



Mobile Money

Driving formalisation and building
the resilience of MSMEs

June 2020



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GSMA Mobile Money

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Introduction

Mobile money can help informal MSMEs access financial services and overcome some of the barriers to entering the formal economy and, in turn, boost productivity, job creation and economic growth as defined in SDG 8.

The adoption of the United Nations Sustainable Development Goals (SDGs) has given new urgency to efforts confronting the employment, human capital, efficiency and productivity deficits hindering inclusive economic growth. Micro, small and medium enterprises (MSMEs) are widely recognised for their important contributions to development by stimulating economic growth, creating decent jobs, eradicating poverty and improving livelihoods, especially in developing countries.¹ MSMEs account for the majority of businesses worldwide and could become significant drivers of international trade.² They also drive job creation, especially for vulnerable populations like women and youth.³ Although it is estimated that formal SMEs contribute up to 40 per cent of national income (GDP) in emerging economies,⁴ the International Finance Corporation (IFC) estimates that globally, 74 per cent of MSMEs are informal.⁵

Understanding and addressing the challenges that MSMEs face is key for the continued development of communities and national economies, especially in light of the recent COVID-19 pandemic. This crisis has already transformed into an economic and labour market shock.⁶ While many economic sectors are being affected, the crisis disproportionately affects MSMEs — the backbone of many economies and a vital source of income and employment for many informal workers and their communities.⁷

The adoption of digital technologies has been recognised as an important solution to the financial exclusion experienced by those working in the informal economy, and represents an important step in the transition to the formal sector.⁸ Recent research has found that the adoption of mobile financial services decreases the size of the informal sector in up to 4.3 percentage points of the gross domestic product (GDP).⁹ The view that digital financial services can accelerate the transition from informal to formal economic activity is shared by the World Bank Group, the United Nations Secretary General's Special Advocate for Financial Inclusion (UNSGSA) and the G20 Global Partnership for Financial Inclusion (GPFI).¹⁰ According to the G20 *Policy Guide on Digitisation and Informality*, access to formal financial services can reduce informal economic activity over the long term by increasing the credibility and productivity of MSMEs, helping them overcome the cost of entry to the formal sector, and reducing the opportunity cost of operating in the informal sector.¹¹

The objective of this briefing note is to explore how mobile money can help informal MSMEs access financial services and overcome some of the barriers to entering the formal economy and, in turn, boost productivity, job creation and economic growth as defined in SDG 8.¹² This note also highlights the pivotal role mobile money can play in helping MSMEs survive the COVID-19 pandemic and enhancing their potential contribution to the global economic recovery.

1 Liu, C.K. [Policy Brief: The Role of Micro-Small and Medium Enterprises in Achieving SDGs](#).

2 SME United, [How to Make International Trade Fit for MSMEs](#).

3 United Nations, [Micro-, Small and Medium-sized Enterprises Day 27 June](#).

4 The World Bank, [Small and Medium Enterprises \(SMEs\) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital](#).

5 IFC (2013), [Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises](#).

6 ILO (18 March 2020), [COVID-19 and the world of work: Impact and policy responses](#). *ILO Monitor*.

7 AFI (2020), [SME Finance Responses to COVID-19](#).

8 G20/GPFI (2018), [G20 Policy Guide – Digitisation and informality: harnessing digital financial inclusion for individuals and MSMEs in the informal economy](#).

9 Jacolin, L. et al. (May 2019), [Informal Sector and Mobile Financial Services in Developing Countries: Does Financial Innovation Matter?](#) Banque de France.

10 Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

11 G20/GPFI (2018), [G20 Policy Guide – Digitisation and informality: harnessing digital financial inclusion for individuals and MSMEs in the informal economy](#).

12 SDG 8 promotes inclusive and sustainable economic growth, employment and decent work for all. See: [Sustainable Development Goal 8](#).

MSMEs and the informal economy



The vast majority of MSMEs in developing countries operate in the informal sector and are largely owned by vulnerable segments of the population.

The informal economy includes “all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements.”¹³ In other words, the informal economy comprises jobs or activities in the production and sale of legal goods and services not regulated or protected by the state.¹⁴

These activities are deliberately concealed from public authorities for various reasons, such as not wanting or not being able to comply with legal obligations or regulations.¹⁵ Formality has multiple dimensions; the legal status of an enterprise begins with incorporation and registration, but can also involve obtaining permits to operate, declaring and paying taxes, adequately compensating workers and complying with safety, health, environmental and other regulations.¹⁶ This

multifaceted nature of formalisation also makes challenging to define and measure it.

The informal sector is a significant source of jobs, employing 1.8 billion people worldwide.¹⁷ Almost 60 per cent of the world’s employed population works in the informal economy, and in Africa that figure rises to over 85 per cent.¹⁸ The informal sector is largest in Latin America and the Caribbean, Sub-Saharan Africa, and Europe and Central Asia, where informal activity makes up roughly 40 per cent of GDP. As shown in Figure 1, informality varies across developing countries. In Kenya and Tanzania, nearly half of adults have an informal business, while in India and Pakistan these numbers are considerably lower because more people are economically inactive.¹⁹

Figure 1

Informality in selected developing countries

Adults who report being self-employed or report owning a business with two or fewer employees (% age 15+)



Source: Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

13 Schneider, F. (14 January 2015), [Outside the State: The Shadow Economy and Shadow Economy Labor Force](#).

14 WIEGO, [Informal Economy](#).

15 Schneider, F. et al. (July 2010), [Shadow Economies All Over the World: New Estimates for 162 Countries from 1999 to 2007](#). The World Bank.

16 Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

17 Ibid.

18 ILO (30 April 2018), [More than 60 per cent of the world’s employed population are in the informal economy](#); ILO (2018), [Women and Men in the Informal Economy: A Statistical Picture](#).

19 To provide an estimate of the scale of the informal economy, this recent report by The World Bank uses Gallup World Poll survey data to construct a variable of the share of adults who report being self-employed or own a business with two or fewer employees. See: Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

The vast majority of MSMEs in developing countries operate in the informal sector.²⁰ Informal MSMEs play an important role in providing jobs and meeting the demand for goods and services, but can also hamper the development of economies in various ways. Informal businesses are generally less productive than formal businesses and can carry greater safety, health and environmental risks for workers and communities.²¹ A larger share of the informal sector is associated with weak domestic resource mobilisation, which is essential to financing the public expenditure required to drive investment, build infrastructure, and achieve the SDGs.²²

MSMEs are largely owned by vulnerable segments of the population, many of whom lack social protections like insurance and pension. Poorer adults tend to be

overrepresented in the informal economy. In Argentina, Kenya and Zimbabwe, poorer adults are nearly 10 percentage points more likely than richer adults to have an informal business.²³ Women also constitute an important group in the informal economy, from street vendors and domestic workers to subsistence farmers and seasonal agricultural workers. In developing countries, 31 per cent of men and 25 per cent of women have an informal business.²⁴ Informal employment has also been found to be a greater source of employment for men (63 per cent) than women (58 per cent).²⁵ However, women are often more exposed to informal employment and can face more challenges accessing financial services, which underscores the importance of the gender dimension in the financial inclusion-informality nexus.²⁶

The impact of COVID-19 on MSMEs

The COVID-19 pandemic represents one of the greatest risks to the global economy in recent history. MSMEs are confronting various challenges due to the crisis, including loss of revenue from disruptions to their supply chains and declining consumer demand from restrictions on movement and social distancing measures.²⁷ The effect on MSMEs is particularly severe given that their size makes them more vulnerable and less resilient to sudden economic shocks.²⁸ The costs of underutilised labour and capital weigh more heavily on MSMEs than larger businesses. They also tend to have small cash reserves, which means liquidity shortages can affect their ability to function and make them more likely to go out of business.²⁹ Operating in the informal economy makes MSMEs less likely to benefit from government initiatives, such as emergency financial support or reductions or delays of tax payments.³⁰ The current crisis is also expected to exacerbate gender disparities, particularly in the informal economy where women-owned business have even less protection and resilience to economic shocks.³¹

The Organisation for Economic Co-operation and Development (OECD) has highlighted the risk that otherwise solvent MSMEs could go bankrupt while containment measures for COVID-19 are in force. The limited resources of MSMEs, coupled with existing obstacles to accessing capital, can make them less able to survive the crisis than larger businesses, and less likely to recover. A compilation of 31 surveys worldwide shows that over half of SMEs are already facing losses in revenues due to the impact of COVID-19, and that over 50 per cent of SMEs are not likely to survive the next few months.³²

Another recent survey by Peking University that assessed the impact of COVID-19 on Chinese MSMEs, found that 14 per cent of surveyed businesses were unable to last beyond a month on a cash flow basis, and 50 per cent beyond three months. At the time of the survey, 80 per cent of surveyed businesses had not resumed operations and 40 per cent could not determine a timeframe for resumption.³³ A widespread collapse of MSMEs could exacerbate the impact of the pandemic on national economies and global growth prospects for recovery.³⁴

20 Ndiaye, N. et al. (December 2018), [Demystifying small and medium enterprises \(SMEs\) performance in emerging and developing economies](#). Borsa Istanbul Review.

21 Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

22 Jacolin, L. et al. (May 2019), [Informal Sector and Mobile Financial Services in Developing Countries: Does Financial Innovation Matter?](#) Banque de France.

23 Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

24 Ibid.

25 ILO (30 April 2018), [More than 60 per cent of the world's employed population are in the informal economy](#).

26 G20/GPFI (2018), [G20 Policy Guide – Digitisation and informality: harnessing digital financial inclusion for individuals and MSMEs in the informal economy](#).

27 AFI (2020), [SME Finance Responses to COVID-19](#).

28 ILO (18 March 2020), [COVID-19 and the world of work: Impact and policy responses](#). ILO Monitor; The World Bank, "Small and Medium Enterprises (SMEs) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital"; UNCDF (27 June 2019), [Unlocking the Potential of MSMEs to Contribute to the SDGs](#).

29 OECD (20 April 2020), [SME Policy Responses](#).

30 Skidmore, R. (7 April 2020), "How can we help small business affected by the COVID-19 crisis?" International Trade Centre; Hennessy-Barrett, W. (3 April 2020), COVID-19: [African governments must support the informal sector](#). African Business Magazine.

31 AFI (24 April 2020), [PPD pivotal for building MSME COVID-19 resilience](#).

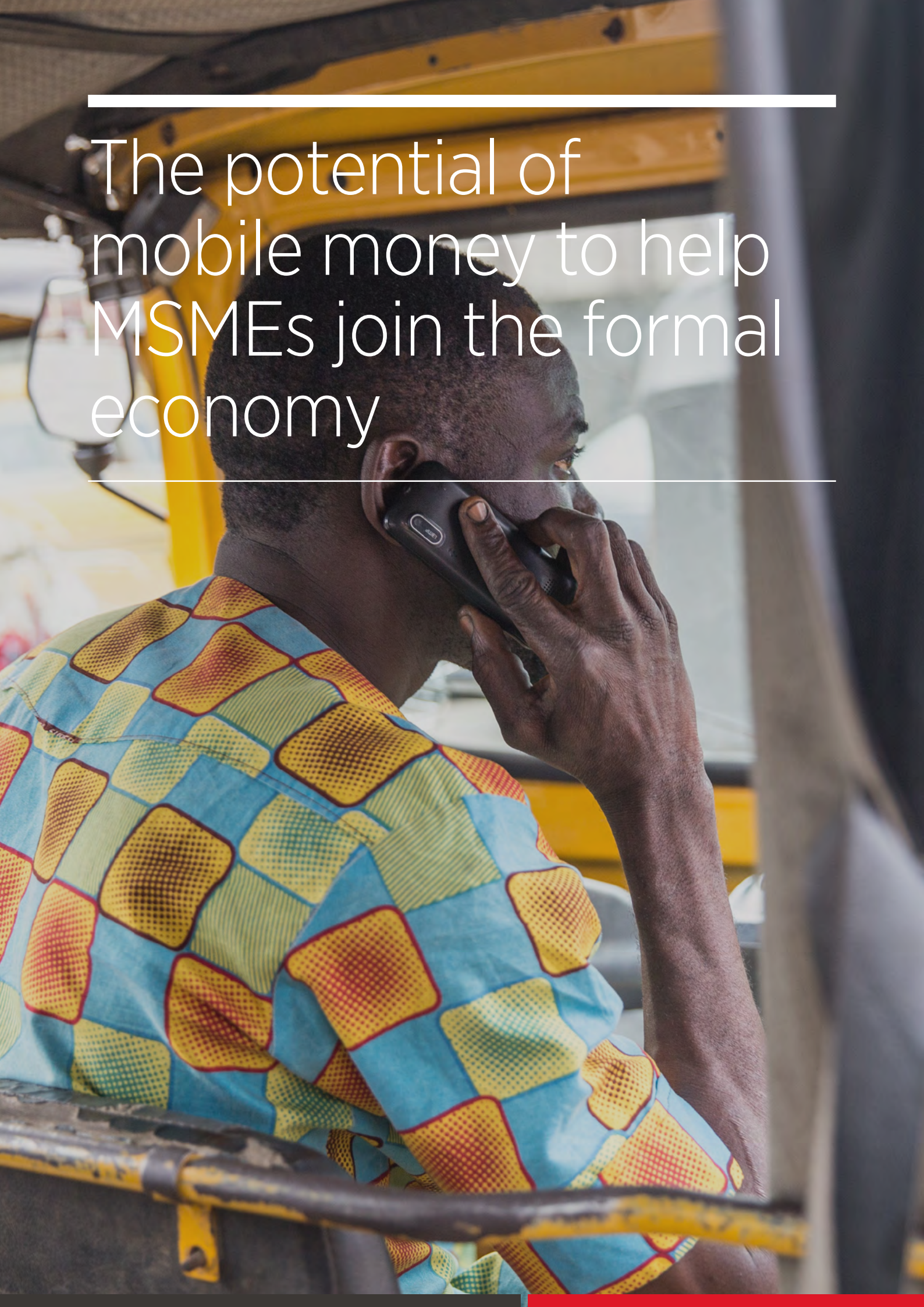
32 OECD (20 April 2020), [SME Policy Responses](#).

33 Zhang, X. (17 March 2020), [COVID-19's Impact on China's Small and Medium-sized Businesses](#). Center for Global Development.

34 OECD (20 April 2020), [SME Policy Responses](#).



The potential of
mobile money to help
MSMEs join the formal
economy



Mobile money is positioned to aid informal MSMEs in their path to formalisation by increasing their productivity and profitability, improving access to credit, and enabling the growth of MSMEs already in the formal sector.

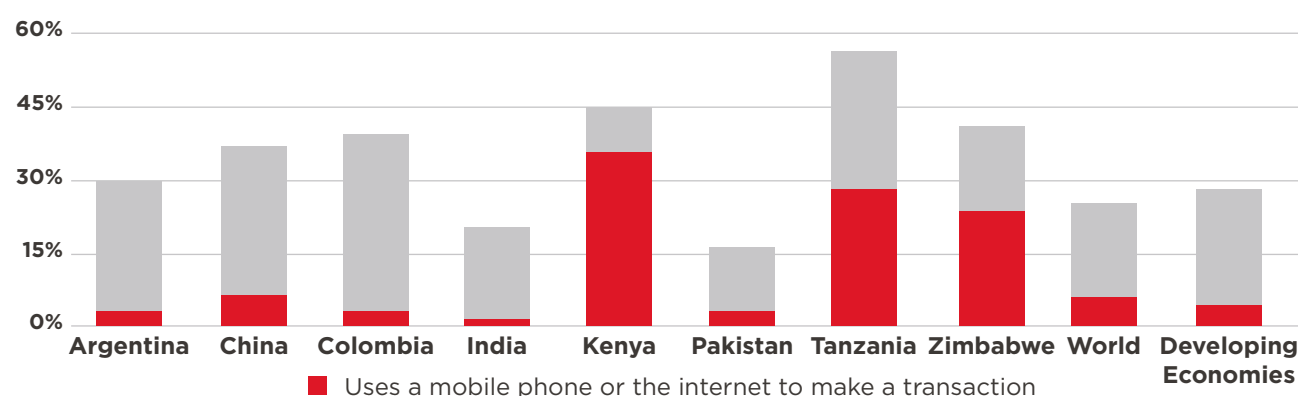
As of 2017, approximately half of informal business owners globally and in developing countries had a mobile money account or an account at a bank or other formal financial institution.³⁵ A report commissioned by the IFC in 2010 classified 90 per cent of MSMEs in emerging markets as underserved, and showed that close to half did not have an account with a financial institution.³⁶ However, nearly 80 per cent of informal business owners in developing countries have a mobile phone. In countries like China and Kenya,

almost all informal business owners own a mobile phone.³⁷ Moreover, approximately one in five informal businesses in developing countries use mobile phones or the internet to make payments. Mobile phone and internet payments are higher in Sub-Saharan African countries where there is strong mobile money penetration. For example, in Kenya, 78 per cent of informal business owners make such payments, while in Tanzania and Zimbabwe the share is slightly over 50 per cent (Figure 2).³⁸

Figure 2

Mobile phone and internet payments among informal business owners

Adults who report being self-employed or report owning a business with two or fewer employees (% age 15+)



Source: Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

Mobile money has played an important role in helping MSMEs overcome the financial exclusion that comes from operating in the informal economy. According to the GSMA 2019 *State of the Mobile Industry Report*, a substantial proportion of person-to-person (P2P) transfers are made by small businesses and microentrepreneurs. In 2019, merchant payments experienced year-on-year growth of 34 per cent, and the number of merchant payment transactions per unique customer grew by 13 per cent to reach 2.2.³⁹ Recent GSMA research in two Sub-Saharan African countries

found that 80 per cent of MSMEs already owned a mobile money account and 83 per cent were using personal mobile money accounts for business needs.⁴⁰

By enabling access to financial services, mobile money is positioned to offer solutions to aid informal MSMEs in their path to formalisation. The following sections discuss three main ways in which mobile money can contribute to the formalisation of MSMEs: increasing productivity and profitability, improving access to credit, and enabling the growth of MSMEs already in the formal sector.

³⁵ Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

³⁶ Ramsden, N. (5 December 2011), [Counting SMEs and Their Demand for Financing](#). CGAP Blog.

³⁷ Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

³⁸ Ibid.

³⁹ GSMA (2020), [State of the Industry Report on Mobile Money 2019](#).

⁴⁰ Pasti, F. and Nautiyal, A. (14 February 2019), [Addressing the financial services needs of MSMEs in Sub-Saharan Africa](#). GSMA.

Increasing productivity and profitability

Recent evidence indicates that lowering initial registration costs and providing information on registration procedures have only a small effect on formalisation. For MSMEs, the costs associated with becoming formal enterprises, such as tax payments, are comparatively more important.⁴¹ Therefore, unless these businesses grow and become sufficiently profitable, it would be difficult for them to overcome the costs of entering the formal sector.⁴² Realising the benefits of operating in the formal economy could also help outweigh the costs of compliance. Such benefits can include access to government subsidies, incentive and welfare programmes, some of which are being offered as part of the COVID-19 response; as well as the opportunity to engage in international trade.⁴³

An important reason why informal MSMEs can be unproductive is that they rely heavily on the use of cash. Moving from cash to digital promotes productivity and profitability by reducing operational costs and making commercial transactions cheaper, more fluid and secure.⁴⁴ A plethora of studies have shown that using mobile money services improves the performance of MSMEs in terms of sales growth, market share and profitability.⁴⁵ MSMEs value mobile money for the proximity and service of agents, and for the flexibility and ease of processing a payment. The most frequent business use cases include

accepting customer payments and paying providers and suppliers. This improves payment collection and reduces outstanding credit times, increasing both efficiency and revenues.⁴⁶ The convenience of mobile money is particularly relevant for women, who often face greater mobility challenges than men due to social norms and family responsibilities that prevent them from traveling to faraway suppliers or bank branches.⁴⁷

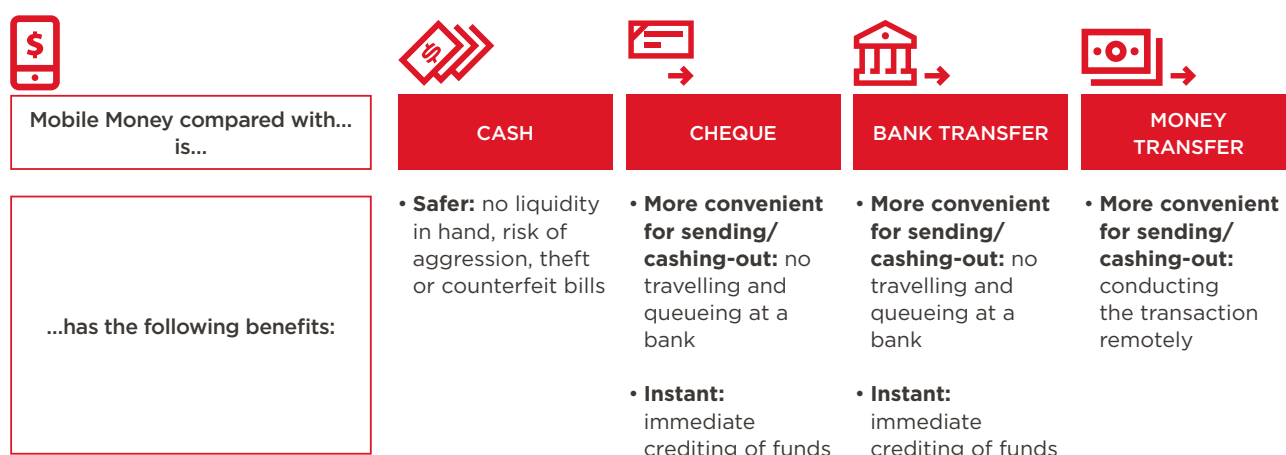
A recent study in Tanzania found that the rate of mobile money use by business owners is much higher than the national average, and that the main benefit reported was greater efficiency from time saved and improved logistics. Mobile money was found to be more convenient than banks because locations were more accessible, customer service was better, and it was much easier to sign up for an account.⁴⁸ Another study from Kenya found that entrepreneurs overcame the risk of crime by using mobile money rather than cash to pay suppliers. The study estimated that the macroeconomic effects of mobile money technology through entrepreneurial finance contributed to 10 per cent of Kenya's per capita income growth between 2007 and 2013.⁴⁹

Figure 3 shows the various benefits of mobile money, compared to other payment methods, to conduct business transactions.

- 41 Bruhn, M. (2013), [A Tale of Two Species: Revisiting the Effect of Registration Reform on Informal Business Owners in Mexico](#). Journal of Development Economics; de Andrade, G. et al. (2013), ["A Helping Hand or the Long Arm of the Law? Experimental Evidence on What Governments Can Do to Formalize Firms"](#). The World Bank Economic Review; De Giorgi, G. (September 2013), [SME's Registration: Evidence from an RCT in Bangladesh](#). Economics Letters; Campos, F. et al. (2013), [Business Registration Impact Evaluation in Malawi](#). The World Bank Group.
- 42 G20/GPFI (2018), [G20 Policy Guide – Digitisation and informality: harnessing digital financial inclusion for individuals and MSMEs in the informal economy](#).
- 43 Among the schemes to support MSMEs, the most widely used instruments are income and profit tax deferrals, wage subsidies, loan guarantees and direct lending. To limit physical interactions, many governments are also considering using digital infrastructure to deliver direct financial transfers to households and small businesses. See: OECD (20 April 2020), [SME Policy Responses](#) and Rutkowski, M. et al. (31 March 2020), ["Responding to crisis with digital payments for social protection: Short-term measures with long-term benefits"](#). World Bank Blog.
- 44 Klapper, L. (2017), [How digital payments can benefit entrepreneurs](#). IZA World of Labor; Beck, T. et al. (2018), [Payment instruments, finance and development](#). Journal of Development Economics; La Porta, R. and Shleifer, A. (Summer 2014), [Informality and development](#). Journal of Economic Perspectives.
- 45 Mararo, M.W. and Ngahu, S. (October 2017), [Influence of Mobile Money Services on the Growth of SME in Nakuru Town Kenya](#). IOSR Journal of Humanities and Social Science; Kirui, R.K. and Onyuma, S.O. (2015), [Role of Mobile Money Transactions on Revenue of Microbusiness in Kenya](#). European Journal of Business and Management; Wanyonyi, P.W. and Bwisa H.M. (May 2013), [Influence of Mobile Money Transfer Services on the Performance of Micro Enterprises in Kitale Municipality](#). International Journal of Academic Research in Business and Social Sciences.
- 46 Pasti, F. and A. Nautiyal (14 February 2019), [Addressing the financial services needs of MSMEs in Sub-Saharan Africa](#). GSMA.
- 47 The World Bank Group (2015), [Digital Financial Solutions to Advance Women's Economic Participation](#).
- 48 Higgins, D. et al. (2012), [Mobile Money Usage Patterns of Kenyan Small and Medium Enterprise](#). Innovations.
- 49 Beck, T. et al. (July 2018), [Payment instruments, finance, and development](#). Journal of Development Economics.

Figure 3

The perceived value of mobile money for MSMEs



Source: Pasti, F. and Nautiyal, A. (2019). [Mobile Money for Enterprise Customers: Addressing the financial services needs of MSMEs in Sub-Saharan Africa](#). GSMA.

The adoption of mobile money can also make it easier for MSMEs to register and operate in the formal economy, for example, by facilitating the tracking of sales and recording employee pay. Using mobile money can also substantially reduce the number of physical interactions with tax officials, which creates opportunities for bribes or other forms of corruption.⁵⁰ Allowing customers to make payments remotely via mobile money also enables MSMEs to expand their pool of customers and sell their goods and services more widely, especially in rural areas.⁵¹ By joining the mobile money ecosystem, MSMEs can perform financial transactions with other ecosystem participants, increasing their business opportunities and growing their distribution channels, for example, by selling online.⁵²

Finally, mobile money can help to formalise non-standard forms of employment by registering individuals as mobile money agents. Many agents and

merchants tend to be informal workers who use their personal mobile money accounts to earn more income. Agents are also becoming microenterprises with two to three employees, on average.⁵³ Mobile money providers are increasingly leveraging their networks to sign on individuals and businesses as formal agents and offer them wage-earning positions in the form of commissions. According to the GSMA's 2019 Global Adoption Survey, \$1.1 billion in commissions were paid directly to 1.4 million agents.⁵⁴

In sum, the uptake of mobile money among MSMEs makes this service particularly well positioned to facilitate their transition to the formal economy. The efficiency gains enabled by mobile money can help informal MSMEs become more productive and sufficiently profitable to cover the costs of entering the formal sector, while also increasing the opportunity costs of staying in the small-scale and less productive informal sector.⁵⁵

50 Loeprick, J. (2009). [Small Business Taxation: Reform to Encourage Formality and Firm Growth](#). The World Bank.

51 Simiyu, C.N. and M. Oloko (May 2015). [Mobile Money Transfer and the Growth of Small and Medium Sized Enterprises in Kenya: A Case of Kisumu City, Kenya](#). *International Journal of Economics, Commerce and Management*.

52 Naghavi, N. (2019). [Payments as a Platform: The Future of Mobile Money](#). GSMA Mobile for Development Blog.

53 Buri, S. et al., [Small Businesses and Digital Financial Services: Predictive Modelling and Segmentation for Market Sizing and Product Design](#). Mastercard Foundation and IFC.

54 GSMA (2020). [2019 State of the Industry Report on Mobile Money](#).

55 Jacolin, L. et al. (May 2019). [Informal Sector and Mobile Financial Services in Developing Countries: Does Financial Innovation Matter?](#) Banque de France.

Facilitating access to formal credit

According to the World Bank, MSMEs in developing countries consistently report that lack of access to finance is the one of the biggest obstacles to growth.⁵⁶ The IFC estimates that 65 million businesses, or 40 per cent of MSMEs in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of global lending to MSMEs.⁵⁷ In Africa, over 50 per cent of MSMEs are considered underserved, which represents a \$528 billion credit gap. These numbers would be even higher if they included the large number of informal businesses active on the continent.⁵⁸ It is also estimated that removing credit constraints for MSMEs would be associated with economic growth of up to four percentage points.⁵⁹

GSMA research in two Sub-Saharan African countries showed that nearly 60 per cent of respondents have working capital issues and struggle to manage cash flows. These difficulties were found to be the main reason for seeking loans. MSMEs with certain activities and business models, such as agriculture, also rely

on credit to relaunch their activities after off-peak periods.⁶⁰ Moreover, the COVID-19 pandemic is increasing financing needs of MSMEs. According to the OECD, among recently surveyed businesses, 70 per cent said they had financing needs after the outbreak of the virus.⁶¹

Lack of financial records is one of the main reasons that a large proportion of underserved populations are excluded from formal lending. When applying for a loan, MSMEs in the informal economy often have limited collateral and cannot convincingly prove their ability to repay.⁶² They might also be unable to provide a reliable form of identification to meet customer due diligence (CDD) requirements. For these reasons, many informal businesses resort to financing their operations through moneylenders, family and friends.⁶³ MSMEs can prefer these informal channels because they tend to offer greater flexibility and minimal guarantee requirements.⁶⁴ As seen in Figure 4, borrowing from informal sources is the predominant type of financing among informal business owners.

Figure 4

Borrowing among informal business owners



Source: Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

⁵⁶ The World Bank, [Small and Medium Enterprises \(SMEs\) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital](#).

⁵⁷ IFC (2017), [MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets](#).

⁵⁸ McKinsey Global Institute (September 2016), [Digital Finance For All: Powering Inclusive Growth in Emerging Economies](#).

⁵⁹ The World Bank, [Small and Medium Enterprises \(SMEs\) Finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital](#).

⁶⁰ Pasti, F. and A. Nautiyal (2019), [Mobile Money for Enterprise Customers: Addressing the financial services needs of MSMEs in Sub-Saharan Africa](#). GSMA.

⁶¹ OECD (20 April 2020), [SME Policy Responses](#).

⁶² G20/GPFI (2018), [G20 Policy Guide – Digitisation and informality: harnessing digital financial inclusion for individuals and MSMEs in the informal economy](#).

⁶³ Farazi, S. (2014), [Informal firms and financial inclusion: Status and determinants](#). Policy Research Working Paper No. 6778. The World Bank Group.

⁶⁴ Pasti, F. and Nautiyal, A. (2019), [Mobile Money for Enterprise Customers: Addressing the financial services needs of MSMEs in Sub-Saharan Africa](#). GSMA.

By digitising the economic activities of MSMEs, which are often cash-based, inconsistent and undocumented, mobile money providers can help create a qualifying credit score for MSMEs and self-employed entrepreneurs to start or expand their business in the formal sector.⁶⁵ Data generated from digital transactions and payments are increasingly being used to calculate credit scores, sometimes in combination with other sources of non-traditional data, such as social media. Such data enables potential borrowers to develop “reputation collateral” before they have received any loans from formal financial institutions.⁶⁶ In Kenya, one of the most mature digital credit markets among developing economies, 37 per cent of digital credit users report borrowing for short-term business needs.⁶⁷

Increasingly, mobile money providers are partnering with regulated financial institutions to offer digital credit services. According to the GSMA’s 2019 Global Adoption Survey, the number of mobile money deployments

offering credit has grown by 25 per cent. In June 2019, the value of digital loans processed by mobile money providers reached at least \$390 million globally. In addition, 29 per cent of respondents offered credit lines to their agents and 19 per cent loaned to their merchants. The wealth of mobile money transactional data is also helping to reduce non-performing loans by creating more accurate financial profiles. Research by MicroSave Consulting shows that between 2016 and 2018, non-performing loans in Kenya decreased by 20 percentage points for mobile money providers that had partnerships with banks.⁶⁸

The quality of credit checks for digital credit depends heavily on the quality and breadth of financial data.⁶⁹ This puts mobile money providers in a unique position to reduce information asymmetries between borrowers and financial institutions, to encourage responsible lending practices and to help MSMEs benefit from the opportunities created by convenient access to credit, especially those operating in the informal economy.⁷⁰



65 Klapper, L. (2017), [How digital payments can benefit entrepreneurs](#). IZA World of Labor.

66 Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

67 Totolo, E. (15 March 2018), [Kenya's Digital Credit Revolution Five Years On](#). CGAP Blog.

68 MicroSave Consulting (September 2019), [Making Digital Credit Truly Responsible: Insights from Analysis of Digital Credit in Kenya](#).

69 Gwer, F. et al. (2019), [Digital credit audit report: Evaluating the conduct and practice of digital lending in Kenya](#). FSD Kenya.

70 Mobile money providers recognise the various risks associated with digital credit services and are continuously working to improve their operations and guide their partners to mitigate existing and emerging risks and to maintain consumer trust. See: Lopez, M. (September 2019), [Digital Credit for Mobile Money Providers: A Guide to Addressing the Risks Associated with Digital Credit Services](#).

Enabling the growth of the formal sector

Mobile money can have an indirect impact on the informal economy by enabling growth in the formal sector through the adoption of digital payments and increased access to credit. For many MSMEs, opening a mobile money account might be the first time they have used formal financial services, and represents a key step in the transition to the formal sector.⁷¹ Higher productivity and profitability among formal businesses can also create employment opportunities, thereby shrinking the informal sector.⁷² The adoption of mobile money can have other positive effects in terms of financial inclusion. For example, digital payments via mobile money require employees to open accounts to receive their salaries and can incentivise consumers and suppliers to make digital payments.

The COVID-19 pandemic has highlighted the potential benefits of mobile money for MSMEs.⁷³ For example, to encourage cashless transactions in support of social distancing measures, several mobile operators

in Africa are temporarily lowering or removing mobile money transaction fees, and have increased transaction and wallet balance limits. These measures can help MSMEs manage their liquidity and ensure business continuity by enabling them to conduct business transactions remotely. Mobile money can also be used as a channel for MSMEs and individuals to access emergency support from governments, especially small businesses in the informal economy that are harder to reach through other channels. In Togo, the government introduced the social safety scheme Novissi as part of its COVID-19 response, which uses mobile money to deliver cash transfers to all Togolese informal workers whose incomes have been disrupted by the outbreak.⁷⁴ In Peru, to reach additional beneficiaries via government-to-person (G2P) payments, authorities are expanding the types of financial service providers that can deliver payments to include private banks and mobile money providers.⁷⁵

The impact of COVID-19 on cross-border trade in the informal economy

Another important way the COVID-19 crisis is affecting the economy is cross-border trade.⁷⁶ Lockdowns, social distancing measures and border closures are causing income and job losses for many individuals and MSMEs engaged in informal cross-border trade (ICBT).⁷⁷ In many African countries, ICBT is a major form of economic activity. It is estimated that a substantial share (30 to 40 per cent) of Africa's regional trade is informal, and that four times as many cross-border traders are likely to be operating outside the formal economy than inside it.⁷⁸ Women account for up to 70 per cent of informal cross-border traders in Africa.⁷⁹ Research by UNCTAD has found that trade is often the main or even sole source of income for African cross-border traders, especially women, and that access to finance is one of their most pressing challenges.⁸⁰

As a result of COVID-19 restrictions on movement across borders and the suspension of productive

activities, many traders are missing out on income opportunities and suffering losses from unsold or perished goods. This is putting the livelihoods of traders, especially women, at risk and having broader negative spill over effects. For example, hampering their ability to contribute to food security in their communities, which often rely more heavily on informal channels than official distribution.

As economic prospects worsen and demand continues to slow, cross-border traders will be forced to rely on their limited capital to survive, which will make it even more difficult to recover when activities reopen.⁸¹ The COVID-19 crisis presents an opportunity to reflect on the underlying factors hindering small traders from engaging in formal cross-border trade, and to accelerate the adoption of digital solutions that can help these traders survive, thrive and drive greater trade and regional integration.

71 Scharwatt, C. and Estrada, R. (26 May 2016), [Mobile Financial Services and MSMEs: What are the benefits of encouraging the use of mobile financial services among MSMEs?](#) GSMA Blog.

72 Jacolin, L. et al. (May 2019), [Informal Sector and Mobile Financial Services in Developing Countries: Does Financial Innovation Matter?](#) Banque de France.

73 See [Mobile Money Recommendations to Central Banks in Response to COVID-19](#) for short-term measures that can limit the spread of the virus, protect vulnerable user segments of the population and ensure the continuity and sustainability of mobile money services.

74 Gnassingbé, F.E. (12 April 2020), [Mobile cash is the best way to help Africa fight Covid-19](#), *Financial Times*.

75 Rutkowski, M. et al. (31 March 2020), [Responding to crisis with digital payments for social protection: Short-term measures with long-term benefits](#), *World Bank Blog*.

76 Hartzenberg, T. (9 April 2020), [The Impact of Covid-19 on Africa's Trade and Integration](#), *Italian Institute for International Political Studies*. According to the World Trade Organisation (WTO), 80 countries and separate customs territories have introduced temporary export prohibitions or restrictions as a result of the COVID-19 pandemic. Some countries have also introduced measures at the border that are slowing trade and reducing supply chain efficiency. See: WTO (23 April 2020). [Export Prohibitions and Restrictions](#). *Information Note*.

77 Hartzenberg, T. (9 April 2020), ["COVID-19 in Africa – some reflections on trade matters"](#), *Trade for Development News*.

78 Jarreau, J. et al. (26 September 2018), [Economists are severely underestimating the amount of trade between African countries](#), *Quartz Africa*.

79 ILO (14 April 2020), [The impact of the COVID-19 on the informal economy in Africa and the related policy responses](#), ILO Brief.

80 Zarrilli, S. and Lopez, M. (29 April 2020), [Leveraging digital solutions to seize the potential of informal cross-border trade](#), *UNCTAD Blog*.

81 Zarrilli, S. and Linoci, M. (8 May 2020), [What future for women small-scale and informal cross-border traders when borders close?](#) *UNCTAD Blog*.

The role of policymakers

A vibrant and growing MSME market is vital to achieving long-term economic growth and creating sustainable income-generating opportunities for growing populations in emerging markets. There are several actions policymakers can consider to encourage the use of digital financial services among both formal and informal MSMEs.

- **Introduce subsidies and other tax inducements** to encourage MSMEs to adopt digital financial services. This can incentivise informal businesses to register to receive these financial incentives and meet customer demand for electronic payment receipts. For example, in South Korea, wage earners are allowed to claim tax deductions for purchases made using digital payments. Research suggests that these reforms have helped increase the number of formal financial transactions.⁸²
- **Prioritise the roll out of use cases**, such as transit and utility bills, which can help demonstrate the utility, safety and trustworthiness of digital payments. Other examples include issuing social benefits or salaries via bulk G2P payments. This could enhance trust in the system, drive uptake and reduce administrative costs for the government while creating transparent and auditable records of public funds.⁸³
- **Encourage MSMEs to build a digital record** by raising awareness of how data from the use of mobile money can be combined with other information for creditworthiness assessments. This should be accompanied by programmes to **build financial literacy** and **train business owners to use digital financial services**.
- **Invest in digital financial infrastructure** and **reduce sector-specific taxes** to encourage mobile money providers to make greater investments in the deployment of mobile money services. For example, relaxing regulatory barriers and allowing flexibility during the current global pandemic can help mobile operators support their customers by waiving transaction fees and increasing wallet balance and transaction limits, and to restore transaction fees when the worst of the pandemic is over.
- **Collaborate with the private sector** to build a market-based, safe and efficient payments system. This requires a robust business model with viable pricing that does not prevent merchants, particularly small and informal businesses, from making transactions.
- **Develop consumer and data protection frameworks** that promote innovation and build trust and confidence in adopting and using digital financial services. These frameworks should be flexible enough to adapt to the evolving nature of digital technologies, as well as to unforeseen events like the COVID-19 pandemic. Other policies, such as establishing a national digital identification system, can also help MSMEs create a digital identity with the government and simultaneously adopt digital payment tools.
- **Develop a regulatory framework that supports cross-border payment solutions** for trade flows, e-commerce and remittances, and that facilitates the deployment of solutions to digitise the activities of MSMEs.

⁸² Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#), The World Bank.

⁸³ GSMA (June 2019), [Championing a Unified Digital Person-to-Government \(P2G\) Payments Strategy: Lessons from Orange P2G Operations in Africa](#).

Conclusion

As the leading payments platform across many developing countries, mobile money can help to achieve SDG 8 by enhancing the potential of MSMEs to stimulate local economies, support employment and reduce inequalities.

Mobile money is uniquely positioned to help MSMEs transition to the formal sector because a large number of formal and informal enterprises are already using mobile money services for their daily business activities. As the industry evolves, so does the potential of mobile money to drive financial inclusion, growth and productivity for MSMEs in the informal economy. In doing so, mobile money can enable the transition of informal firms to the formal sector, and enhance the growth of formal businesses.

The challenge of driving uptake of digital payments among MSMEs is creating value-added digital services that cash cannot compete with. The mobile money industry has taken on this task and has already created various successful and compelling value propositions for MSMEs. According to the GSMA's 2019 Global Adoption Survey, 74 per cent of respondents offer additional tools that help with the day-to-day management of a business, such as customer analytics, inventory management and accounting.

Continued research into the potential of mobile money to reduce informality can provide a better understanding of the financial needs of informal MSMEs and their attitudes towards digital financial services. This, in turn, can improve products and services and highlight areas in which to strengthen legal and regulatory frameworks for formalisation. Seizing the potential of digital financial services to formalise MSMEs requires addressing other challenges as well, such as strengthening digital financial infrastructure and developing enabling legal and regulatory frameworks to provide the right incentives for informal businesses to use these services.⁸⁴

The critical contribution of MSMEs to broader socio-economic objectives makes them a key priority area for achieving the SDGs.⁸⁵ Job creation through MSMEs will often directly benefit the poor and vulnerable, including women, rural populations, migrants, the least educated and the poor, thereby directly reducing poverty, increasing income and having positive long-term impacts on household investments in education and health. The formalisation of MSMEs, especially cross-border traders, small-scale farmers and women entrepreneurs, can also boost regional trade. Increasing the size of the formal economy could generate more tax revenues, strengthen protections for workers and the environment, and improve financial inclusion.⁸⁶

The informal economy is not a marginal phenomenon, but a sector where most working men and women sustain their livelihoods. In Africa, measures crucial to slowing the spread of COVID-19 are having a direct cost for over three-quarters of the population who depend on the informal economy.⁸⁷ The global pandemic is also threatening the important role MSMEs can play in economic recovery. Mitigating the vulnerability and exposure of informal workers and businesses is urgently needed to minimise the ripple effects of the pandemic.

As the leading payments platform across many developing countries, mobile money can help to achieve SDG 8 by enhancing the potential of MSMEs to stimulate local economies, support employment and reduce inequalities. The economic uncertainty and increasing unemployment associated with the COVID-19 pandemic makes seizing the potential of mobile money to enable the formalisation of MSMEs an even more significant opportunity to generate economic growth and mitigate the systemic effects of this crisis on the world economy.

⁸⁴ Klapper, L. et al. (2019), [Leveraging Digital Financial Solutions to Promote Formal Business Participation](#). The World Bank.

⁸⁵ UN Department of Economic and Social Affairs. [Micro-, Small, and Medium-sized Enterprises \(MSMEs\) and their role in achieving the Sustainable Development Goals](#).

⁸⁶ Liu, C.K. [Policy Brief: The Role of Micro-Small and Medium Enterprises in Achieving SDGs](#).

⁸⁷ ILO (2020), [The impact of the COVID-19 on the informal economy in Africa and the related policy responses](#). ILO Brief.

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