YETT

YOUTH EMPOWERMENT
AND
TRANSFORMATION TRUST

ANALYSIS OF THE (YOUTH) EMPOWER BANK INITIATIVE

2018

I. Introduction

The Youth Empowerment and Transformation Trust (YETT) is a networking youth organization committed to the full participation of young people in sustainable development through advocacy and capacity development of youth organizations in Zimbabwe. It carried out an analysis of the Empower Bank which was launched by the Government on the 5th of July 2018. The YETT is particularly concerned that despite constituting a significant proportion of the country's population[1], Zimbabwe's youth, particularly young women, continue to experience numerous socio-economic challenges and significant structural barriers. To better enhance its advisory role, YETT through this analysis, intends to unpack the empower bank as an opportunity that has been availed for young people.

The analysis sought to assist YETT to develop a comprehensive understanding of the political and economic context in which the Empower Bank was launched, the role it intends to play, and the ways in which youth in their different categories can access the resources. The analysis identifies gaps, opportunities and challenges as well as recommendations on increasing efficacy of the bank including best practices from elsewhere. The information from the analysis will enable YETT and its partners to better plan, implement, monitor and evaluate interventions around the youth empowerment bank.

II. The operational Environment

The current environment in Zimbabwe is not attractive for the banking sector. Zimbabwe has seen an unprecedented bank failure rate, cash crisis and an ailing economy. In the current climate depositors are shunning banks and there is no confidence amongst the people to deposit or keep their money in banks. At least 6 banks have collapsed in Zimbabwe since 2012 with accumulated losses of USD190 million to customers. With unpredictable monetary policies and the challenges in the banking sector the banking sector is not trusted. This negatively affects the prospects of any bank including the recently launched Empower Bank.

The Empower Bank was launched at the peak of the 2018 election campaign[2]. As such, it is impossible to ignore the political noise that proximate this initiative. The launch which seemed well timed for the campaign season understates the Bank's potential as an appropriate intervention that should address youth needs. YETT in its previous studies has noted a widely held perception that there is conflation between the state and ZANU-PF as the ruling party. Youth hold perceptions that policy formulation and implementation in Zimbabwe is partisan and exclusionary[3]. The bank also has some eccentric history having been first opened by former first lady Grace Mugabe at a time it did not have a banking licence. In his speech, President Emmerson Mnangagwa did not go through the bank's past history but instead he focused on its prospects and how youth should repay the loans to ensure sustainability of the initiative.

Apparently, the Youth in Zimbabwe constitute the voting majority at 43.5% of the registered voters (ZEC BVR 03.03.18). The same age group (18-35) constitute the majority 43% (around 620, 000) of the 26% (almost 1 and a half million) whose voting intentions is unknown according to the Afrobarometer-MPOI (2018) survey. Undecided or uncommitted voters always pause challenges for

[1] Zimbabwe's 2012 Census found that 69.8 per cent of the population is 29 or under, with 41.7 per cent falling within the 10-29 range, Youth those aged 15-35 number 4 702 046 which constitutes 36% of the national population

[2] The launch was done on the 5th of July 2018 25 days away from the elections on the 30th of July 2018

[3] See also YETT (2018) Rethinking Youth Engagement in Civic and Political Participation: Prospects and Challenges of youth agency in the shaping of a new political culture in Zimbabwe (draft paper)

political parties in closely contested elections such as the 2018 elections because of their capacity to swing electoral outcomes through their last-minute decisions.

Immediate criticism of the Empower Bank is aggravated by the legacy of the Youth Empowerment program whose failures remain unaddressed and whose key lessons should provide bases for any future empowerment initiative. The set-up of Empower Bank comes on the back of documented failures of earlier youth empowerment programs by the government such as the Social Dimension Fund (SDF) in the 1990s and the Youth Development Fund (YDF) in the early 2000s.

Notwithstanding its background, the Empower Bank could still present opportunity for youth who remain economically disadvantaged by high levels of unemployment and failure to operate within the formal market in an increasingly informalized economy. Youth aged 15-34 years constitute 84% of the unemployed population while those aged 15-24 years constituted 55% (Zimbabwe Census 2012). The Zimbabwe 2011 Labour Force and Child Labour Survey (LFCLS) indicate that while the overall unemployment rate for youth aged 14-34 years is 15%, the majority, (87%) of the employed youth aged 15-34 years are considered to be in informal employment; 9% in formal employment and 4% in unclassifiable employment.

III. Defining the Empower Bank

Empower Bank is a government owned institution that is licensed in terms of the Microfinance Act [Chapter 24:29] as a deposit taking microfinance institution (DTMFI). The government, through the National Indigenisation and Economic Empowerment Fund (NIEEF)[4] has a 100% shareholding in Empower Bank. However, the Government intends to reduce its shareholding to 10% in order to comply with the banking regulations. The Bank is set up in support of the National Youth Policy[5] of the Ministry of Youth Development, Indigenisation and Empowerment, and in line with the stated objectives of the NIEEF as per Section 12 of the Indigenisation and Economic Empowerment Act [Chapter 14:33].

The Bank was set up in phases, first as a lending only micro-finance institution (MFI) registered under the name Twinstock Capital (Private) Limited in May 2017 and with an initial capital of $2.5 million dollars. In the second phase, the license of the MFI was upgraded to that of a microfinance bank and its capitalisation increased to $12.5 million in 2018[6]. As a microfinance bank, the permissible activities of Empower Bank are limited to:

Quick Facts
Trading name: Empower Bank
Type: Private
Industry: Banking
Founded: July 5, 2018
Headquarters: Tendeseka Park, Block 4, First Floor Samora Machel Avenue, Harare, Zimbabwe
Key people: Raymond Njanike (Chairman)
Parent: Government of Zimbabwe

Source www.pindula.co.zw

[4] The fund is administered by the National Indigenisation and Economic Empowerment Board (NIEEB) which is itself established by an Act of Parliament- Indigenisation an Economic Empowerment Act [Chapter 14:33] of April 2008. The Act provides for the establishment of a Fund to facilitate the provision of finance for various project to indigenous Zimbabweans.

[5] Honourable Nyoni (The then Minister of Women and Youth Affairs) in her parliamentary address reiterated that the establishment of the Bank '… *is consistent with the National Youth Policy which advocates for the setting up of a youth friendly financial institution that caters for the needs of the youth for project support*'.

[6] Credit only MFIs are not subject to prudential regulations as they are non-deposit taking and are not considered to be of systemic importance. DTMFIs, also known as Micro-banks, function in a similar manner as a regular bank but are limited in terms of the level of activities that they are legally permitted to do. DTMFIs are considered Tier III institutions. These institutions have relaxed licensing requirements relative to those required for Tier I institutions (Large indigenous banks and foreign banks) and Tier II institutions (Commercial

i. Accepting deposits including savings and time deposits but not demand deposits withdrawable by cheque;
ii. Provision of credit facilities;
iii. Provision of ancillary banking services such as domestic remittance of funds and safe custody, capacity building in areas such as record keeping and small business management;
iv. Provision of payment services such as salary, gratuity and pensions;
v. Maintenance and operations of various types of accounts with other banks in Zimbabwe;
vi. Provision of guarantees; and
vii. Provision of housing microfinance.

However, Empower Bank is restricted from dealing in real estate except for own purposes such as acquisition of office space and staff accommodation, conducting foreign exchange transaction and providing facilities for speculative purposes.

Currently, Empower Bank's product range includes a number of services that are targeted at the youth and youth-led businesses of indigenous Zimbabweans such as agricultural finance, asset finance, guarantees, cooperative credit, order financing, invoice discounting, micro-loans, school fees loans, consumer credit and a variety of special savings accounts for groups, cooperatives, farmers, agro-traders and various players in the Agric-value chain.

IV. Beneficiaries of the Bank

The Empower bank was set up with the intention of providing financing to the marginalised youth who traditionally have limited or no access to mainstream financial services but make up a substantial segment of the population[7]. This segment of the youth face significant financing constraints owing to the lack of collateral, good credit histories, lack of alternative loan repayment sources due to unemployment among other challenges. Consequently, these young people fail to meet the stringent lending requirements of traditional banks and other private sector lending institutions resulting in them being financially excluded from the mainstream economy. Youth therefore have significant challenges in successfully venturing into entrepreneurship or exploiting available economic opportunities.

Empower Bank serves as a specialised institution that focuses primarily on the marginalised and underserved masses of the youth, particularly young entrepreneurs. This institution, among other things, seeks to provide young people with accessible finance, allow them to build credit histories and then gradually integrate them into the mainstream financial sector and the broader economy. Empower bank is designed to provide finance at relaxed terms of credit[8] i.e. easier application requirements, lower than market rates for the risk profile of the borrower, relatively longer credit tenures relative to those offered at market based lending only MFIs, low or no collateral requirements among others, and other youth oriented training programs for total empowerment. It is thus a specialised institution that seeks to design its lending programs to be suited to the characteristics of a young demographic that lacks financial literacy, financial management skills and business experience, collateral, good credit histories among other things.

The Bank is meant to benefit the youth but does not go on to define the demographic that will be considered as youth. It will be important for the bank to adopt the definition of youth as strictly by

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banks, Merchant Banks, Discount Houses, Development banks, Finance Houses and Discount Houses). Since Empower Bank is a DTMFI, it means that it can create credit by accepting deposits and extending loans from these deposits

[7] The 2012 census reveals that approximately 60% of Zimbabwe's population is below 30 years of age.

[8] This is in line with the National Youth Policy which advocates for youth friendly financial institutions.

age as outlined in the constitution as people between the age of 15 and 35 years. Other definition of youth by political structure, social and economic status will elude the benefits from youth who do not meet the circumstantial definitions.

Furthermore, details around the operational modalities of the bank are scant. On one hand, Former Minister of Finance, Dr. Ignatius Chombo, indicated that young and indigenous entrepreneurs eligible for funding will be nominated by local communities. In his interview he indicates that communities will work together with the Zimbabwe Champions and Heroes of the Economic Empowerment Revolution (ZimCheer) and claims that there will be no room for partisanship or patronage. In our view, if such a funding structure is followed, it will be politicised and funding will be granted based on political affiliation. On the other hand, the President of the Republic, during the launch of Empower Bank indicated that the bank would act as a conduit for the commercialisation of ideas and innovations originating from the incubation hubs within institutions of higher learning, as well as a channel to support and develop industry value chains across all levels of society. This seems to suggest that the bank is designed for the empowerment of all youth and it should be monitored as such.

V. Structure, profitability, viability of the micro-lending space and prospects for Empower Bank

As of March 2018, there were 190 registered Microfinance institutions[9] of which only 5 of these institutions are deposit taking microfinance institutions (DTMFIs). MFIs are registered and regulated in terms of the Microfinance Act Chapter 24:29[10] which falls under the ambit of the Registrar of Banks[11]. These MFIs include both deposit taking and non-deposit taking institutions (MFIs).

The total asset base for the microfinance industry which increased by 22% from 2016 is currently around $334 million, and total lending in the sector grew by 25% from 2016 to $258 million in March 2018. Approximately 330,000 borrowers are currently serviced by microfinance institution, of which 38% are women.[12] However, the number of the youth that have accessed lending from these microfinance institutions has not been disclosed. As of March 2018, close to 10% of outstanding loans were at risk of not being repaid as and when they fell due[13]. The RBZ (2018) reports that the micro-lending sector reported an average operational self-sufficiency ratio of 145%. This ratio indicates that the average MFI is profitable and able to continue its normal operations without any external subsidies. Only 26% of the 190 institutions were not self-sufficient and were making losses[14]. The current quarterly return on equity, which is a measure of profitability, stands at 5.3% (23.2% annualised). This implies that the average MFI in the sector is currently generating an annual

[9] RBZ (2018), Public Notice: Registration of Microfinanciers [Section 13 of The Microfinance Act {Chapter 24:29}].

[10] It is worth noting that before licensing is sought, the institution must first be registered in terms of the Companies Act [Chapter 24:03]

[11] Prior to 2013 MFIs were regulated in terms of the Moneylending and Rates of Interest Act [Chapter 14:14] and the Banking Act [24:20].

[12] These figures only provide an indication of those clients that obtained finance. They do not show the number of clients that applied and were denied credit. As such it may not be a clearer indicator of the potential market size and amount of excluded individuals amongst the marginalised. Statistics on the number of youth borrowers are not readily available.

[13] The figures are as at March 2018. RBZ Microfinance Industry quarterly report. The figure is above the regulatory standard of 5% and indicates that there is a high risk of default in the sector which is symptomatic of the currently prevailing tough economic conditions.

[14] It is worth noting that the failure rate of MFIs is generally high as a number of institutions fail to get relicensed every year.

return of 23 cents per every dollar investment of the owners. Such high levels of profitability imply that there are vast opportunities for new entrance into the micro lending space.

Amongst the DTMFIs, total deposits currently stand around $11 million, distributed among 8600 deposit accounts. Approximately 70% of DTMFIs deposits are time deposits, with the remainder being savings deposits. The number of savings accounts have increased by more than 500% from 1411 accounts in 2016 to 8600 accounts in March 2018. Currently, DTMFI loans stand at $61 million and constitute 24% of total lending in the microfinance industry.

The growth trends in asset, deposits and lending in the microfinance industry indicate that the industry is still growing and the high profitability ratios in this sector indicate that the sector is viable and there is still room for more entrance and competition within this sector. With only five players in the Micro-banking space, and only one institution specifically centred on lending to the youth, Empower Bank has an opportunity to grow its business and expand its reach. Moreover, it is likely to be used as a conduit for the Government's youth empowerment programs. Currently the RBZ has a $451 million fund that is set aside for empowerment programs and from which Empower Bank and the Women Bank are likely to benefit.

Although there exist other financiers in the financial services sector such as banks, venture capital companies and development institutions among others, these institutions are not direct competitors of microfinance banks and do not consider the target segments of microfinance banks as profitable. Empower Bank therefore exists in a niche market that is outside the reach of traditional financiers. However, since the Bank is a new bank with no established systems in place, no history or experience in lending to a young demographic, it runs a high risk of failure in the early stages if it is not provided with a strong capital base. This is largely because default rates are currently high in the Microfinance sector and the financial sector in general, owing to the current tough economic environment.

VI. Challenges currently faced by the microfinance industry

Although the RBZ set up the Zimbabwe Asset Management Company (ZAMCO) in order to manage nonperforming loans and to resolve loans in default in the banking sector, default rates in the financial services sector and in the microfinance, industry are still high. This is largely a result of a tough economic conditions, shortages of liquidity, low domestic demand, depressed consumption levels and low disposable incomes. Other challenges facing the microfinance industry include:

- High failure rates;
- Depressed economic performance, low confidence and liquidity shortages;
- High operational and service delivery costs;
- Relatively poor infrastructure;
- Lack of appropriate regulatory oversight;
- Limited diversity in institutional form;
- Inadequate governance and management capacity;
- Limited market outreach; and
- Limited access to funds.

In light of these challenges facing the microfinance industry, Empower Bank is likely to be faced with high default rates at least in the short term as it begins to lend to a new demographic that has very little to no credit history, low to no financial knowledge and experience to run a business, no or very little assets to provide as collateral for the bank to fall back on, and for which the bank has no experience lending to this sector.[15] Second, lending costs are likely to be high in the short term as the bank builds the necessary critical mass that will allow it to operate sustainably.

Third, there is a possibility that very little managerial effort will be devoted to monitoring borrowers or to ensuring that credit is allocated efficiently and to the most deserving projects with positive social profits as losses from lending are likely to be absorbed by the government.[16] Empirical evidence from an earlier facility, The Youth Development Fund (YDF)[17], that was administered through the CABS, CBZ, IDBZ, and Stanbic Bank, targeting youth between 18 and 35 years of age suffered a default rate of 85% as borrowers accessed funding using false information and lenders made very little effort to ensure that information provided was correct before funds were disbursed.

VII. What opportunity exist for youth

The benefits to be enjoyed by the youth from Empower Bank can be classified into financial and non-financial benefits.

Financial empowerment: Empower bank provides the youth with an opportunity to access cheap credit, and to build credit history thereby increasing the likelihood of the youth to access higher funding in future. In order for the youth to benefit from the funding of Empower Bank, the youth must set up micro-savings accounts or micro time deposits accounts in order to build a history of financial inflows and savings. This data is crucial in building credit history which will help the youth when they seek to obtain credit from larger financial institutions. Since credit data has been centralised, a good credit history built through Empower Bank can be useful later in future when young people require larger loans that are outside the scope of micro-lenders.

Products and Services
- Empower Bank account
- Empower Bank Savings Account
- Empower Bank School fees loan
- Empower Bank Special Accounts - *aimed at giving groups, clubs, societies, and associations an opportunity to save, invest and other financial services*
- Rimawo Account Savings account *for farmers, agro traders (input suppliers, middlemen, agro retailers)*
- Loans - *Various forms of micro-credit including agriculture, rural credit, cooperative credit, order financing, invoice discounting, and consumer credit.*

Non-financial empowerment: Secondly, the youth can benefit through a number of programs from Empower Bank that seek to increase the bankability of young people through providing financial literacy, project management skills and entrepreneurial skills, all of which provide empowerment through training, education and project ownership.

[15] Moreover there exists a moral hazard problem in which people view funding that is obtained through government facilities as free funds and therefore access it with no intention to repay. An example is default rates recorded in the 1990s on the Social Dimension Fund where beneficiaries from the fund never repaid back the government loans as they viewed this as free money.

[16] Empower Bank faces a soft budget constraint in that the excess of expenditure over revenue is likely to be subsidised by the state which may lead to pervasive managerial behaviour.

[17] YDF was a revolving micro loan facility which was established in 2006 by the government of Zimbabwe with the aim of supporting youth entrepreneur development. The YDF was fused with the Employment Creation Fund (ECF) that was established in the late 90s. The YDF provided loans at a concessionary rate of 10% per annum for tenure of up to 36 months depending on the nature of the project applied for.

VIII. Potential strategies for success

Group based lending vs. individual lending

Intragroup monitoring that arises in group bases lending helps reduce shirking and a misalignment of incentives where individuals may divert funding from its intended purposes. This increased internal monitoring will therefore skew managerial effort towards achieving the success of the project and the objectives of the whole group and thus increase the potential repayment capacity of the group. As a result, group based lending strategies may help ensure that the bank is successful since this strategy to micro-lending help narrow the information asymmetry gaps.

Self-help training and financial literacy

The Empower Bank initiative should be strongly linked to self-help and financial literacy for youth if there is to be sustainability. Youth groups should be able to keep written budgets, borrow for investment, manage debt for loan graduation. Eventually they should also have competency to save as a way of creating security against which they can borrow. The bank should not just be a microfinance institution but a microfinance plus one which includes components like training, insurance, health, and hygiene to the borrowers. As important as financial inclusion is, financial literacy is even more important in driving initiatives such as the Empower Bank.

Lessons from other countries

In countries such as Scotland and Ireland, Youth Banks are used to empower the youth. These banks are generally funded using grants and are run by young people and for young people. The youth banks support youth led projects that address issues that matter to their communities. These Banks employ the youth and provide opportunities for providing the youth with relevant financial management and managerial skills.

In India, Self Help Groups (SHG) which are association of people sharing similar socio-economic characteristics, residing in the same locality are used as a way of empowerment. They are voluntary associations of people formed to attain a common goal and are used to administer MFI funding.

IX. Interventions necessary to support YEB to create and broaden opportunities for youth categories

In order to broaden opportunities for the youth and to ensure the repayment of funds in revolving facilities, some of the following recommendations may need to be adopted:

- ***Depoliticise access and ensure inclusivity*** is critical in ensuring that all qualifying and deserving youth access the services of the empower bank regardless of political affiliation and tribal backgrounds. There should be deliberate attempts to ensure that the youth in remote areas, youth with disability and other categories of often excluded are provided with the same opportunity to access the benefits from the Bank. Currently the bank is not just located in Harare, but its offices are at a complex that are affluent and would constrain the majority of the youth from visiting the bank. government should reorient the running of the institution in the selection of beneficiaries, appointment of directors and execution of its mandate. Comparative analysis should be done to identify previous failures from empowerment schemes and develop new models that work.
- ***Offering financial literacy training*** and set up of financial literacy centres for the youth. The bank can decide to work with institutions that provide such specialised trainings to the youth;

- ***Setting up of mandatory financial and project management training*** for young first-time entrepreneur's that are seeking to obtain funding through empowerment facilities or Empower Bank.
- ***Offering of micro insurance products*** is a mechanism that can be designed to protect the youth who are low income earners against risk (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income and level of risk. This is essential given that the youth who will receive loans under this facility are under-served by mainstream insurance schemes.
- ***Set up of micro-loan credit resolution framework***[18]
- ***Establishment of implementing partnerships*** with different institutions and stakeholders is crucial. The Empower Bank can make a deliberate decision to work with existing initiatives and institutions including some NGOs that have the time and experience to provide the required managerial effort to monitor borrowers and ensuring that credit is allocated efficiently and to the most deserving projects.
- ***Access to Information on the bank*** is critical and should be made readily available to the target market. Information such as its strategy and selection criteria should be accessible in the public domain.
- ***Transparency and Accountability*** are key given the history of misuse of funds in other youth empowerment projects and given that the bank is supporting by public funds. Civil society should play a critical role in demanding for transparency and accountability but equally information on the bank should be publicly available so as to facilitate for scrutiny.
- ***Youth friendly investments and empowering youth into mainstream economy*** are critical for youth empowerment. The Empower bank should desist from the thinking that youth empowerment initiatives should be mundane. The bank should encourage young innovators, and entrepreneurs to model world-class innovations that can create employment and reduce poverty among young people. It is self-defeating to overlook innovation given how economies are now driven by innovation and research that strengthens entrepreneurship. The bank should initiate and expand local enterprises especially around its anchor sectors of mining and agriculture. The thinking of government on youth projects that limited to backyard initiatives rather than serious enterprises that can leverage on the horizontal and vertical linkages in the value chains of critical industries should be transformed under the Empower Bank.

[18] Given the consumer protection thrust of the Microfinance Act [Chapter 24:29], credit resolution for microfinance banks is likely to involve a variety of nuances that are ordinarily unavailable with credit resolution at the bank sector level.

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