bank. Government could also try to source such fund and disburse through budgetary support as in DIMAF, although government should play a limited role in deciding on the allocation of the credit as this could easily result in political rather than efficient allocation. Financing long term funding using development banks as per the examples from Mexico given in section 2.1 can also be a policy option. This could involve the Infrastructural Development Bank of Zimbabwe (IDBZ) coming up with products designed to fund industries, although the success of such initiatives would depend on the governance structure, the quality of management, and the extent of independence from political pressures.

Given that most of the companies in the world have moved many steps ahead of Zimbabwe firms during hyperinflation, promotion of foreign partnerships is the quickest way in which local companies can tap into latest technology. Thus policies that promote FDI should be enhanced while working towards improving the ease of doing business in Zimbabwe. As confirmed by many firms, getting offshore lines of credit is a challenge due to perceived country risk. Even in cases where such facilities are successful, the interest rates for Zimbabwe firms would be higher than other countries due to the risk premium that would be factored in. Thus reforms that reduce the country risk would also go a long way in enhancing cheaper lines of credit for business.

The findings highlight the presence of risk in the economy. Currently banks are demonstrating that they are not to take risk in lending, which is reflected in loan application rejections as well as high risk premiums reflected in the interest rates. However the creation of a credit bureau will create a market for the credit risk. RBZ must work towards establishing a credit reference bureau to assist banks and micro-finance institutions to avoid lending money to individuals and companies over-exposed to debt. The bureau would create a data base of all individuals and companies that are exposed to debt so that banks and micro-finance institutions will be aware of such entities and be cautious in conducting business.

Deposit insurance could also play a role in reducing bank deposit volatility as well as inducing confidence into the sector. As already explained in section 2.5, deposit insurance would allay depositors' fears of bank failure as this would insure them against the loss of their balances in the event of a bank failure. In Zimbabwe, deposit insurance exists in the form of the Deposit Protection Fund established in 2003 under the Banking Act, read together with the Deposit Protection Corporation Act. Administered by the Deposit Corporation (DPC), the purpose of the fund is

to compensate depositors for losses incurred in the event of insolvency of a contributory bank¹⁴. However, the Fund is not yet comprehensive as it offers limited coverage and guarantees to depositors that they would be paid in full, even if they are banking with contributing institutions.

Currently all banks are insured under the deposit protection Fund and pay an annual levy to DPC as its source of funding. Despite the existence of DPC, confidence with the banking sector is still too low, with a significant amount of cash being kept outside the banking system. There is need to enhance credibility of the DPC through good management as well as prompt and fast reimbursement of depositors funds. The international norm is usually to cover small depositors who have limited information of tracking if their bank is being imprudent. Despite involving prohibitive costs, providing full compensation often creates a moral hazard which might cause bank to issue imprudent credit which can trigger a bank crisis. Compensation levels in terms of GDP per capita reveal that countries such as, Uganda, Norway, and Macedonia give compensation of at least 6 times their GDP per capita values. However a study by USAID recommends a compensation level of about 3 times the GDP per capita value for African countries (USAID 2008)

The scope for policy prescriptions through priority sector lending is also not likely to work in Zimbabwe. As explained in section 2.5, in China and India this was introduced as a strategy to induce banks to fund certain sectors of the economy they were shunning. A replication of this would entail the government prescribing, through policy, a directive that all banks should ensure that in their loan book, a certain fraction goes to the manufacturing sector, or specifically, to distressed firms. This would however not be ideal, given the high risk that the policy would be placing on the banks. Already, banks have a very high level of non-performing loans. The risk of default would further worsen the banking sector challenges, especially coming from a background where some banks recently closed down due to high levels of non-performing loans. Just as was the case in India and China, policy loans would weigh down heavily on banks, with their loan books composed of lower quality customers, which also compromises the health of the banks. Thus policy prescribed loans as an option to re-industrialisation are not advisable at the moment.

While government credit guarantees can be an important source of risk elimination, there is a limit to which this can work in Zimbabwe. The main challenge is generally that government is known in the market to be fiscally constrained, such that banks would be hesitant to accept a government guarantee as some form of collateral or risk cover. This implies some limits in the use of government guarantees for accessing credit.

Since the balance sheets for most companies are not healthy due to being heavily geared, there is need for the reform of the bankruptcy laws and procedures, to allow viable companies to restructure their debts and emerge with a clean balance sheet that can qualify for financing. There is need for government to interrogate the existing bankruptcy framework with a view to ascertaining the adequacy of the current policy and legal framework.

¹⁴DPC website http://www.dpb.co.zw/index.php?option=com_content&view=article&id=61:about-dpc&catid=1:latest-news&Itemid=34, accessed 14 June, 2013

5. CONCLUSION AND RECOMMENDATIONS

The current challenges around financing for the private sector are not an isolated issue but are a subset of the broader macroeconomic challenges the country is facing. While banks are charging high interest rates, the firms are also not generally creditworthy, which forces banks to put high risk premiums in the interest rates they lend out. The funding challenges are mostly a result of a mismatch between the standard banking template and the current distortions arising from the effects of hyperinflation. Banks apply a standard template which has not necessarily been modified to cater for the struggling firms and appear content to deal with only those firms that are able to meet the standards.

The high interest rate differentials are generally a reflection of the differences in the production capacity and risk profile of the companies. While some companies are distressed, others are doing relatively well and are able to negotiate interest rates in their favour. It is a big challenge to ensure that distressed firms get access to funding at favourable terms, since the market conditions work against them, especially the dominance of short term deposits and limited sources of cheap funding from banks. Thus the solution to the problems would call for wholesome changes on the part of both the banks and the private sector firms to ensure that they deal with their limitations.

Political uncertainty prevailing in the country adds further to the problem the private sector is facing. Resolving the political and economic crisis will lead to unlocking the potential of the country and hence subsequently reducing the country risk which is scaring away the potential financing sources for the country. Thus there is need for government to also play its part in resolving the funding challenges.

In that regard, the following are the policy recommendations that would help in improving access to credit for the private sector:

- Although currently the schemes are not fully funded, government financing facilities play a critical role in the economy especially for working capital requirements. For effective uptake of these resources, it is recommended that clear guidelines and modalities of their disbursement should be put in place and communicated to the relevant stakeholders to overcome the challenge of information asymmetry. Most companies are not yet aware of how they can access DIMAF for example.
- Given the banks' operation modalities, it is difficult for them to be used as an avenue for distressed companies to access funding. Such companies are more likely to fail the creditworthiness template applied by banks. It is therefore recommended that the disbursement mechanisms for schemes for distressed companies be moved from the banking institutions. Alternatively, the mandate to disburse funding to distressed firms can remain with the banks but the selection process for beneficiaries would be moved to an agency that exclusively deals with distressed firms to be able to come up with a template that is able to

recognise those distressed firms with the potential to come out of their situation. This would help increase access to the funds, even though risk monitoring and elimination mechanisms would still be in place;

- The government should as a matter of urgency facilitates the setting up a credit bureau to save as reference point for the banks so that the process of applying for credit can be quickened. The Bureau, which can either be a public body established by policy or a private sector initiative, would reduce the overheads of banks as they will not incur costs of undertaking background checks on processing credit applications;
- Although controls should be used as a last measure because they have the effect of disturbing the performance of systems, the current MoU between banks and the central bank meant to influence interest rates was not disputed by both banks and the private sector. However, the MoU is not likely to have a meaningful impact as the determination of costs remains the discretion of the individual bank. Since it was put in place within the context that some banks were bent on profiteering, they can still be able to manoeuvre it to their advantage, which calls for a relook at the finer details of the formulae to be used;
- There is need to strengthen deposit insurance scheme for the country by enhancing the capacity of the DPC to compensate depositors This is critical in the quest to restore confidence in the banking system which is currently very low;
- Efforts should be made to address the current challenges that inhibit the existence of the TBs market. The TBs market would be important in influencing the direction of interest rates, as generally the interest rate differentials are too high and appear not to converge at any value;
- There is need for policy reforms aimed at improving the country risk as well as promoting FDI inflows into the country. The huge demand for funding could have been lessened if partnerships were forged with international companies that are technologically advanced. Promotion of FDI would facilitate technology transfer, which is proving difficult due to absence of long term funding.
- In addition to the policy recommendations, the following are also suggestions for the banks and the private sector that could help in improving access to credit in Zimbabwe:
- There is need for innovation on the part of banks to ensure that the template that they use in lending is a 'home grown' template that also accommodates firms that are recovering while at the same time eliminating much of the risk. This could also include strategies and means to ensure that order financing is allowed for with limited default risk;
- Firms should invest heavily into modalities that improve their creditworthiness. They should be innovative and appreciate that technology and production systems were evolving while

the country was experiencing challenges. Thus seeking funding based on the production structures of the pre-crisis period is not likely to be appreciated by banks. Firms thus should continue to try and embrace new production systems, which can be done through effective and mutually beneficial partnerships with some of their competitors, locally and internationally;

- Banks should also try to invest in methods that reduce delays in processing loan applications. A loan application going on for six months while additional costs are being incurred at the same time is not something that can be considered fair to the private sector that are struggling to compete on both the local and export market.

REFERENCES

- Allen, F and Gale, D (1995), "A welfare comparison of intermediaries and financial markets in Germany and the US", *European Economic Review*, 39(2), 179-209
- Arricia, G.D (1998), "Asymmetric Information and market structure of the banking industry" IMF working paper 98/92
- Ashbaugh-Skaife H, Collins D and Ryan LaFond (2004), "The Effects of Corporate Governance on Firms' Credit Ratings", *Journal of Accounting & Finance*, Vol. 52, Issue 2, pp. 291-312, 2012
- Ayyagari. M, Demirguc_ç-Kunt. A, and Vojislav.M. (2008), "Firm Innovation in Emerging Markets: The Role of Governance and Finance." Policy Research Working Paper 4157. World Bank, Washington, D.C
- Beck T and Hesse H (2006), "Bank Efficiency, Ownership and Market Structure: Why Are Interest Spreads So High in Uganda?" World Bank Policy Research Working Paper 4027, October 2006
- Beck, T, Demirguc_ç-Kunt. A. (2006), The Determinants of Financing Obstacles." *Journal of International Money and Finance* 25(6):932-52.
- Beck, T, Demirguc_ç-Kunt A, and Vojislav Maksimovic. (2005), "Financial and Legal Constraints to Firm Growth: Does Size Matter?" *Journal of Finance* 60(1):137-77.
- Beck. T.A, and Demirguc_ç-Kunt.A. (2008), "Finance, Inequality and the Poor: Cross-Country Evidence." *Journal of Economic Growth* 12(1):27-49.
- Becker B and Milbourn T (2009), "Reputation and competition: evidence from the credit rating industry", Working paper, Harvard Business School, *Journal of Monetary Economics* 56, no. 5 pp 617-34.
- Broecker. T (1990), "Credit-Worthiness Tests and Interbank Competition", *Econometrica*, Vol. 58, No. 2. (Mar., 1990), pp. 429-452
- Calomiris, C (1990), "Is Deposit Insurance Necessary? A Historical Perspective", *The Journal of Economic History*, Vol. L, No. 2 June 1990
- Classens, S 2005, "Access to Financial Services: A Review of the Issues and Public Policy Objectives", World Bank Policy Research Working Paper 3589, May 2005
- Cull R, Senbet L and Sorge M (2005), "Deposit Insurance and Financial Development", *Journal of Money, Credit, and Banking*, Vol. 37, No. 1 (February 2005)

- Cull. B, Xu. D. (2005), "The Impact of Group Lending in Northeast Thailand." *Journal of Development Economics* 60(1):105–42.
- Dasgupta. R (2002), "Priority Sector Lending: Yesterday, Today and Tomorrow" *Economic and Political Weekly*", Volume 37 No. 41, pp 4239-4245
- Demirgüç-Kunt A and Huizinga H (1999), "Determinants of commercial bank interest margins and profitability: some international evidence", *World Bank Policy Research Working Paper No. 1900*
- Gerschenkron, A (1962), "Economic Backwardness in Historical Perspective, A Book of Essays", Harvard University Press, Cambridge, MA.
- Greenbaum S and Thakor A (1995), "Contemporary Financial Intermediation", Dryden Press, Orlando, 1995
- Johnston. D, McMiian. J. and Woodruff .M. (2002), "The Unbanked: Evidence from Indonesia." *World Bank Economic Review*.
- Levine, R (2002), "Bank-based or market-based financial systems: Which is better?" *Journal of Financial Intermediation*, 11, 398-428.
- Lu D, Thangavelu S and Qing H, (2005), "Biased Lending and Non-performing Loans in China's Banking Sector", *The Journal of Development Studies*, Vol.41, No.6, August 2005, pp.1071 – 1091
- Lui L and Ferri G (2001), "How Do Global Credit Rating Agencies Rate Firms from Developing Countries? ADB Institute Research Paper 26, Asian development Bank
- Makina D (2012), "Financial sector development and Resource Mobilisation: Situation Analysis and Policy Options for Zimbabwe", ZEPARU Occasional Paper, September 2012
- Ministry of Finance (2012), "The 2013 National Budget Statement:., November 2012
- MMC Capital (2013), "MMC Capital Banking Sector Survey for Year 2012", MMC Capital Investment Research, Harare, 2013
- Navajas A R (2001), "Credit Guarantee Schemes: Conceptual Frame", paper prepared for the Financial System Development Project, GTZ and FONDESIF
- Rajan, R (1992) "Insiders and outsiders: the choice between informed and arm's length debt", *Journal of Finance*, 47, 1367-1400.

Rashid (2011), "Credit to Private Sector, Interest Spread and Volatility in Credit-Flows: Do Bank Ownership and Deposits Matter?" DESA Working Paper No. 105 ST/ESA/2011/DWP/105

Stiglitz, J (1985) "Credit markets and the control of capital", *Journal of Money Credit and Banking*, 17, 133-152.

Strahan P (1999), "Borrower Risk and the Price and Nonprice Terms of Bank Loans", Federal Reserve Bank of New York, Staff report No. 90

Stulz, R (2000) "Financial structure, corporate finance, and economic growth", *International Review of Finance*, 1(1), 11-38

Tadesse, S (2002) "Financial Architecture and Economic Performance: International Evidence", *Journal of Financial Intermediation*, 11, 429-454.

Tang, T.T (2006), "Information Asymmetry and Firms' Credit Market Access: Evidence from Moody's Credit Rating Format Refinement", *Journal of Financial Economics*, Volume 93, pp 325-351, 2009

USAID (2008), *Developing the Supply of Financial Services and Improving the Efficiency of the Banking Sector in Angola*. The Services Group, Inc. and Nathan Associates

Uzunkaya, M (2012) "Economic Performance in Bank-Based and Market-Based Financial Systems: Do Non-Financial Institutions Matter?" *Journal of Applied Finance & Banking*, vol.2, no.5, 159-176

Vera L, Zambrano-Sequín L and Faust A (2007), "The Efficiency-Stability Trade-Off: The Case of High Interest Rate Spreads In Venezuela", *The Developing Economies Journal*, XLV-1 (March 2007): 1-26

Weinstein, D and Yafeh, Y (1998) "On the costs of a bank-centred financial system: Evidence from the changing main bank relations in Japan", *Journal of Finance* 53, 635-672.

Zecchini S and Ventura M (2009), "The impact of public guarantees on credit to SMEs", *Small Bus Econ Journal* 2009 Volume 32 pp191-206

ZEPARU (2013), "Capital Account Restrictions in Zimbabwe in the multicurrency period", ZEPARU Working Paper Series, 2013 (forthcoming)

ZIMSTAT and Finmark Trust (2012), "FinScope Consumer Survey Zimbabwe 2011", a report on the survey commissioned by the Ministry of Finance and financed by FinMark Trust, 2012.

**Zimbabwe Economic Policy Analysis
and Research Unit (ZEPARU)**

55 Mull Road
Belvedere
Harare
Zimbabwe

Tel: +263 4 778 423 or 785 926/7

Email: administration@zeparu.co.zw

Web: www.zeparu.co.zw