



## Financial Inclusion in Africa: Is the Informal Sector Still Relevant?

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Time: 9:30 – 10:30 am (EDT)

### MODERATOR

Diana Dezso, *Itad*

### SPEAKERS

Sukhwinder Arora, *Savings at the Frontier / Oxford Policy Management*

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### QUESTIONS

**Q: Is it possible that many people are using ISMs who were not included in the survey sample, and that ISM use is greater among underrepresented groups?**

A: The SatF programme has identified a vast range of informal savings mechanisms with varying degrees of facilitation in Ghana, Tanzania and Zambia. A survey question may not capture the depth and breadth of all approaches to informal savings. However, from our analysis of the data there is nothing to suggest that Findex is missing the kind of people we see as being involved in ISMs and other national survey sources show similar trends when they are repeated over the same timescales. The Findex survey makes a serious effort to capture broad trends across the globe e.g. 2017 survey covered almost 150,000 people in 144 economies-representing more than 97 percent of the world's population. More details on questionnaire and methodology at <https://microdata.worldbank.org/index.php/catalog/3324/study-description>

**Q: Were you able to tell anything from these results on the savings behavior of women vs. men, youth vs. adults, or urban vs. rural?**

A: Yes detailed analysis is possible and varies across contexts. The analysis provides useful insights e.g. while both women and men have both rapidly expanded use of ISMs and FFIs, percentage of women using ISMs is generally (but not always) higher than men; for both greater increases are in ISMs+FFI and

minor growth in ISMs usage only; in all three countries, 25-34 years old young adults are doing better than men in mixing ISMs and formal accounts. It is also likely that more self-promoted ISMs are in peri-urban/ urban areas and these receive much less attention either from NGOs or formal financial institutions.

**Q: Sukhwinder, do you have data on “ISM + Digital” – that is, nomads-in-groups?**

A: We note the rapid expansion of digital nomads i.e. using digital financial services but not really using an FFI account and this does account for significant growth of ISMs+Formal although further detailed analysis will be needed. However for any one country that will require bigger sample sizes than the Findex survey provides.

**Q: What about the definition of formal financial inclusion looks at the percentages of people included in the formal FS?**

A: As explained during the webinar, formal financial services include traditional banking, mobile banking as well as those using digital accounts but not really using a formal account at a Bank or another central bank regulated financial institution.

**Q: Would you have any insights, experience or opinions of informal/formal savings groups for micro- and small-sized business owners?**

A: We have not done this level of analysis but the Findex data can be sorted for income from self-employment. From our work we know that many micro and small business owners participate in groups and many of the groups include at least a few members who invest in trading or other micro/small businesses.

**Q: Our program works with the most vulnerable population. When we wanted to start digitization of savings groups operations, we met the challenge of cash out fee from telecoms and banks. Any hint on how this has been handled in other programs?**

A: This is a real issue especially at the initial stages when the volumes/ values transacted are very small, the use case is un-proven and it is very hard to negotiate with telcos who are dealing with large number of transactions. From the customer perspective, if there are significant cash in and cash out fees (especially as a proportion of small values transacted), there is a strong incentive for the customers (ISM members) to deal in cash. The options for program managers are to – join an existing arrangement where scale has been reached and fees have been negotiated or to develop a clear business case with prospects for significant scaling up and explore who can cover part of the costs in the short term.

**Q: What is the real attraction for the average person for formal finance?**

A: As we noted in our recent blog (see <https://www.findevgateway.org/blog/2019/sep/does-informal-finance-still-matter> ) “it is a real challenge for FSPs to replicate what ISMs can do on their own. However, FSPs can also provide many financial services which ISMs can’t, such as security of surplus cash, saving anonymously, saving larger lump sums and/or over longer periods of time, bigger and longer-term business loans at competitive interest rates, and micro-insurance.”

**Q: Did you find different results for different types of savings groups (VSLAs vs. SILC)?**

A: This level of analysis is not possible with Findex data.

**Q: Has regulation worked for the formal sector for the poor? Is informal finance at risk without regulation?**

A: Many people think that formal finance is good and informal is bad. In many contexts especially for poor/low income people, the experience is often the reverse i.e. the offer from informal sector is far better than the formal (so far) and this is demonstrated by how and where they vote with their money and time. There are risks for poor savers in both formal and informal sector – context matters. As governments and financial sector deepen their engagement with Savings Groups, it is useful for regulatory authorities to consider the potential benefits and unintended consequences of regulation. See a recent SEEP publication “Savings Groups and Consumer Protection: Government Regulation, Rules and Guidelines”

See <https://seepnetwork.org/Resource-Post/Savings-Groups-and-Consumer-Protection-Government-Regulation-Rules-and-Guidelines>

**Q: Have you seen any strategy that increases trust using the digitalization of the saving mechanism?**

A: Trust is in action (not just in the promise) and that is why many ISMs often have an action audit where the money collected is distributed to contributing members. For digitization, messages confirming transaction (preferably in local language), same real time information from different touch points (e.g. SMS, agent, call centre and branch) and access to funds when needed seem to be key building blocks of building trust.