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ANTIDOTE TO PROMOTE A SAVINGS CULTURE: ZIMBABWE POST DOLLARISATION

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Abstract

Zimbabwe adopted the multiple currency exchange rate system in 2009. There is general consensus on the benefits that accompanied the adoption of this exchange rate system, notably macroeconomic stability and improved financial intermediation. Deposits rose from US$1.3 billion in December 2009 to US$4.4 billion in January 2014 and further growing to US$5.1 billion by December 2014. Despite the upward trend, deposits have however remained short-term in nature signifying a low savings culture in Zimbabwe. The aim of this research is to provide insights on various strategies that can be adopted on part of the policy makers, industry developers and designers to promote a savings culture in Zimbabwe. These programs or strategies range from ones that literally compel households to save, to those that make it hard not to save. The study recommends that policy makers, industry developers and designers underscore the range of possibilities that exist to meet the needs of heterogeneous savers.

Keywords: Savings Culture; Policy Makers; Industry Developers, Designers, Strategies

INTRODUCTION

Zimbabwe adopted the multiple currency system in 2009 following hyperinflationary episodes that characterized the economy since the turn of the century. There is general consensus on the benefits that accompanied the adoption of the multiple currency system, notably macroeconomic stability and improved financial intermediation. The challenges experienced after adoption of the multiple exchange rate regime include low domestic output, deindustrialisation, slow savings and money supply growth, growing non-performing loans and worsened bank liquidity challenges (ZAPARU and BAZ, 2014). Deposits rose from US$1.3 billion in December 2009 to US$4.4 billion in January 2014 and further growing to US$5.1 billion by December 2014 (RBZ, 2015). Of the US$5.1 billion, 15% were long-term deposits placed for more than one year; 9% were in savings accounts and 41% being demand deposits; 16% short-term deposits placed for less than a month and 19% for more than a month. Evidently, despite the upward trend, deposits have however remained short-term in nature signifying a low savings culture in Zimbabwe.

Savings ratio to the GDP in Zimbabwe is estimated to be less than 10 percent of GDP (ZAPARU and BAZ, 2014). This is very low if one is to compare with other countries for instance China was on 52.3% and India 31.6% in 2010. According to Sawani and Patterson (2009), most developing countries are characterised by a savings gap. Policy makers, industry developers and monetary authorities are responsible for policies that enable money to be saved through the banking sector.

The main reason why people are not saving in Zimbabwe can be traced back to the “lost decade” which has led to consumer inertia and hence lack of public confidence in the financial sector. The other reasons include low levels of income; lack of variety of attractive savings plans; low interest rates on savings; policy inconsistencies. Finscope Consumer Survey (2011) revealed that 27% of adult Zimbabweans, who save, do so at home and 11% only use formal channels. Storing value in non-financial items involves the purchase of non financial items such as jewellery or live stock as storage of value. These can also be items that can be quickly sold for cash if needed. Transaction costs are typically low, usually consisting of a one-time purchase of the high value item. However, these investments can depreciate or be stolen (especially if kept at home) hence the need to promote formal financial savings channels.

Formal savings in any background are important since these have some form of bilateral causation with economic growth. It is against this background that this paper provides possible solutions to the policy makers, industry designers and developers to promote a savings culture in Zimbabwe.

LITERATURE REVIEW

Literature on household saving can be viewed from three perspectives. These include works done by academic economists; practitioners and from historians and sociologists. The economics literature sustains the sharpest focus on saving and the motivation to save. The decisions made by individuals and families about savings determine national savings. People have many reasons to save. Browning et al (1996) identified nine motives to save which include precaution, life-cycle, intertemporal substitution (to enjoy interest), improvement, independence, enterprise, bequest, avarice and down payment. Theories backing these motives include the

Life Cycle Hypothesis (Modigliani,1986); precautionary motives theory (Deaton, 1997) and the financial management theory (Rutherford, nd)

Various authors have looked at why people do not save (low savings culture). Some of the reasons include lack of surplus after subsistence needs (Banerjee et al, 2007); lack of a savings culture (Garon, 2004); returns too low, security risks too great (Wright and Mutesasira, 2001); neighbours interfere (Platteau, 2004); spouses interfere (Siwan and Baland, 2002); temptation interferes (Gugerty, 2007). The reasons why people are not saving in the formal banks is a fundamental question for policy makers and industry developers if they are to come up with meaningful options to promote a culture of saving. The literature below focus on various options from literature, spanning from the supply side of practitioners' literature; demand side from economics literature and the behavioural literature on what strategies can be adopted to promote a savings culture.

Various Strategies Adopted to Promote a Savings Culture

Ghana is one of the countries that experienced low savings level and certain strategies were employed to promote a saving culture in Ghana. One of the fast growing financial institutions in Ghana, First National Savings and Loans (FNSL) introduced a micro saving product dubbed "WoDaakye to wit Your Future", to encourage a saving behaviour among Ghanaians who were classified under the low income earning group. According to Vonderlack and Schreiner, (2002), the WoDaakye product was aimed at providing a secure and easy way for farmers, traders and micro small- medium scale enterprises to save even when they were at their working places. The FNSL provided that the new savings product was introduced after realising that most citizens did not have savings accounts and that banks had failed to encourage ordinary Ghanaians to develop a saving habit. The new scheme saw field cashiers visiting clients on a day to day basis to collect funds for deposits. This gave clients an easiest chance to save or to make deposits by making use of field cashier. Participants will make 30 small daily deposits during the month. At the end of the month, they received the equivalent of 28 deposits back as a lump sum. The presence of the collector with no easy access until the end of the month meant that depositors had reasons to turn down monetary requests from relatives (Varadharajan, nd). This practice has different titles where it is practiced. A study conducted in East Africa refers to this type of saving as "money guards" (Stenga, 2010).

In a bid to encourage savings, KCB Uganda launched a customer promotion where both new and existing customers stood to win Samsung gadgets. The bank ran a three months campaign that required both old and new clients to maintain a minimum deposit balance of Ushs 300,000 every week until the promotion ended. In addition to this, Butler (2013) suggested that a saving behaviour can be encouraged through the prize- linked savings. Banks would pool together the meagre interest they pay and use it for prize drawings. The chances of winning will be based on the total amount saved. The more an individual save the more one is likely to win. The downside risk of this strategy is that it may not be more effective in attracting savers since not all savers win. There may be need to reward depositors for just participating.

Banks in different countries have adopted the Islamic banking system as another strategy in an attempt to promote a saving culture. South Africa is one of the countries that have gone a step further than others in implementing the strategy. First National Bank (FNB) and ABSA are major conventional banks in South Africa that have started incorporating Islamic windows alongside conventional banking practices. Products here are designed to lure those customers willing to remain in compliance with Shari'ah requirement.

In a bid to encourage a saving culture in South Africa, Msibi (2012) proposed some actions that would be constructive in developing a saving culture and these are: Scraping income tax on interest; considering to get rid of capital gains tax on long term investments. In spite of the fact that securitization was blamed for the financial meltdown in United States, Msibi (2012) provided that there was need to look at ways of packaging unique investment opportunities for investors who were looking for different type of assets to invest in rather than traditional forms. Finally Msibi (2012) highlighted that savings institutions must run a concerted campaign to alert citizens of the legitimate deduction on the income tax.

Rutherford (2000) earlier on provided one of the ways to save which is the use of rotating savings and credit association (ROSCA). ROSCA is an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation (Fadiga and Stewart, 2003). Rotating savings and credit associations (ROSCAs) are a classic example of a traditional type of mutual aid or solidarity associations and provide an intriguing context to understand collective action. In these organisations, members cooperate to provide collective benefits that each participant receives in turn. Thus, a participant may become a lender or a borrower during a cycle depending on the stage of joining, (Coetzee and Cross, 2002; Fadiga and Stewart, 2003).

It is also important to leverage on financial innovations in coming up with ways of promoting a savings culture. A point in case is the innovative product offered by the Bank of America which offers customers an opportunity to save without "sacrificing" anything in the process. When customers enrol for this programme, each time they purchase something (such as groceries, a meal at a restaurant, etcetera) using a debit card, the purchase is rounded up to the nearest dollar amount. The additional amount is then transferred to a savings account. In addition to this, Bank of America matches the first three months' savings with the same amount.

On annual basis, they match 5% of the savings up to a maximum of $250 a year. This easy to implement savings mechanism has the benefit of yielding returns without the individual having to save intentionally. The challenge that lies here would be to ensure active participation by retailers and financial institutions in order for any tangible benefits to be derived.

From the reviewed literature, it can be concluded that various strategies have been adopted to promote a savings culture in different instances. These programs range from ones that literally compel households to save, to those that that make it hard not to save.

METHODOLOGY

A comprehensive literature review is used to draw insights from theoretical and empirical literature to provide a framework of analysis for the study. This study is informed by work that has been done in other countries to create and promote a culture of saving.

DISCUSSION

Antidote for Promoting Savings Culture in Zimbabwe

There are various options that can be used to promote a culture of saving in Zimbabwe. These may be used in their singular, in combinations and or as a group and are discussed below.

Strengthening oversight in the Financial Sector

Financial stability requires the Reserve Bank of Zimbabwe to exercise appropriate and timely oversight and enforce rules consistently and predictably and thus minimise bank failures as a result of inadequate risk management; poor corporate governance; diversion from core business; rapid expansion; high levels of non-performing loans; unsustainable earnings among other problems. Poor corporate governance tops the list despite elaborate corporate governance guidelines in place, a situation leading to waning of public confidence in the banking sector. The regulators may come up with stiff penalties for banks that abuse depositors' funds and violating prudential guidelines. These are fundamental to promoting a culture of saving in Zimbabwe.

Providing Financial Education

Financial institutions can carry out awareness campaigns to inform their clients about the savings products they offer through the use of television or radios. EL-Zogbhi and Glisovic (2010) propose that financial education is an important factor that influence on client's view of saving. Not all players in an economy are able to translate information to make saving decisions. It may be necessary to include the concept of savings from the grass roots where the concept would be fused from childhood. A point in case is of the Jewish culture. There is strong desire by people to save. This came as a result of instilling in the children the knowledge and selfless attitudes towards saving.

On another note, financial education provided should extend beyond savings and focus on financial planning as people may need to be empowered with the knowledge, to help them create generational wealth. Financial institution must provide individuals with full information about the products they offer and incentives attached. For example when a depositor only has a savings account with the bank, then the rate of interest paid will be low. However if one opens a banking check account, a line of credit, creates a money market or investment portfolio or a combination of any such services, the percentage paid as interest on the savings account increases. Financial literacy thus has the potential to swipe away information asymmetry and cognitive dissonance.

Widen Access to Savings Products

Wide opportunities and options should be made available to make it easier for people especially informal sector and the poor to access saving products. There is need thus to remove bureaucratic processes for customers to open savings accounts. Bank charges may be eliminated for some savings accounts. There is also scope for financial institutions to encourage low income savers. Rutherford (2000) presented exciting findings that poor people can save and that there are still millions of poor people to reach, and hundreds of new ways of reaching them waiting to be discovered and developed. Financial institutions thus need to device ways that widen access to savings products for people with very low incomes to those with high levels of income.

Attractive Interest Rates on Savings and Low Administrative Charges

Low interest rates are a major obstacle to a saving culture in Zimbabwe. Currently the deposit rates offered fluctuate below a mere 5 per cent per annum. There is need to come up with mechanisms that would see financial institutions rewarding their customers.

Financial Innovations

Financial innovations supported by well structured policy framework may go a long way to promote a culture of saving in Zimbabwe. Industry designers may consider adopting the "Keep the change model"**.** This innovative product has been offered by the Bank of America. It offers customers an opportunity to save without "sacrificing" anything in the process. When customers enrol for this programme, each time they purchase something (such as groceries or a meal at a restaurant) using a debit card, the purchase is rounded up to the nearest dollar amount. The additional amount is then transferred to a savings account. According to Tuffour (2000), policy makers and product designers need to be innovative so as to knock down the literacy barriers that deter demand for formal banking services; remove the formality of banking hours and premises and making banking more convenient and understandable which in turn encourage more positive banking habits.

Promotions and Rewards

Another exciting option to promote a culture of saving in Zimbabwe may entail banking institutions providing incentives for saving. A case in point is of Kenya NGO called Hand to Hand which encouraged entrepreneurship and saving resulting in 41 000 households and 2 100 self-help groups in a saving campaign. The winner of the savings competition had saved KES 194 651. In South Africa, First National Bank's Million-A-Month account afforded FNB customers an opportunity to win R1 million every month for every R100 invested. FNB positioned the introduction of the account such that the chance to win R1 million each month was a way of incentivising a culture of saving in South Africa. This product proved highly successful during its inception and further highlighted the need for a lucrative incentive scheme that would incentivise individuals to save. Promotions and rewards can promote a culture of saving in Zimbabwe.

Strengthening the Depositors Protection Scheme

There is need for robust regulation to protect savers in Zimbabwe considering the high incidences of bank failures. As much as there is a deposit insurance scheme in Zimbabwe, this is not sufficient considering the $500 that is reimbursed to depositors in case of a bank failure. There is need to capitalise the scheme to the extent that it has capacity to fully compensate account holders. In addition, the deposit insurer in Zimbabwe needs to shape up on timeously reimbursement of funds to depositors. If this is done, the wave of bank failures may not frustrate the efforts of savings mobilisation.

Adoption of other Banking Models (Islamic Banking)

Religion is an important variable that policy makers and industry developers may need to take into consideration when coming up with strategies to promote a savings culture. Conventional banking meets the requirements of Christians. In Zimbabwe, part of the population is Islamic. There is need then to adopt other banking models to cater for religion. Banks in different countries have adopted the Islamic banking system as another strategy in an attempt to promote a saving culture. Among them, South Africa is one of the countries that have gone a step further than others in implementing the strategy. First National Bank (FNB) and ABSA are major conventional banks in South Africa that have started incorporating Islamic windows alongside conventional banking practices. Products are designed to lure those customers willing to remain in compliance with Shari'ah. This avenue can be considered in Zimbabwe to promote a culture of saving.

Rotating Savings and Credit Associations (ROSCAs) Schemes Model

A rotating savings and credit association (ROSCA) is an association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation (Fadiga and Stewart, 2003). Rotating savings and credit associations (ROSCAs) are a classic example of a traditional type of mutual aid or solidarity associations and provide an intriguing context to understand collective action. In these organisations, members cooperate to provide collective benefits that each participant receives in turn. Thus, a participant may become a lender or a borrower during a cycle depending on at which stage he or she takes the pot (Fadiga and Stewart, 2003).

In Zimbabwe the majority of people are members of these informal schemes. Policy makers, industry designers and developers may device ways that can formalise rotation savings as a strategy for deposit mobilisation in the Zimbabwe financial services sector. Moreover, it is pertinent to come up with supporting instruments that should be implemented by formal financial institutions, inclusive of possibly a 'flexible' framework to smoothen the process of formalisation.

CONCLUSION

It is important that when coming up with interventions to boost savings, reference is made to the factors that affect savings. These factors include household wealth, disposable income, inflation rates, and interest rates among other important variables. Interventions to promote a savings culture in Zimbabwe needs concerted efforts on the part of all stakeholders within the financial markets. Options to stimulate saving vary along various dimensions, one which is how stable are the financial systems; policy credibility and consistency to promote public confidence and others on how innovation affects decision to invest. Some programs alter decisions making process by making it mandatory to save and others alter the savings deal by offering financial incentives to save. Also of importance are the various stakeholders other than the savers who are involved as they bear some cost as well as some reward for supporting savings. To maintain adequate volumes of deposits, these stakeholders need to manage operational costs. Ideas presented here are not exhaustive, but form a part of some of the interventions that can be adopted in order to cultivate a culture of saving among Zimbabweans post dollarisation.

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