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Adoption And Non-Adoption Of Mainstream Formal Banking Systems Amongst Low Income Earners In South Africa, Zambia And Zimbabwe

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Abstract
The majority of income earners of small-scale informal economic sectors in most developing regions abstain from mainstream formal banking systems. These income earners rather "bank" informally. Mainstream formal banking institutions also argue that low income earners are "unbankable" and posed business risk. However, emerging literature posits that low income earners would instead provide a profitable formal niche market. Trends with regard adoption and non-adoption of mainstream formal banking systems amongst small income groups were mixed. This paper investigates such patterns in South Africa, Zambia and Zimbabwe. The results of this paper revealed that the informal cross-border traders who trade between Zambia and South Africa were good adopters of mainstream formal banking. The results however found a sharp contrast in Zambia. In Nyanga, Zimbabwe, the results of this paper revealed that there were a few respondents who had adopted mainstream formal banking while 47.2% of communal cattle farmers in South Africa had adopted mainstream formal banking systems through savings against 52.8% who were left out. Adoption or non-adoption of mainstream formal banking systems patterns vary from region to region, and sector to sector even where income earners were almost equals in terms of household income earnings. Mobile banking and low transaction costs might provide motivation for small-scale income earners to adopt mainstream formal banking.

Key words: *Unemployment; micro-finance; Non-banking; non-saving; small income earners; social capital*
JEL code: *C33; G32*

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1. Introduction

Despite impressive positive economic growth rates in Gross Domestic Product (GDP) amongst most countries in Sub-Saharan Africa in the last two decades or so (Sam, 2014), lack of access and adoption of mainstream formal banking systems amongst rural based small income earners has been a major socio-economic factor characterising most economies in the region. Non-adoption of mainstream formal banking systems amongst low income earners is also a major economic challenge in emerging and fast growing economies elsewhere in the world; India being one of such economies (Satpathy, Patnaik & Das, 2014). In South Africa for example, non-adoption of mainstream formal banking systems amongst low income earners was even worse in the former native homelands regions such as Venda where the majority of the people were mainly rural-based and poor (Naledzani, 1992). To date, the paradigms in the small income household access and adoption of mainstream formal banking systems have in the developing regions – especially in Sub-Saharan Africa not been changing that much despite positive economic prospects in the region (Sam, 2014). In Sub-Saharan Africa, countries such as Sudan are still worse off (Alam, Magboul & Raman, 2010). Most existing social science literature opines that small income earning households are conspicuously absent from mainstream formal banking systems in the developing regions – including also amongst emerging economic super powers such as India (Satpathy et al., 2014) for example. In most regions of Sub-Saharan Africa, the conspicuous absence of low income earners in mainstream formal banking systems is profoundly significant – especially amongst those individuals and communities of rural backgrounds, small-scale farming, female headed households, the elderly and children and urban informal sector earning their income from the small-scale informal economy. The majority within these groups are in the main the most vulnerable to poverty and underdevelopment in Sub-Saharan Africa (Sam, 2014).

The absence of the small income earners from mainstream formal banking systems is a persistent nemesis of the Sub-Saharan Africa economy considering that it is also seriously strained and aggravated even in the most advanced economies of the region such as Kenya, South Africa, Tunisia and Nigeria amongst others (Aka, 2012; Brown, Gargulio & Mehta, 2011; Mbeki, 2011; Nasri, 2011). Consensus amongst social and economic science researchers and policy makers is that small income earners have to be assisted and integrated into the mainstream formal economy by promotion of their access of services in the mainstream formal banking systems of their regions; amongst others access to credit from mainstream banks to start, grow, develop and maintain their businesses. In fact, Satpathy et al. (2014) posit that efforts should be made to integrate low income earners to banking services such as savings, insurance, payments and remittances which currently were in exclusion to the better income groups. In view of the suggestions as mentioned, economies such as India have for the past six decades been involved in policy efforts to bring the marginalised and excluded populations of low income earners into mainstream formal banking systems (Satpathy et al., 2014). On the other hand, post-liberation Sub-Saharan Africa in particular has also been undergoing socio-economic transformations for almost six decades seeking to promote poverty eradication – especially amongst the region's poorest of the poor by bringing into mainstream formal banking systems this critical economic group which had been systematically been left out for various reasons. Despite these efforts, it remained critical to foresee that all anti-poverty and underdevelopment efforts by successive post-liberation governments in the region might be seriously impeded by non-participation of low income earning households in the mainstream formal banking systems of the region.

In Sub-Saharan Africa, there has been intensive campaigns by stakeholders to increase credit opportunities to the resource poor. The last two decades have seen the growth in the body of literature opining the promotion of increased access to credit by small income earners in the developing regions. However, what proponents of socio-economic growth and development through credit opportunity enhancement seem to forget is that the larger majority of the population in the region is excluded from general issues of mainstream formal economic practices including banking and related services. In addition, mainstream formal banking systems demand uncharacteristic requirements to be met before granting such credits. Amongst others, mainstream formal banking institutions would demand "worthy integrity" (Oppong et al., 2014) of business operation such as proper keeping of books. These would-be funders never realise that a large population of income earners in the developing regions do not participate in formal systems of economic transactions such as savings, insurance, brokering, credit and loans and money transfers amongst others. For example, Aka (2012) reported that the majority of rural dwellers in Nigeria were unbanked – especially in the mainstream formal banking systems of the country. However, on the one hand, there is a plethora of literature (Brown *et al.,*2011) opining that income earners of small-scale informal economic sectors in most developing regions of the world do not bank their earnings with mainstream formal banking systems preferring to rather "bank" at home or not to bank at all. Some of them instead "bank" their income on property such as buying of livestock; camels, cattle, donkeys, goats, sheep and chicken amongst others, and in addition would "bank" on acquisition of durable goods instead. In fact, researchers in small-scale agriculture in the developing regions such as Nthakheni (2006) and Stroebel (2004) for example went to an extent of calling cattle amongst small-scale farming communities in South Africa for example "money-on-hooves" The assertions of these researchers are that small-scale farmers in such areas have instead placed increased interest and value on cattle than with formal systems of banking. In other words, the focus of some of these farmers with regard investment of any earned income was on cattle than with formal banking systems. Instead of keeping income generated from their informal farming enterprises in particular with mainstream formal banks, some of these farmers would rather purchase additional animals while keeping some emergency cash at home (Brown et al., 2011). These kind of income earners might constitute what Brown et al. (2011) termed "*unproven entrepreneurs*".

In most parts of the developing regions – especially Sub-Saharan Africa, mainstream formal Banks and banking systems have in fact become somewhat unpopular and less favoured in some of these widely rural-based communities. However, it is not the intention of this paper to argue that small income earners in the rural areas of developing regions abstained from mainstream formal banking systems at all but that there appears to be increased tendencies of abstinence from active adoption and participation of this group from mainstream formal banking systems. In other words, from the start this paper's approach and position is that small income earners in the developing regions were instead keen adopters of formal banking who might have been discouraged by a set of intertwined factors less favourable to them. The assertion of their keenness to adopt mainstream formal banking is the high number of these people adopting quasi-formal banking systems such as "rotating savings" of the Rotating Savings and Credit Associations (RoSCAs) of Kenya for example where members make some contributions into a shared savings pool distributed to members as per particular rules of such schemes (Brown et al., 2011).

There are various intertwined reasons however to the adoption of non-banking practice amongst this band of the economy. The majority of the existing studies on informal entrepreneurship in the developing regions – especially in the Southern African Development Community (SADC) managed to unearth that there were less interest and active participation amongst small-scale income earners in most regions of the area with regard mainstream formal banking in particular. However, what has emerged strongly is the inability of those studies to unearth the reasons giving prominence of this practice. This paper investigates the factors influencing non-adoption of mainstream formal banking amongst small-scale income earners in three selected countries; South Africa, Zambia and Zimbabwe.

2. Literature Review

Literature reviewed for the purpose of this paper included amongst others, literature on (1) Performance of the economy in Sub-Saharan Africa (2), Profile of small income earners from the small-scale informal economy, (3) Factors impeding adoption of mainstream formal banking in the developing regions, and (4) Bankability or unbankability of small income earners in Sub-Saharan Africa.

2.1 Performance of the economy in Sub-Saharan Africa

Africa's economic performance has provoked some commentators to argue that "Africa is on the radar" of large business houses around the world (Blas & England, 2014). In fact, Blas & England (2014) furthermore opined that despite some isolated, sporadic and simmering contradictions to economic performance in some parts of the Sub-Saharan Africa region – especially cases of the outbreak of Ebola in West Africa and decreasing commodity prices – especially crude oil negatively impacting on countries such as Nigeria for example, the region has been experiencing one of its finest moments on economic performance and growth. A growing number of international companies such as Citygroup of London, Carlyle, SABMiller-Coca Cola, AXA and Steinhoff who have recently acquired the Pepkor Group for approximately R63 billion in South Africa have all contributed to the immense growth of the economy. In fact, it is opined and projected that the economy South of the Sahara would grow to a global second after Asia – India and China included if current economic growth rates (5.75% *per annum*) were to be maintained. According to Blas & England (2014), the economic boom is encouraged by amongst others:

Rising foreign investor confidence on the African market.

High commodity prices in some cases.

Cheap Chinese loans to African governments to develop physical infrastructure such as road networks, electricity supply and telecommunication systems.

Improved governance promoted by amongst others increased efforts on democratisation and guaranteed political stability.

Poor performance of other markets elsewhere in the world which makes investor groups rise their investment enthusiasm on Sub-Saharan Africa.

The benefits of such economic performance should be harnessed at government level to improve the lives of the ordinary poor citizenry of the region. Amongst others, Sub-Saharan Africa has to facilitate an inclusive economy which integrates the low income earning group with the rest of the economy. The integration would transform Sub-Saharan Africa's economy from class-based to mass-based economy because as matters stand for example, like in countries such as India for example, there has been a growing tendency to build what Satpathy et al. (2014) calls “Class Banking” instead of growing a “Mass Banking” system which is inclusive of low income earning groups into mainstream formal banking systems in Sub-Saharan Africa region for example.

2.2 *Small income earners from the small-scale informal economy*

Small-scale income earners were widely involved in entrepreneurship – especially in the informal small-scale of the micro and small scale enterprise sector of the economy in most developing regions of the world. The informal small-scale of micro and small scale enterprise sector has been developing into an instrument of some huge household income generation, economic growth and development opportunities amongst poorer households (Oppong et al., 2014). It is unfortunate that the majority of these small income earners were left left out of mainstream formal banking systems for reasons (Aka, 2012). Empowering this band of the economy by improving the role played by mainstream formal financial institutions such as insurance, banking, access to credit and loans and skills development would enhance the opportunities of the sector to grow towards addressing some of the critical socio-economic limitations such as poverty and unemployment devastating developing regions (Opafunso & Adepoju, 2014).

Governments have to improve financial regulatory frameworks with regard mainstream formal banking systems to meet the small income earners such as informal entrepreneurs half way by providing professional assistance such as savings amongst others. For example, Aka (2012) reported an exciting rural banking scheme promoting community banking innovation through micro-finance banking system in Nigeria at some point. In fact, community banking innovations were also employed in other countries such as Zimbabwe by the Commercial Bank of Zimbabwe's Community Banking Scheme to integrate low income households into mainstream formal banking systems in Zimbabwe (Chamlee-Wright, 2005). Despite the fact that the majority of the so-called community based banking schemes were later scrapped in most adopting developing regions of these schemes after failing to meet expectations, what is important are the efforts to improve mainstream formal banking amongst small income earners. In Ghana for example, Vermaak (2006) reported that rural dwellers were assisted by mainstream formal institutions by dispatching collectors of money to rural clients to promote saving. This was introduced to minimise transaction costs emanating from long distances traveled by rural dwellers to banks – especially in the urban areas. Naledzani (1992) opined that weak or bad government intervention in banking policy development and implementation might arrest progress in progression of small income groups into mainstream formal banking systems citing an example of the former Venda native homeland in South Africa prior to liberation in 1994 when most of the people were excluded from mainstream formal banking system.

Amongst issues that must receive urgent government regulatory framework regards the regularisation of opening fees for new bankers and minimum account balances on existing accounts, which according to Brown et al. (2011) seem to be too discouraging for new entrants into mainstream formal banking systems in developing economies such as Kenya for example – especially for those bankers classified as small income earners. Obviously, small income earners such as informal small-scale entrepreneurs need capital to finance the start, growth, development and sustainability of their businesses (Oppong et al., 2014). Small-scale informal entrepreneurs access to formal funding by mainstream commercial banks is dependent on good financial history of the entrepreneur. For instance, the entrepreneur should have acceptable credit history, and lack of such histories might be emanating from the nature of financial services provided by large commercial financial institutions. For example, reviewed literature (Aka, 2012; Brown et al., 2011) reported that increased majority of rural dwellers in countries such as Nigeria and Kenya were "unbanked", and abstained from mainstream formal banking systems.

2.3 *Factors impeding adoption of mainstream formal banking in the developing regions*

Chamlee-Wright (2005) found that one of the major factors impeding adoption of mainstream formal banking in the developing regions is lack of proper information on formal bank practices by the would-be *clientèle*. The author found that despite efforts of mainstream formal banking systems promoting integration of low income earners into their systems through community based schemes in Zimbabwe, still the majority of the low income earning group individuals – especially those in the rural areas remained largely unaware of such schemes. Chamlee-Wright (2005) revealed that awareness of such services was in fact at approximately four out of 150 respondents of the conducted study; meaning that only 2.6% of the respondents were aware of the scheme against a massive 97.4% which lacked that awareness. On the one hand, Brown et al. (2011) also opined that some of the factors promoting non-adoption of mainstream formal banking in some of the rural areas of Kenya for example emanated from unaffordability of the required large opening fees demanded by financial institutions for new customers. In addition, mainstream formal banks in Kenya also demand for high minimum balances of approximately 500 KES (approximately 7.70 US Dollars) which the majority of small income earners would not afford. On the one hand, Aka (2012) posited that non-adoption of mainstream formal banking in Nigeria was mostly promoted by low literacy levels amongst most rural dwellers which impacts on their understanding of mainstream banking systems. In addition, loss of confidence in the mainstream formal banking systems and absence of banking services closest to the rural dwellers also promoted non-adoption of mainstream formal banking. From some of these factors, it is evident that a large number of small income earners are left out of the mainstream formal banking system. The obvious is that mainstream formal banking in the developing regions such as Kenya and Nigeria could become somewhat elitisised beyond reach for the ordinary earners. In fact, this view is corroborated by Aka (2012) who opined that mainstream formal banking systems in Nigeria have developed into "*elitist banking practices*" Elitist banking systems and tendencies were in fact developing around the world – and even in smaller economies such as Tunisia for example (Nasri, 2011) - especially through the introduction of modern approaches in modern banking such as technological introduction in banking such as e-banking, the use of television; mobile phones and computerised applications. These applications would mainly improve and serve better the interests of the elite of society because they remain basically and largely unaffordable luxuries for the poor – especially in most Sub-Saharan African countries with most of their populations were rural dwellers having no means to access modern technology. In fact, Sub-Saharan Africa regions were still way back far in technology development and advancement – perhaps with lesser of those challenges only in their urban areas. Corroborating this assertion is the example of Sudan. While many countries were busy with technology development in banking systems in Sub-Saharan Africa of late, Sudan is however impeded to the engagement because of limited infrastructural development on technology – thereby limiting its capacity to introduce amongst others e-banking amongst others (Alam et al., 2010).

Without banking and savings, the so-called credible banking record history required by possible commercial financiers becomes difficult to attain because the risk to finance such an entrepreneur is too high. Added to this is inadequate record keeping amongst small income earners which depletes the integrity of the entrepreneur (Oppong et al., 2014). Non-banking and savings could opine non-profitability of the business engaged in by entrepreneur, and hence less interest in funding such entrepreneur by large mainstream commercial banks (Oppong et al., 2014). On the other hand, high interest rates charged on loans and credits might discourage informal small-scale entrepreneurs from active participation and adoption of banking services and institutions (Opafunso & Adepoju, 2014).

2.4 *Are low income earners "bankable" or "non-bankable" as opined in some literature?*

This question tries to answer a common myth in the banking sector where some commentators and research in the social-economic sciences opine that low income earners were in the main "unbankable" (Satpathy et al., 2014) and without profit for mainstream formal banking institutions. However, Chamlee-Wright (2005) critically shed some light towards a sufficient response to the question of "unbankability" or "bankability" of low income earners in the developing regions from a study conducted in Zimbabwe. Chamlee-Wright (2005) were of the view that low income earning groups were instead "bankable". Chamlee-Wright (2005) corroborated this assertion after finding results to the contrary on the theory of "unbankability" of low income earners in a study conducted in Zimbabwe. Chamlee-Wright (2005) therefore argued that Zimbabwe's so-called Community Banking Scheme initiated by the Commercial Bank of Zimbabwe in 1996, and largely meant for low income earning households' integration into mainstream formal banking systems proved that it was possible to attain self-sufficiency, earning enough to service operational costs while in addition generating profits in the low income earning *clientèle.* Most crucially, is that within the first three years (1999) of the Zimbabwe innovation, the scheme could already showed some profitability. On the one hand, the scheme had a very high loan recovery rate amongst its customer base of low income earners approximated at 99% (Chamlee-Wright, 2005). Based on the Chamlee-Wright (2005) findings in Zimbabwe, it could be reasonably argued that the theorised contentions raised by some that low income earners were a business risk for mainstream formal banking systems could therefore not be regarded as absolutely conclusive. Contributing factors to the same have to be considered and addressed. Furthermore to Chamlee-Wright (2005), Satpathy et al. (2014) also emerged with a strengthening case by arguing that low income earners could instead provide a strong business niche market for mainstream formal banking institutions of the developing regions.

3. Research and methodology

This section explains the methodology employed for this paper.

3.1 Statement of the Problem

The majority of income earners of small-scale informal economic sectors in most developing regions abstain from mainstream formal banking systems. These income earners rather adopt informal banking systems. Mainstream formal banking institutions also argue that low income earners are "unbankable" and posed business risk. However, emerging literature posits that low income earners would instead provide a profitable formal niche market. Trends with regard adoption and non-adoption of mainstream formal banking systems amongst small income groups were mixed.

3.2 Theoretical formulation

The approach of this paper rests with the theory opined by Brown et al. (2011) who posited that "*temptations to spend the money on hand are high*" where income earners are locked out of any form of banking system.

3.3 Main Objective of the Study

This paper investigates the factors influencing adoption and non-adoption of mainstream formal banking systems amongst small-scale income earning households.

3.4 The Study Area

This paper was conducted in three purposively selected countries of the Southern Africa Development Community (SADC); South Africa, Zambia and Zimbabwe. The Southern Africa Development Community (SADC) comprises an economic region located from central Africa in the Democratic Republic of the Congo (DRC) southwards up to South Africa. The region has 14 member states.

3.5 Study Design

This is a qualitative-quantitative study based on data collected from a wide-based participant informants opined to be small-scale income earners of informal entrepreneurial practices in South Africa, Zambia and Zimbabwe.

3.6 Conceptualisation

Banking could include indulging in services such as e-banking, transfer of funds, debits, deposits for savings, loans and insurance financial services of the mainstream formal banking sector (Chavan, 2013; Satpathy et al., 2014). For the purpose of this paper, adoption or non-adoption of mainstream formal banking systems was measured through the ability of the respondents to keep an account or engage in personal savings with mainstream formal banking institutions amongst low income earning individuals in three countries of the SADC; South Africa, Zambia and Zimbabwe. In other words, respondents were asked if they kept any bank account with mainstream formal banking institution or if they engaged in any cash savings with mainstream formal banking institutions.

3.7 Sample Size and Composition

The sample frame is designed from four categories:

Category One: Fifty five (n=55) small-scale informal communal cattle farmers at Musekwa Valley.

Category Two: Ninety nine (n=99) micro-finance adopters at Makululu Compound, Zambia.

Category Three: One hundred and fourty six (146) informal entrepreneurs in Nyanga.

Category Four: Small-scale informal cross-border traders at Chirundu Border Post.

3.8 Hypotheses

Non-adoption of formal banking amongst small income earners emanates from multiple factors.

Small-scale informal earners are willing to adopt mainstream formal banking.

Small-scale informal earners provide a niche market to the banking industry.

Small-scale informal earners are bankable.

Non-adoption of mainstream banking impedes opportunities to improve socio-economic factors.

3.9 Guiding Questions

How is adoption of mainstream formal banking systems structured in South Africa, Zambia and Zimbabwe amongst low income earners of the informal economic sector?

How is household income distributed amongst low income earning households in South Africa, Zambia and Zimbabwe in the informal economic sector?

What are the reasons advanced by low income earners for no-adoption of mainstream formal banking systems in South Africa, Zambia and Zimbabwe in the informal economic sector?

Are low income earners willing to adopt mainstream formal banking in South Africa, Zambia and Zimbabwe in the informal economic sector?

How are the prospects for profitability of low income earning groups for mainstream formal banking institutions in South Africa, Zambia and Zimbabwe in the informal economic sector?

What has to be done to integrate low income earning groups of the informal economic sector into mainstream formal banking systems in South Africa, Zambia and Zimbabwe?

4. The findings

The results of this paper are presented in three categories; adoption and non-adoption of mainstream formal banking amongst small income earners in South Africa, Zambia and Zimbabwe, however showing such characteristics in the micro-finance, informal cross-border traders and small-scale communal cattle farming economic sub-sectors in the three countries.

4.1 Adoption and non-adoption of banking

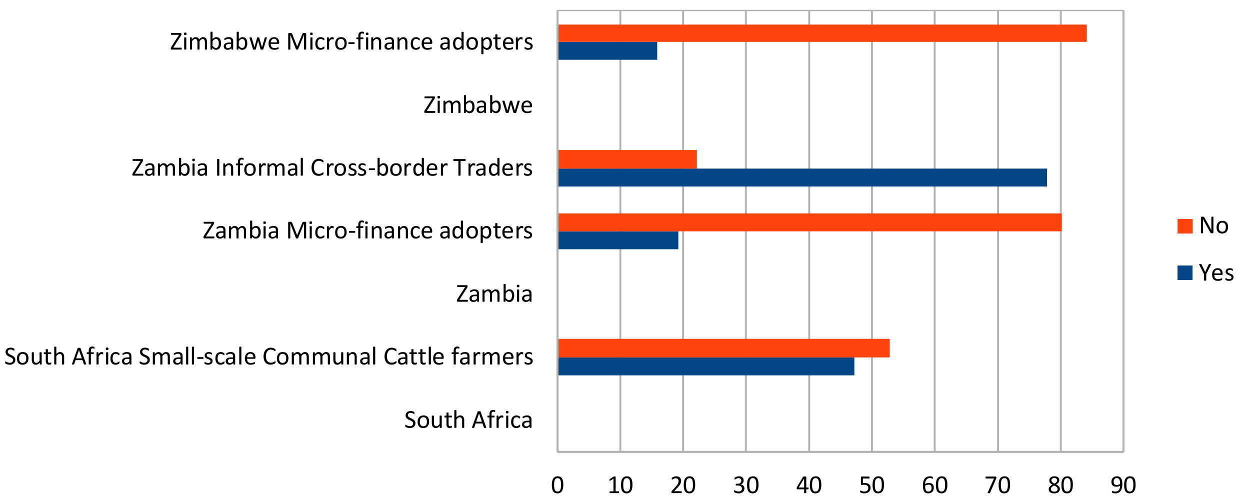

Figure 1: Adoption and no-adoption of mainstream formal banking

4.2 Household income patterns in the four sites of the study area

***Table 1:** Income pattern in the three countries*

Study Area	**Sample Size**	**Selected Variables**												
		Main Source of Income						**Income**			**Expenditure**			
		Employ	**Trading**	**Micro-finance**	**Remittances**	**G. Pension**	**Savings**	**High**	**Low**	**Middle**	**Food**	**Edu**	**Health**	**Transport**
South Africa	n=55	12.7	23.6	-	-	38.2	25.5	3.6	83.6	12.7	65.4	25.5	7.3	1.8
Zambia	n=99	-	-	66.7	33.3	-	-	1.0	82.8	16.2	65.7	17.1	10.1	7.1
	N=36	-	83.3	-	16.7	-	-	61.1	11.1	17.8	52.8	30.6	8.3	8.3
Zimbabwe	n=146	10.3	72.6	-	17.1	-	-	6.2	68.5	25.3	72.6	6.8	6.9	13.7

4.3 Reasons for non-adoption of mainstream formal banking systems

Key informant interviews (KII) and Focus Group Discussions in the three countries revealed the following reasons being dominant with regard low and non-adoption of mainstream formal banking:

The majority of the respondents opined that income patterns were irregular and unpredictable amongst low income earners to such as extent that formal savings for example become difficult to maintain.

Prevailing adverse internal economic challenges in Zimbabwe for example characterised by low employment opportunities, low wages in formal employment and shortage of food due to persistent droughts which therefore leads to households spending more on expensive over-the -counter food supply chain. This is confirmed by the results of this paper which revealed that the majority of low income earners in Nyanga, Zimbabwe spent much of their income on food (72.6%), transport (13.7%), health (6.9) and education (6.8%).

Lack of information on mainstream formal banking systems. In fact, this result is corroborated by the findings reported by Chamlee-Wright (2005) in another study on mainstream formal banking systems in Zimbabwe where approximately 97.4% of low income earners were reportedly lacked information on mainstream formal banking schemes and programmes. As a result of lack of proper information, this paper established that the majority of illiterate and semi-illiterate respondents relied on false information about mainstream formal banks and their practices. Amongst other negatives the paper established is that mainstream formal banks require excessive first-time banker deposits for savings and very high monthly interest rates. The dominant perception in this regard is that customers end-up losing some of their investments to the banks. Clearly, mainstream formal banks are completely "cut out from the ordinary population of low income earners in terms of *information dissemination", and therefore "shut out the entire low income earners group outside mainstream formal banking systems"*

Inaccessibility of banking institutions. This could be out of bad road infrastructure or long distances. Inaccessibility was found to have been the factor of non-adoption of mainstream formal banking systems in Nigeria – especially amongst rural-based communities and households (Sam, 2014). In the Musekwa Valley study site in South Africa for example, some respondents revealed that the nearest mainstream formal banking service point was to be found approximately 50Km away from their village. For example, for someone to do a simple withdrawal transaction from an Automated Teller Machine (ATM), maybe of a mere R50, this individual had to travel at least 41Km from Dolidoli Village for example to the nearest Dzanani town where some mainstream formal banks have ATMs. For those whose banks only have ATMs in Louis Trichardt, they have to do additional 33Km. This is a costly exercise. Clearly, the distances traveled by low income earners to banks – the majority of which are located in far flung urban centres and towns make it extremely difficult for the majority of these low income earners to access bank services. In addition, long distances increased transaction costs because of expensive transport fares paid in public transport.

4.4 Willingness of the low income earners' adoption of mainstream formal banking systems

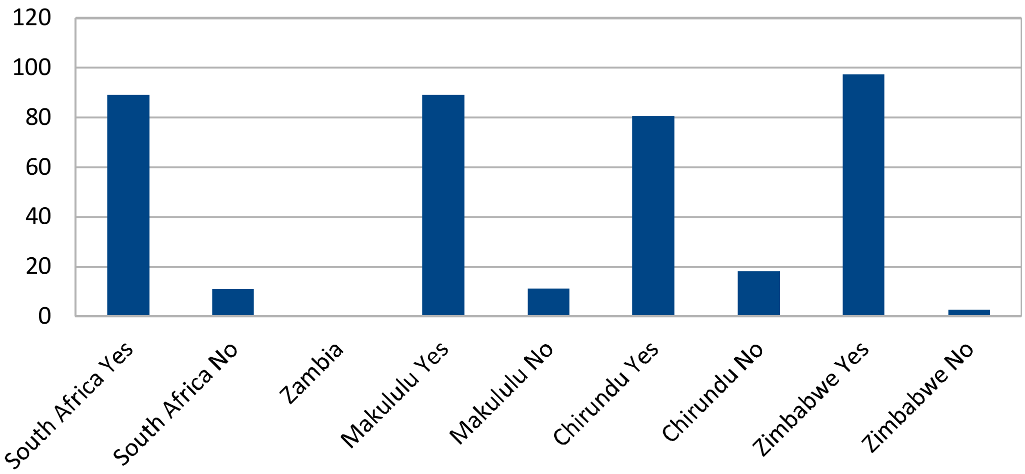

Figure 2: Number of low income earners willing to adopt mainstream formal banking systems

4.5 Integration of small income earners into mainstream formal banking systems

The results of this paper revealed that non-adoption of mainstream formal banking systems amongst small income earners amongst poorer households in South Africa, Zambia and Zimbabwe exist. The results of this paper furthermore revealed that the informal cross-border traders who trade between Zambia and South Africa were better integrated into mainstream formal banking because 77.8% of the traders adopted mainstream formal banking through savings while 22.2% was left out of the system as they never kept any bank account. However, there was a sharp contrast in Zambia where small income earners from the micro-finance adopting households were poorly integrated into mainstream formal banking systems on the other hand with only 19.2% respondents keeping mainstream formal bank accounts and a huge majority of 80.2% who never kept any bank account, and therefore effectively left outside the mainstream formal banking system. In Nyanga, Zimbabwe, of the respondents, only 15.8% had adopted mainstream formal banking against 84.2% of non-adopters. The small income earners of the small-scale informal communal cattle farmers sub-sector in South Africa on the other hand had 47.2% of its population adopting mainstream formal banking through savings whereas 52.8% was left out. This paper concludes that adoption or non-adoption of mainstream formal banking systems patterns vary from region to region, and sector to sector even where income earners were almost similar in terms of household income distribution. In order to ascertain the adoption and non-adoption of mainstream formal banking patterns and the subsequent reasons thereof, this paper also investigated the sources of household income, amount of household income *per annum and the* expenditure patterns amongst the several low income households in the respective countries. It was opined that income patterns would have a bearing on the probability of such households and individuals to adopt or not to adopt mainstream formal banking systems. The results are indicated in table 1.

4.6 Household Income Sources

4.6.1 South Africa

The results revealed that in South Africa, the majority of small income groups earned their household income mainly from government grants such as old-age pensions (38.2%), savings from retirement programmes (25.5%), followed by trading on livestock (23.6%) and formal employment (12.7%). It is evident that government-backed innovations such as old-age welfare programmes in South Africa contribute immensely in household income generation for low income earners. It is a generally known issue that South Africa spends extensively on social welfare programmes amongst its poor; be it on monthly pension grants or retirement packages. This opines that South African low income earners have guaranteed income which might allow for engagement of the low income earners with mainstream formal banking. In addition, the South African household income distribution shows diverse base which if one source fails to sustain savings for example, the other source would. In this account, it is reasonable to opine that income generation sources were reliable for constant income generation.

4.6.2 Zambia

In Zambia, amongst the micro-finance adopting households of Makululu Compound in Kabwe, the major supplier of small income groups' household income is micro-finance activities (66.7%) and remittances (33.3%). In the case of Makululu, some respondents were married women who had income earning husbands and other household members elsewhere in the country who send some money home from time to time to support their families. Of importance is that the two main income generation sources in Zambia could be limiting to reliable household income.

4.6.3 Zimbabwe

In Nyanga, Zimbabwe, the results of this paper revealed that household income was generated mainly from informal trading (72.6%), formal employment (10.3%) and remittances (17.1%). In Nyanga, Zimbabwe, the remittances averaged approximately USD15 at a particular time. Further probing and interaction with the respondents – especially with regard the high number of informal trading income earners in Nyanga, Zimbabwe, the discussions revealed that the majority of respondents in Nyanga, Zimbabwe were frequent cross-border informal traders in South Africa and also inside the country to create self-employment. This group earns substantial income from the activities. The micro and small-scale informal trading activities were mostly income-generating activities initiated after the respondents had joined micro-finance groups such as the Kufusa Mari micro-finance scheme. These schemes are self-help groups started and sustained by women in particular to fight poverty. During key informant interviews, it became clear that most of the members of the Kufusa Mari micro-finance scheme regarded themselves as being self-employed.

4.7 Annual household income patterns

The annual household income for the participants was determined by a cumulative total of earnings and contribution by respective household members throughout the year. Household income was structured in three categories; high, low and middle earners (Table 1). The results revealed that household income distribution in the three countries differ significantly. For example, in South Africa, there were only 3.6% of low income households opined to earn a higher income while in Zimbabwe there were only 6.2% of the same while in Zambia there were a massive 61.1% amongst the cross-border trading group and a massive low of only 1.0% amongst the micro-finance adopting households. The massive contrast in the Zambian scenario could be explained by the fact that income earners in the micro-finance group have low income generated from petty small-scale trading on items such as food stuffs like beans, rice, fish and so forth which generate small amounts. On the other hand, income earners from the cross-border trade also trade in better valuables such as kitchen ware, clothes, electronics such as television sets and so forth which generate better income. The 1.0% amongst the micro-finance group able to generate better income which has been classified as high income could explain that all factors equal in Zambia's micro-finance group, probabilities of increased income for the income earners could be improved.

However, in the so-called low income earning group, the results revealed astronomically high rates of low income – especially in South Africa. For example, the majority of income earners in South Africa (83.6%) earned low income followed by low income earners in Nyanga, Zimbabwe (68.5%) while the scenario contrasts sharply for Zambia's informal cross-border trading group where a mere 11.1% of the income earners were classified as earning low income against also 82.8% amongst the micro-finance group. The South African scenario is explained by the fact that the income is generated from sporadic sales of livestock which could take some significant long periods without selling additional stock for various factors like weak market seasons while on the other hand income earners in the Zambian cross-border group could be frequent and quicker. The middle-income earners in South Africa (12.7%), Zimbabwe (25.3%) and Zambia; micro-finance (16.2%) and cross-border (17.8) complete household income patterns in the three countries.

This paper furthermore analysed household expenditure patterns amongst the respondents to ascertain probability of increased opportunities or lack of such opportunities to adopt mainstream formal banking amongst low income earning groups selected for the purpose of this paper. The results are indicated in table 1. The results of this paper revealed that in the case of South Africa's communal cattle farming households, Zambia's micro-finance adopting households and Zimbabwe's micro-finance earning group expenditure patterns were skewed towards purchasing of household food (65.6%; 66.7% and 72.6%) respectively. However, other household factors such as education (25.5%); health (7.3%) and transport (1.8%) were strong contenders of household expenditure in most households in South Africa. With regard high number of income earners spending a lot more in transport fees as revealed by the results of this study in Zambia's two study groups (7.1% and 8.3%) and in Nyanga, Zimbabwe (13.7%) against South Africa's 1.8%, it could be that much of informal business engagements by low income earners involved long distance traveling. A good example to this assumption is that of the cross-border informal traders who travel between South Africa and Zambia and those in Nyanga to Harare where much of business is said to be taking place. Furthermore, the results revealed that education (30.6%) was the second highest expenditure amongst Zambia's cross-border group against 17.1% of their counterparts in the micro-finance industry. This might explain the social class status within the two groups; low literacy levels amongst the micro-finance group *versus* advanced literacy levels amongst the cross-border group.

Finally, this paper analysed the willingness of the low income earners to adopt mainstream formal banking systems. Willingness to adopt the system would be crucial in the design of policy and operational intervention strategy design by both policy makers and banking institutions. As indicated in figure 2, the results of this paper revealed that in all the three countries and four study targets; South Africa (88.9%), Zambia; cross-border group (80.8%) and micro-finance group (97.3%) and Zimbabwe's micro-finance group (97.3%) the low income earners were massively willing to integrate and adopt mainstream formal banking systems. In other words, there is already self-motivation amongst low income earners to adopt mainstream formal banking in the three countries.

5. Conclusion

The majority of income earners of small-scale informal economic sectors in most developing regions of the world do not bank their earnings with formal commercial banks preferring to “bank” their income at their homes or not to bank at all. In fact, the majority never kept any bank account or do savings. In the Southern African Development

Community (SADC) region, adoption and non-adoption of mainstream formal banking systems amongst small income groups were mixed. This paper investigates adoption of, and non-adoption of banking patterns small income earners in South Africa, Zambia and Zimbabwe. The results revealed that the informal cross-border traders who trade between Zambia and South Africa were better integrated into mainstream formal banking because 77.8% of the traders adopted mainstream formal banking through savings while 22.2% was left out of the system. However, there was a sharp contrast in Zambia because small income earners from the micro-finance adopting households were poorly banked while a huge majority was left outside the system. In Nyanga, Zimbabwe, of the respondents, only a few income earners had adopted mainstream formal banking against the majority of non-adopters. The small income earners of the small-scale informal communal cattle farmers sub-sector in South Africa had 47.2% of its population adopting mainstream formal banking through savings whereas 52.8% was left out. This paper concludes that adoption or non-adoption of mainstream formal banking systems patterns vary from region to region, and sector to sector even where income earners were almost similar in terms of household income distribution. However, leaving out from the mainstream formal banking systems a critical sector of the economy which contributes approximately more than half of the total public employment and means of household earnings could be impeding to government efforts in the respective countries to reduce poverty in communities.

Non-banking of earnings amongst small-scale informal earners are an attitudinal constraint emanating from small-scale income earners and the banking institutions. The large majority of banking institutions opine that small-scale informal earners were bad business, costly and less viable market. However, this paper discovered that this was not so in the case of some selected cases in South Africa, Zambia and Zimbabwe where the sector instead revealed "bankability" through willingness to adopt mainstream formal banking systems and some relatively good sustainable incomes. Some of the low income earners instead generated above-average earnings which could be utilised for their integration into mainstream formal banking systems of their respective countries. On the other hand, small-scale income earners opine that banks were not interested in them. Indeed there were observable factors impeding adoption of mainstream formal banking in the three countries which mainly involved:

Lack of proper information on formal bank practices by the would-be clientèle. It has been found that despite efforts of mainstream formal banking systems promoting integration of low income earners into their systems through community based schemes for example, still the majority of the low income earning group individuals – especially those in the rural areas remained largely unaware of such schemes.

Unaffordability of the required large opening fees demanded by financial institutions for new customers.

Low literacy levels amongst majority of rural dwellers which impacts on their understanding of mainstream banking systems.

Loss of confidence in the mainstream formal banking systems and absence of banking services closest to the rural dwellers also promoted non-adoption of mainstream formal banking.

The elitisisation of mainstream formal banking systems without providing support for access to rural-based low income groups, making mainstream formal banking services get beyond reach for the ordinary income earners. In fact, in general, Sub-Saharan Africa regions were still way back far in technology development and advancement – perhaps with lesser of those challenges only in their urban areas.

High interest rates charged on loans and credits discourage informal small-scale entrepreneurs from active participation and adoption of banking services and systems.

Finally, low income earners traveled too long distances for simple transactions which increased formal banking transaction costs.

If indeed transaction costs increased with distances traveled between income earners and their banks which are normally located in towns and cities far away from mostly village based income earners, a model suggested by

Brown et al. (2011) based on the theory of "Social network support system" widely adopted by micro-finance adopting women in particular might be harnessed to promote formal banking amongst small income earners. Instead of so many people traveling to banks in towns, only one person might be utilised to do the savings for a group of people. This might include withdrawals of small amounts of cash – maybe for a certain maximum the banks might agree with the client in advance as long as identification of the withdrawer are monitored and correctly recorded by the banks. Such transactions could be linked to the main client's cell-phone to improve on security considering that cell-phones are increasing amongst rural dwellers in the developing regions as well.

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