FINANCIAL INCLUSION STRATEGY (FIS) PEER LEARNING GROUP

SME FINANCE (SMEF) WORKING GROUP

BRINGING THE INFORMAL SECTOR ONBOARD

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GUIDELINE NOTE

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People carrying fish from the boats to the beach on Tanji, The Gambia, West Africa. (Photo by mariusz_prusaczyk/iStock).

INTRODUCTION

With over two billion people globally working in the informal sector, any plan for financial inclusion must include the informal sector to achieve sustainable development, poverty reduction, and decent work.

Financial inclusion policymakers have an active and consequential role to play in identifying opportunities and designing policy mixtures to engage with dynamic informal sector stakeholders within their countries. There is a diverse range of experiences relating to the intersection between financial inclusion and the informal sector, which hold lessons for peers globally. These experiences and lessons form the architecture of this Guideline Note.

The informal sector is a broad term, with differing definitions in each country and depending on the specific socioeconomic context. The most widely used definition of the informal economy is that of the International Labour Organization (ILO), which uses it to denote:

> “All economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements.”[1]

In many countries, the informal sector dwarfs the formal sector in terms of economic activity, employment, and income:

89.9% An estimated 89.8 percent of workers in **low-income** countries work in the informal economy,

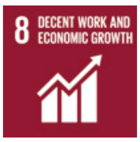
83.7% in **lower-middle-income** countries,

52.6% in **upper-middle-income** countries.[2]

Street vendors, hawkers, small-scale shops, drivers, domestic workers, waste pickers, smallholders, construction workers, artisanal miners, fisherfolk, small-scale loggers, charcoal producers, brick kiln workers, and home-based garment workers comprise some of the many occupational groups that billions of people work in across the world’s informal economies. It is also important to note that women dominate the informal economy[3] and those active in the informal sector overwhelmingly lack adequate social and legal protections, with pronounced decent work deficits, few or no rights at work, unsafe and unhealthy work conditions, long working hours, and small or undefined workplaces.[4] Informal workers and enterprises often have lower levels of skills and productivity, alongside the lack of access to information, markets, finance, training, and technology.[5] **Informal sector workers and Micro, Small and Medium-sized Enterprises (MSMEs) also comprise much of the world’s unbanked.**

FINANCIAL INCLUSION OR FORMALIZATION?

The Sustainable Development Goals (SDGs) include promoting formalization (SDG 8) as a proxy for decent work. This is linked to increased productivity, better jobs - including for vulnerable populations, women, and youth - and bolstered protection of rights. Policymaking responses to the informal sector (encompassing both informal workers and informal MSMEs) mainly involve efforts to incentivize formalization. Yet while actors, including the ILO, have reasserted the need for formalization, they also note that a focus on formalization alone may sometimes be too limited or even harmful.[6] Informality and formality are not always clear-cut binaries. Informal workers and MSMEs may not be registered or in regulatory compliance with all authorities but may be “formal” in some legal or regulatory areas, just as formal workers or enterprises may have informal elements of their work.



1 The informal economy “does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties” ILO (2002). Resolution and conclusions concerning decent work and the informal economy. 1 June 2002.

2 ILO (2020). World Employment and Social Outlook Trends 2020.

3 Lota Bertulfo, 2011, Women and the informal economy. Available at: https://www.dfat.gov.au/sites/default/files/women-informal-economy-lota-bertulfo.pdf

4 ILO (2020). World Employment and Social Outlook Trends 2020.

5 ILO (2015). Formalization of the informal economy: Area of Critical Importance. Geneva: ILO.

6 WIEGO (nd.). Rethinking Formalization.

The Nepal Financial Inclusion Authority's view is that while financial inclusion and formality are not equivalent; they are strongly connected:

> "If someone comes to microfinance, maybe we should consider them as partially formal, as they are at least documented in microfinance institutions. The Central Bank licenses the microfinance institution. We have a large member base of 4.6 million members in microfinance and 2.8 million borrowers. The microfinance institutions have to send the records for all these to the national credit information center."
>
> **Prakash Shrestha, Nepal Rastra Bank**

This Guideline Note places itself at the nexus between the two. Indeed, these gradations of formality and informality demonstrate the informal sector's complexities and the need for concerted, well-thought policy responses to build more inclusive societies.

Increased financial inclusion and all the benefits it brings is decisive in supporting:

(a) **on a macro-scale,** the broader economy[7] and thus, conditions for formalization and

(b) **on a micro-scale,** informal sector workers and MSMEs access to finance that are integral for their growth, development and improved conditions.

Bringing the informal sector onboard then recognizes the work that can be conducted with the informal sector and its different, constitutive parts to foster financial inclusion, to allow those working informally to derive multiple benefits while also encouraging them on their path towards a broader inclusion in the formal system. This note discusses how policymakers and practitioners can engage with the informal sector (informal workers and MSMEs) to increase its access to formal finance, which might not immediately result in formalization altogether but may eventually incentivize it.

HOW TO USE THIS NOTE: PEER-TO-PEER LEARNING

This Guideline Note was designed for financial inclusion policymakers and practitioners. It is a practical knowledge product on how financial sector policymakers and regulators can better contribute to the integration of the informal economy in the formal financial ecosystem, with direct impacts on poverty reduction, sustainable and inclusive growth, as well as for financial inclusion purposes. It can leverage financial inclusion tools to tackle some of the problems faced by a large portion of the world's population. Based on interviews with key informants in seven countries,[8] as well as global experts, it presents real-world experiences to allow the community of policymakers and practitioners to learn from developing and emerging economies.

This aligns with AFI's vision to be a platform for peer-learning and cross-sharing of experiences by financial inclusion policymakers and regulators, while responding to the need for peer-to-peer learning voiced by many of its members.

> "We got a lot of ideas from other countries' experiences and I think we can do some policies like other countries… We can put together experiences from different countries on taxes, e-wallets, payments, infrastructure, the role for the cooperatives, e-money providers, etc. – on how we can put together a unique solution for including the informal sector and also to improve the formal economy."
>
> **Otto Boris Rodriguez, Banco Central de Reserva de El Salvador**

7 "It is a way of channelling finances that have been outside of the system, moving them into the system." Central Bank of Angola, describing the benefits of the Bankita simplified accounts program which is mainly accessed by people working in the informal sector.

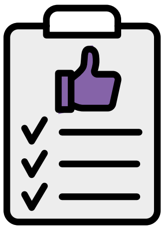
8 KIIs were conducted with AFI members The Philippines, Angola, El Salvador, Mozambique, Nepal, Ecuador and Tunisia. Further documentation was received from the Solomon Islands and the Gambia. Additional KIIs were conducted with GSMA and the ILO.

THE FOLLOWING GUIDELINE NOTE'S THEMES HAVE EMERGED FROM THE EXPERIENCES AND THE KNOWLEDGE OF GLOBAL EXPERTS:

1. COORDINATING POLICIES
2. DIGITAL ONBOARDING
3. DESIGNING AND REGULATING FOR THE INFORMAL SECTOR
4. INCLUSIVE POLICIES AND PROGRAMMES FOR THE INFORMAL SECTOR
5. FINANCIAL COOPERATIVES
6. BETTER DATA MANAGEMENT

LESSONS LEARNED

1. COORDINATING POLICIES



Successful implementation of financial inclusion policies requires buy-in and coordination across various government arms and non-government stakeholders.[9] Although increased access to formal finances can accelerate formalization, it is only part of a more comprehensive process for better engagement by government and stakeholders with the informal sector.[10]

All of the multiple avenues towards formalization need to work in tandem with an integrated strategy and policy coherence.[11] Coordination on policies and action is a key ingredient for the successful onboarding of the informal sector. It also faces numerous challenges, including fragmentation and the lack of communication between different governance bodies and external informal sector, and financial inclusion stakeholders. A common experience amongst financial inclusion policymakers has been the difficulty of working across different government arms, including between different ministries or departments, regulatory bodies, and legislatures.

The **Banco Central de Reserva de El Salvador** described the challenge as a puzzle with many different pieces. These pieces include different Ministries such as the Ministry of Finance, the Regulatory Agency for the Financial System (Superintendencia del Sistema Financiero), and Congress (the legislature), with political decisions being outside the hands of the Central Bank and financial inclusion policymakers. This leads to gaps in the formulation and implementation of regulations, policies, and programs.

> "Without coordination we cannot have an ecosystem that includes the informal sector into initiatives like e-wallet... The different institutions are like pieces of a puzzle, and we need dialogue and coordination to put together the solutions."
>
> **Otto Boris Rodriguez, Banco Central de Reserva de El Salvador**

The same sentiment is echoed by the Bangko Sentral ng Pilipinas, which notes a lack of end-to-end coverage in terms of regulations impacting consumers and businesses. Deficits also arise in coordination with relevant actors outside of government, such as informal sector associations, unions, and non-governmental organizations (NGOs).

How to best link up policy areas that fall under different government purview at the same time? Despite the challenges of harmonizing actions relating to the informal sector, experiences on successful coordination abound.

The first step is to formally acknowledge the informal sector's importance. In **Ecuador**, one of the main pillars for successful policymaking regarding the informal sector has been its recognition in legal and regulatory frameworks with an all-of-government approach. Ecuador includes the informal sector, called the "Popular and Solidarity Economy" (Economía Popular y Solidaria), as part of their constitution alongside the private sector and non-governmental organizations (NGOs).

9 AFI Guideline Note on Coordination

10 GSMA Key Informant Interview

11 The ILO outlines seven avenues that require coherent action across all of them. These are (1) Growth strategies and quality employment generation; (2) Regulatory environment, including enforcement of international labour standards & core rights; (3) Organization, representation and social dialogue; (4) Equality: gender, HIV status, ethnicity, race, caste, disability, age; (5) Entrepreneurship, skills, finance, management, access to markets; (6) Extension of social protection, social protection floors and social security systems, and; (7) Local (rural and urban) development strategies. ILO (2015). Policy Responses to the Informal Economy. ILO National Employment Policies: A guide for workers' organizations.

“

These informal actors are an integral part of our economy according to the constitution… That’s the way you can work around this gap from the informal to the formal. All the ministers and public policies recognize the informal sector. So, you have a financial plan for them, a strong national cooperative sector, governmental policies, and institutions where their goal is to increase their abilities and capacities in their production. So that is the best, big step, to recognize the informal sector in the law.”

Jorge Moncayo, Superintendencia de la Economía Popular y Solidaria de Ecuador

Beyond this recognition, the second step involves the cooperation between many stakeholders who do not ordinarily work hand-in-hand on this topic. The stakeholders necessary for effective implementation of the financial inclusion agenda overlap with those responsible for informal sector engagement, including a range of ministries, the private sector, and regulatory bodies.

In **Angola**, the Banco Nacional de Angola (BNA) coordinates with multiple Ministries through the Bankita program for low-income bank accounts.[12] The Ministry of Justice is involved in the cross-cutting financial inclusion and informal sector issue of Identification Documentation (ID). Links have also been created with the ministries responsible for youth and women, with whom protocols were signed to close the youth and gender gap in financial inclusion. Meantime, actions are being put in place to create a payment ecosystem to accommodate other payment initiatives. Encouraged by the successes of the newly created linkages, the BNA is now commencing communication with the telecommunications regulators regarding mobile banking.

“

This has been a valuable lesson for us. If we had not started with Bankita, we would not have built these relationships with other institutions. The campaign has helped make us all more knowledgeable and learn from each other. ”

Teresa Pascoal, Banco Nacional de Angola

To further support achieving financial inclusion objectives, such as the Bankita program, the Banco Nacional de Angola is implementing other initiatives; a microfinance project is in place as well as a regulatory framework and ecosystem to accommodate mobile money accounts. The microfinance policy, which includes provisions for MSMEs, will encourage banks to diversify their clientele further to include the informal sector, which will be of particular benefit to women and the youth. The introduction of competition through microfinance institutions should also compel banks to engage with the informal sector more as they compete for market share and customers.

The Philippines also offers examples of best practices in terms of onboarding small businesses and facilitating cooperation between stakeholders:

> **The Barangay Micro Business Enterprise (BMBE) Act of 2002** is a law that supports the formalization of microbusinesses in the country. Micro enterprises can receive benefits such as tax exemption and market assistance, among others. To facilitate delivery of credit, the law also covers special credit windows targeted for micro enterprises, as well as incentives for financial institutions offering loans to micro enterprises.

> **The Financial Inclusion Steering Committee (FISC)**, the inter-agency body tasked to provide guidance and oversight in the implementation of the Philippine National Financial Inclusion Strategy (NFIS), is now a 20-member strong inter-agency body. Along with digital finance, the FISC also considers MSMEs and value chain finance as a focal area for NFIS initiatives. To further integrate focus on the financial inclusion of women, the Philippine Commission for Women, an agency focused on women’s empowerment, protection and equality, was likewise made a part of the FISC in 2020.

The Banco de Moçambique has set up coordination mechanisms for data sharing on financial inclusion, including data relating to the informal sector. There exists a bilateral agreement between the Banco de Moçambique and the Mozambique National Institute of Statistics. They have conducted several studies with other research institutes and NGOs fostering the financial inclusion agenda through loans and savings groups.

12 Initiated in 2012 and targeted at people earning low income earners, many of whom work in the informal sector, the program uses a graduation method where once a client reaches the threshold amount of 250,000 Angolan Kwanza (approximately USD 400), the client is then shifted to a conventional account. The Bankita accounts are tailored to low-income earners, almost always those whose livelihoods are in the informal economy.

The role of savings groups is significant for women's financial inclusion and bring women into formal services. This is notable as the gender gap in Mozambique is currently 18 percent.[13] The Bank continues to expand its agreements and cooperation to gain needed information for creating informed and evidence-based policies.

WHAT WORKS IN POLICY COORDINATION?

Financial inclusion policymakers have often been unable to pursue desired changes regarding the informal sector because of the multiple issues that fall outside the direct purview of financial inclusion departments. However, the important role financial policies play for the informal sector demonstrates the need for multi-stakeholder coordination. Ecuador's whole-of-government approach serves as a constant reminder of the need for concerted action.

Respondents agreed that mobilizing actors to build bridges between policymakers and the informal sector should be a high priority. Targeted policies for disadvantaged groups, such as women, youth, rural workers, can only be discussed and devised jointly by a wide range of relevant actors. Coordination structures should include the voices of informal workers and informal MSMEs, through unions and informal economy associations. The examples of partnership with women's groups and other links to the informal economy show promise for this collection of diverse views that are essential to understanding informal sector needs and demands. Alongside this, continued engagement with the private sector could preclude silos forming and enhance multi-stakeholder engagement with the informal sector.

> "We need to involve all stakeholders: governments, banks, but also cooperatives and the private sector. At our Central Bank, we have made great progress by forming these links."
>
> **Otto Boris Rodriguez, Banco Central de Reserva de El Salvador**

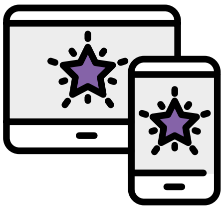
An effective means to galvanize coordination is through implementing joint programs involving both government bodies and external stakeholders. With a concrete and shared objective, the necessary partners and the actions required of them become more readily apparent. The Banco Nacional de Angola's lessons on coordination from the Bankita program is a prominent example. Through the program, relationships were developed with the Justice Department relating to ID, the Ministry of Social Action, Family and Gender Promotion for the work on women working in the informal sector, and the Ministry of Youth and Sports to engage young people. These partnerships are a basis for further work with the diverse segments of the population working in the informal sector.

Interviewed stakeholders found that coordination structures within National Financial Inclusion Strategies (NFIS) can be a catalyst for targeting the informal sector in particular. [14]

> "The NFIS committee is the coordination structure. It is chaired by the Central Bank. The Deputy Chairperson is a CEO of the insurance sector. Permanent members include the banking association, the capital markets, the stock exchange. There are representatives of the National Statistics Institute, the Telecommunications Regulatory Agencies, mobile money providers. Many other government stakeholders are part of the working group. All these actors agree on a strategy for financial inclusion, and this includes the informal sector. Agriculture, for instance, plays a role here – there are actions under the strategy focusing on rural finance to ensure the agricultural sector has better access to finance. We all agree on a plan to improve the provision of credit, savings, and payment services to farmers, SMEs, the low-income population that work in the informal sector."
>
> **Sandra Bila, Banco de Moçambique**

13 Findex 2017
14 AFI (2019). Guideline Note 35: Effective Stakeholder Coordination for National Financial Inclusion Strategy Implementation.

2. DIGITAL ONBOARDING



All AFI Informal Sector sub-group members expressed a desire to better understand how policymakers can use digital platforms and tools to engage with the informal sector. The digital agenda relevant to financial inclusion policymakers regarding the informal sector includes mobile money, e-wallets, and digital platforms for engagement.

Digital tools have the potential to create far-reaching positive change for the informal sector, supporting the financial inclusion of informal workers and informal MSMEs, with positive implications for income, business expansion potential, and efficiencies. To some, they might be the only option due to the very nature of their work: female market and street vendors in Angola find it difficult to leave their stalls to visit a bank that may be long distances from where they work, and which are not open before or after their selling hours. In contrast, mobile operators are common within the markets themselves. In fact, many of the key informants consulted for this note viewed mobile money as particularly vital.

> “One of the major barriers to formalization is access to financial services. That’s the key thing that mobile money can address. Once financial services are open, [those in the informal sector] don’t need a credit history or credit record [with a history of transactions]. Mobile money acts as a payment service. Then you can begin to unlock other fancy services. Mobile money helps you expand your business and then, you can formalize.”
>
> **Killian Clifford and Mariana Lopez, GSMA**

If informal sector MSMEs operate solely on cash, it usually precludes building transaction histories that may potentially be used to access loans to help expand businesses. Burgeoning digital tools and mobile money can offer ways for informal MSMEs to build these transaction histories as a first step to access more complex financial services such as credit. Indeed, mobile money has been a primary driver for increasing financial inclusion in **Mozambique**. It is accessible to most of the population, including those who do not live in the proximity of a brick-and-mortar banking option, with a simple process for opening accounts and no requirements for initial minimum deposit amounts. Low-value transactions are possible at little cost. This is a key explanation behind the financial access inroads in remote rural areas of the country. The 2019 mid-term review of the Mozambique National Financial Inclusion Strategy (NFIS) and the 2019 FinScope study revealed expanding financial access rates since 2016 that are attributed to mobile money expansion.

It is important to note however, that the introduction of digital tools and mobile money will not within themselves increase women’s financial inclusion. In fact, there is evidence that without a holistic approach it can actually increase the gender gap, as men have higher opportunity levels to use these new products and services. For digital financial services to be effective for women, youth, displaced peoples and other vulnerable segments of the population, any introduction of digital services needs to be done in conjunction with appropriate tiered ‘Know Your Customer’ (KYC) requirements, to ensure those with less access to formal identification documents can still access products and services. There also needs to be public awareness and financial and digital literacy and education campaigns to support people with the relevant skills to use these new products and services. Lastly, but in some ways most importantly for women, there needs to be work undertaken with male community leaders to support the removal of cultural and societal barriers that may stop women from being able to engage with these opportunities. Without this holistic approach there is a risk that women will be further left behind and the gender gap can grow.

> “When there was no m-pesa, m-cash, or e-wallet, people could only pay in cash. This has definitely contributed to the financial inclusion of the informal sector into a more formal way of operating.”
>
> **Sandra Bila, Banco de Moçambique**

One current hurdle for further expansion is the lack of multilateral interoperability between different mobile money services. The interoperability challenge requires further coordination with the Mozambican telecommunication’s regulatory bodies, a lesson for wider policymaking audiences. Regulatory barriers remain common. As noted by **GSMA** counterparts, in many countries, the lack of proper licensing regimes prevents mobile network operators from expanding online payment services. This hampers the potential of mobile payment solutions, which is in high demand in the informal sector in countries such as **El Salvador.**

> “
> We do not have a legal framework for digital technology. The private sector cannot move forward to meet demand because the laws are not in place. The e-wallet could be such a powerful tool for us here at the Central Bank. It could help the economy recover from the pandemic while fostering the inclusion of the informal sector. ”
>
> **Otto Boris Rodriguez, Banco Central de Reserva de El Salvador**

Finally, as observed by the Bangko Sentral ng Pilipinas, a lack of financial inclusion can hinder potential business in the burgeoning digital commerce space. Vendors on some digital platforms need to have accounts linked to specific banks – those without the needed bank link will find themselves unable to withdraw their earnings. In response, under the guidance of the Central Bank, the payments industry launched the national Quick Response (QR) code standard to promote the adoption of digital payments among small businesses, including market vendors. The digital merchant payments (P2B) effort supports the Ministry of Trade and Industry (DTI) in its ongoing review and enhancement of the national e-commerce roadmap, and the Central Bank’s Digital Payments Transformation Roadmap (DPTR).[15]

WHAT WORKS IN DIGITAL ONBOARDING?

Intelligently designed gender-sensitive regulatory frameworks that support digital finance, including mobile money and e-wallets, will foster their uptake. There are multiple components of these regulations and programs, including the need to build consumer trust and protection in digital financial services. At the same time, regulations should be targeted and supportive of digital growth to harness its power to help informal sector workers and MSMEs gain access to needed financial services. Burdensome regulations, including taxes on mobile money circulation, may result from a misunderstanding of the informal sector dynamics and the role of digital finances, and should be avoided.

A variety of countries have overcome this barrier and now have fast-expanding digital financial services, many that cater directly to the large informal sector. East African countries, including global leaders such as **Kenya**, continue to share lessons and best-practice on supporting digital innovations in the financial sector. Beyond **East Africa**, other countries with rapidly expanding and dynamic digital landscapes are also involved, including **Bangladesh**[16] and **Ghana**[17]. Even in countries with nascent digital finance development, there are experiences with challenges and gains that can be learned from and integrated into different country strategies.

Mobile money policy research and advocacy are also increasing. The GSM Association (GSMA), an industry organization representing the interests of global mobile network operators, has conducted a series of studies on the potential of mobile money for the informal sector. The GSMA 2020 article Mobile Money, Driving formalization and building the resilience of MSMEs, outlines a number of recommended actions that policymakers can take to support the uptake of digital financial services among both formal and informal MSMEs.[18] These include:

- Introducing subsidies and other tax inducements for the adoption of digital financial service.
- Prioritizing the rollout of use cases, such as transit and utility bills.
- Encouraging MSMEs to build a digital record, which can then be used for further financial access.
- Developing consumer and data protection frameworks to build trust in the mobile money system.
- Collaborating with the private sector to build a market-based, safe, and efficient payments system.
- Designing a regulatory framework that supports cross-border payment solutions to facilitate trade and remittances.

15 A technical working group was inaugurated on 23 July 2020 co-led by the BSP and DTI; with Better Than Cash Alliance (BTCA) as advisor and members from Philippine Payments Management, Inc., e-commerce players, payment service providers and aggregators, retail and merchant associations, and fast-moving consumer goods (FMCG) companies.

16 Navis, Kyle (2019). And the World Leader in Mobile Money Adoption is… (Not Where You Think). Center for Global Development.

17 Ozyurt, Selin (2019). Ghana is now the fastest-growing mobile money market in Africa. Quartz Africa. July 9, 2019.

18 GSMA (2020). Mobile Money, Driving formalization and building the resilience of MSMEs

As emphasized in **Nepal**, when introducing digital financial services, digital and financial literacy should also be addressed:

> "Sometimes people are illiterate and are not able to use digital services even if facilities are available. We push for FinTech and online banking, but it may still be difficult for many even if they have access because of a lack of capacity."
>
> **Prakash Shrestha, Nepal Rastra Bank**

This is an important point to note as women have lower levels of education and lower opportunity levels to own or use a mobile telephone. Digital literacy with specific gender considerations as the heart of any program is a must for efforts to be effective.

Finally, at the nexus between the informal sector, digitalization, and financial inclusion, **the Gambia** provides an interesting case study. Seeking to expand their e-Government system as part of their administrative reforms to reduce the cost of doing business and increase formalization benefits, the government established an Online Company Registry across the country to improve documentation and increase transparency. The government digitized, automated, and integrated post-registration procedures for businesses, with a focus on start-ups. Supported by the United Nations Conference on Trade and Development (UNCTAD) 's Business Facilitation Program, registry staff engage directly with the informal sector. Those registering in the Gambia, including start-ups who otherwise would remain informal, were treated as "clients" focusing on customer service. This, in turn, will facilitate access to digital banking in the lead-up to the country's National Financial Inclusion Strategy.

The Philippines also offers an interesting example of best practices:

- Small business online vendors fall under the purview of two different governance bodies. The online small businesses can register with two government agencies - the Ministry of Trade and Industry or the Securities and Exchange Commission. However, when small businesses conduct their operations and sales on online platforms, the transactions are regulated by other financial authorities, including the Bangko Sentral ng Pilipinas. To manage the rise of e-commerce, embraced by many sellers who are not formally registered with the authorities, the Bangko Sentral ng Pilipinas partners with the Ministry of Trade and Industry, with the Bangko Sentral ng Pilipinas overseeing the financial and commercial transactions on digital platforms.
- Similarly, to improve women's financial inclusion in the informal sector, the Philippines Commission for Women, an agency focused on women's empowerment, protection and equality, was made a part of the Steering Committee for the Philippines National Financial Inclusion Strategy (NFIS). The Commission is a key stakeholder on the Magna Carta of Workers in the Informal Economy, legislation to uphold the rights of informal workers.

COVID-19: TRANSFORMING DIGITAL ENGAGEMENT

The COVID-19 pandemic has triggered an unprecedented economic crisis worldwide. While the impacts are extensive globally, women, informal workers and MSMEs have been hit particularly hard.[19]

The lack of access to government support mechanisms and social safety nets make these actors all the more vulnerable and increases the precariousness of their health, social, and economic situation. While governments have been at the forefront of providing workers and enterprises support in these times of hardship, financial institutions have an equally critical role. Indeed, international organizations such as the ILO have portrayed the coronavirus crisis as a window of opportunity for policymakers, including financial stakeholders, to seize effective engagement with the informal sector and potentially drive formalization.[20]

The importance of the financial sector's role cannot be overstated. Financial institutions have favored loan repayment extensions and granting vulnerable clients grace periods for outstanding loans. Access to financial support and special loans have been extended to help enterprises retain their labor force, guarantee wage payment, and resume operations once Covid-related restrictions are lifted. Many countries and their key financial institutions are seeing the pandemic as an opportunity to leverage digital tools and technologies to ensure that the financing needs of micro and small enterprises are met throughout the crisis and once its effects begin to dial down:

19 ILO (2020). COVID-19 crisis and the informal economy. ILO Brief, May 2020.

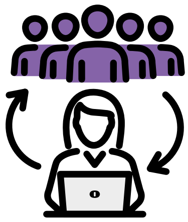
20 ILO (2020). Answering key questions around informality in micro and small enterprises during the COVID-19 crisis.

COVID-19: *CONTINUED*

- Short-term measures have targeted unbanked and underbanked beneficiaries first. Digital channels have been used to reach informal workers and enterprises in need of short-term emergency support and to ensure the delivery of social benefits. Many financial institutions converted the need for emergency cash transfer into an opportunity to expand the creation of bank accounts into which benefits payments can be made directly to avoid physical contact.
- The pandemic paved the way for mainstreaming mobile payments in countries such as Tunisia, where microfinance institutions harnessed digital technologies to transfer much-needed funds to small informal workers, such as vendors, small shop owners, and smallholder farmers. This provided an entry point for microfinance institutions to launch new digital initiatives such as mobile devices for loan granting and repayments. Mozambique saw the number of digital transactions increase considerably over the course of 2020.

More can be done to leverage these developments in anticipation of the post-crisis context. Digital platforms might be utilized as support materials for financial literacy training to help consolidate business-owners' understanding of financial instruments and their usefulness in response to external economic shocks.

3. FACILITATE ACCESS THROUGH TAILORED SOLUTIONS



Challenges to financial access are often amplified by informality. Informal sector workers often have no ID, making it difficult to meet the regulatory requirements to open financial accounts or access more complex financial services.[21]

In recognition of this, countries are accelerating the design and regulation of financial products directly intended for informal MSMEs and informal workers, including savings accounts, transfer and payment systems, credit facilities, and insurance services. Financial inclusion policymakers have multiple tools at their disposal in designing and regulating financial services to account for the specific ID and customer history challenges that many informal sector workers and MSMEs face. Countries are increasingly implementing tiered know-your-customer (KYC) regulations, allowing low-risk, low-balance accounts for people who cannot fulfill the full range of stringent requirements.[22]

When the Bangko Sentral ng Pilipinas found that a lack of ID was a major obstacle to opening a deposit account (given the pending of the full implementation of the national ID), it promoted the use of basic transaction accounts with simplified requirements and low maintenance costs. The Bank's Advocacy Group had an important role in the outreach here, given that most of the unbanked population remains unaware of the simplified procedures.

Another case where tiered-KYC and simplified bank accounts have supported the inclusion of those in the informal sector is Angola, where the Banco Nacional de **Angola** released simplified accounts regulations in 2020, designed to create accommodating conditions for small

21 ILO (2013). Measurement of the Informal Economy.

22 Please note that tailored regulation/financial products aimed at the informal sector, including tiered KYC are still subject to regulatory oversight, including AML/CFT regulation

businesses to move from the informal to the formal sector. The simplified accounts regulation builds on Bankita a Crescer, the financial accounts program aimed at expanding financial access for the many low-income earners in the informal economy (see the coordination section), and which has been successful in bringing more people into the formal financial system.[23]

"Bankita gave us an impetus to prepare the conditions within the payment systems for mobile accounts. When directly targeting the unbanked, we could assess their needs and understand their financial practices and priorities."

Teresa Pascoal, Banco Nacional de Angola

Access difficulties preclude many in the informal sector from using formal financial services. Yet another learning experience from Angola's Bankita program was the high Automated Teller Machine (ATM) activity for Bankita accounts. Bankita customers from low-income backgrounds usually use their low-balance accounts for small transaction amounts, thus, the high ATM activity indicates that customers may feel socially marginalized and judged when banking within physical stalls or branches. In addition, while bank branches are found in a limited number of locations across Angola, ATMs are located in almost all precincts or towns, meaning that customers do not have to travel long distances to deposit, withdraw or transfer money, although that is not yet the case within the less developed cities, of which there are many.

There are growing examples of financial policymakers taking a more active role in the tailored design and regulation of financial services for informal workers and MSMEs. In the **Solomon Islands**, a micro pension program for self-employed and informal workers called youSave was piloted and launched in 2017, and has a particular focus on supporting women within the target groups.[24] It has grown rapidly, with savings for those in the large informal sector increasing in value. The program exceeded key goals in uptake and usage, including by women, which is notable as they earn 37 percent less than men and have normally have less opportunity to save.[25] The program was undertaken in three phases. First, a feasibility study established that there was a demand for pension and long-term savings for retirement in the informal sector and provided possible product contours and specifications. The product was then developed and tested based on established business case thresholds. youSave is now being scaled across all nine provinces of the country over the course of five years.

Its key features are an example of best practices in tailoring services according to the informal sector's needs:

- Opening a youSave account is easier compared to regular bank accounts, with simple KYC requirements. Anyone above the age of 16 can open a youSave account with a birth certificate, driver's license, voter card, or letter from a church leader or village elder for KYC purposes.
- Some savings remain available to be accessed in case of an emergency. The youSave product has a preserved account, which can only be accessed at the age of 55 years or older, and the general account that can be accessed at any point four times per year.
- The account is free of charge, and a member is only required to make an initial deposit of at least SBD 50 (6 USD) into the account for activation. Additional voluntary savings can be made at any time and free of charge.
- Deposits are easy. Members can save using the traditional channels, as well as their mobile phone (airtime deposits) and a network of authorized agents.

HOW TO TAILOR PRODUCTS TO THE INFORMAL SECTOR?

Countries are progressively finding success when financial services are adapted to those in the informal sector. In order to do so, those designing and/or regulating financial products need information on what is most needed by informal sector workers and MSMEs. Beyond what is needed, this information and potential client understanding should also include canvas on what types and modalities of financial products are actually desired by those in the informal sector. This may include low-cost, low-transaction mobile money transfers and payments for informal sector vendors and market stalls, or micro pension products where funds can be withdrawn for emergencies.

23 Angola KII

24 https://asiapacificgender.org/sites/default/files/documents/Solomon_Islands_(English).pdf

25 https://asiapacificgender.org/sites/default/files/documents/Solomon_Islands_(English).pdf

This understanding of the financial wants and needs of the informal sector links to a better knowledge of the barriers faced and how these might be overcome. One of the challenges is often the lack of training and information relating to financial services or general training, which is not gender-sensitive and does not address the needs of the groups receiving it. The emphasis on financial literacy is key here. However, financial literacy programs may prove more effective when they are tied to tangible financial service expansion programs rather than general training, which may not address real, underlying needs. A number of AFI members are pushing forward on gender-sensitive financial literacy training programs to bridge the gap in supply and demand for financial services. **El Salvador, Angola, and the Philippines** all pointed to advocacy and financial literacy efforts, many specially tailored for women and other vulnerable groups.

To address information gaps, many countries continue to communicate new developments in financial services, such as the Philippines on digital payment options for public transport and expansion of simplified accounts.

Simplified accounts and tiered-KYC are attracting increased attention for their potential to cater directly to people in the informal sector who may lack requisite ID or face other regulatory hurdles for financial accounts. Low-risk, low-balance accounts can prove beneficial for many informal sector workers and MSMEs, not only bringing money into the formal sector and acting as an entrance to further financial access but also to creating tangible differences in people's lives. High account usage in diverse financial products in **Angola, the Solomon Islands, and Mozambique** demonstrate how people in the informal sector can safely save, transfer, pay, and find pathways to more complex financial services after initial hurdles are overcome.

4. INCLUSIVE POLICIES AND PROGRAMS

Policies regarding the informal sector and financial inclusion are often aimed at men from the dominant population group and do not consider gender-specific vulnerabilities. Women and socially excluded sub-groups of the population, such as ethnic or religious minorities, displaced communities, people living with a disability, and other vulnerable social groups, are often socioeconomically disadvantaged and face numerous barriers to financial access.[26]

At the same time, women are often overrepresented in the informal sector globally[27] and have lower access to financial services compared to their male counterparts.[28] Financial policies and programs that address gender-sensitivities and take into account population sub-groups are a central tenet of successfully bringing the diverse informal sector onboard.

Financial inclusion needs to be interconnected with inclusive and gender-transformative policies for the informal sector.[29,30] Multiple countries note the importance of the informal sector for women's livelihoods and are pursuing policies to reflect the gendered aspects of informality.

26 Jhabvala, R; Harvey, J. (2016). Financial and Digital Inclusion from the Perspective of Women in the Informal Economy. SEWA / WIEGO.

27 Women represent a higher proportion of informal economy workers in developing countries. See Bonnet, Florence, Joann Vanek and Martha Chen. 2019. Women and Men in the Informal Economy – A Statistical Brief. Manchester, UK: WIEGO.

28 AFI (2017). Bridging the Gender Gap: Promoting Women's Financial Inclusion. Tools and Guidance from the AFI network.

29 "A gender-transformative approach promotes gender equality through the shared control of resources and decision-making" Chintakindi, M. (2019). Gender-transformative Approach to Societal Empowerment. ANTYAJAA: Indian Journal of Women and Social Change, 4(1), 107–112.

30 "Transformative Gender Programming includes policies and programs that seek to transform gender relations to promote equality and achieve program objectives. This approach attempts to promote gender equality by: 1) fostering critical examination of inequalities and gender roles, norms and dynamics, 2) recognizing and strengthening positive norms that support equality and an enabling environment, 3) promoting the relative position of women, girls and marginalized groups, and transforming the underlying social structures, policies and broadly held social norms that perpetuate gender inequalities." Interagency Gender Working Group (IGWG). Gender Integration Continuum.

Unequal gender roles have implications for the most basic aspects of self-determination, dignity, and freedom, which in turn influence financial inclusion - or lack thereof [...] The financial services industry can be both a catalyst and barometer of gender equality.[31]

In **Ecuador**, there is increasing mutual learning between local women's rights NGOs and financial sector policymakers.

"

We are about to sign up a Memorandum of Understanding [MoU] with "Mujeres", an NGO that will support us in reviewing the national financial education strategy. We will support a financial education program that is focused on women living in poverty-affected areas. The MoU will let us support them and they will support us in the review of the strategy. One aspect of the strategy is also about women in the informal sector and we will create a specific program for them."

Jorge Moncayo, Superintendencia de la Economía Popular y Solidaria de Ecuador

Ghana's revised National Financial Inclusion Development Strategy has added an explicit gender objective by integrating the Village Savings and Loan Association (VSLA) into the formal financial system. Women make up a majority of VSLA members in Ghana. By linking VSLAs into the formal financial system, Ghanaian authorities intend to provide women with increased financial services on top of savings, including micro-insurance, micro-investments, digital credit, pensions, and in the long-term, micro-housing. Since many of the service providers of these financial products use mobile money platforms, the integration of the VSLAs with formal financial services also provides various cases to increase women's access to digital financial services.[32]

The Gambia introduced preferential measures and special incentives to encourage business formalization, focusing on women and youth. This involved promoting the role of women-owned enterprises and strengthened legislation to guarantee land ownership for women. Similarly, **Nepal** revised its Industrial Enterprises Act 2016, which exempts micro-enterprises from taxes but also provides a 35 percent registration fee reduction for women to encourage women-headed enterprises to formalize. Along with these measures, the Act introduced a Personal Account Number registration scheme to support people in the informal sector. These programs target diverse informal sector segments with differentiated tools, including recognizing specific barriers for women.

HOW TO CREATE MORE INCLUSIVE POLICIES?

To create policies and programs that are genuinely inclusive and follow a gender-transformative approach, women and members of population sub-groups from the informal sector should be meaningfully engaged at different policy development and delivery levels. Members of the informal sector in all its diversity should be represented at different levels of relevant institutions - ranging from working towards meaningful diversity in central banks to bank agents on the ground. With this in mind, relevant government ministries across the board should be included in the financial inclusion conversation in a collaborative manner, particularly those tasked with specific social issues (such as the rights of women and youth), legal economic, and labor rights. Partnerships with local NGOs working on gender and social equality such as this example from Ecuador, can be an invaluable learning tool for better policies and programs tailored to different sub-groups in the informal sector.

Having these groups at the table for important policy and programming discussions means that their perspectives are addressed and translated into inclusive outcomes. An example from the Rural Financial Institutions Program (RFIP) in India showed that when female members of a local self-help group received training and started to work as banking agents, the rates of first-time women financial customers, as well as elderly and illiterate women, increased as the trained women were seen as more relatable and reliable in the communities.[33]

31 ILO (2020). Gender and financial inclusion. Available at: https://www.ilo.org/empent/areas/social-finance/WCMS_737729/lang--en/index.htm.

32 AFI (2020). Special Report: Lessons on Enhancing Women's Financial Inclusion Using Digital Financial Services.

33 Arora, A; Krishnaswamy, K. (2015). Why Women Self-Help Group Members Make for Good Bank Agents. Available at: http://www.cgap.org/blog/why-women-self-help-group-members-make-good-bankagents.

Gender diversity is gradually gaining traction as a means of ensuring gender-sensitive decision-making, and consequently, policymaking. Promoting gender diversity at the institutional level is now internationally established to benefit the institution itself, its client-base, and its shareholders and partners.[34]

This is all the more relevant given that research on Gender Diversity within AFI Member Institutions in 2018 found that increasing gender diversity at the institutional level was not currently seen as a priority. The inclusion of diverse voices from the informal sector, such as through coordination mechanisms (see the coordination thematic), will support both the formulation and implementation of gender-sensitive and vulnerability-sensitive policies and programs.

5. FINANCIAL COOPERATIVES

Savings and Credit Cooperatives (SACCOs) have gained traction in a number of developing and emerging economies as an alternative to formal, private sector-led financial institutions. They have become particularly widespread in Latin America and Asia, for instance Nepal has savings and credit cooperatives with a capital mobilization of over US $6 billion.[35]

Financial cooperatives are membership-based organizations characterized by three features: mutual ownership, control, and benefit. This implies that members are also customers, depositors, and borrowers. One needs to invest in the capital of a financial cooperative to be granted membership rights and benefits, thus receiving access to different financial services, such as savings and different types of credit and loans.

These cooperatives are an alternative to for-profit financial service providers and often cater explicitly to the informal sector and the financially deprived; women are generally the majority of members. The backbone of their mandate is to provide services for vulnerable populations and small economic operators that had been left out of the customer base of formal banking institutions.

Ecuador's financial cooperatives have powered financial inclusion and financial engagement with the informal sector over the past decade. The Superintendencia de Economia Popular y Solidaria (SEPS), the regulatory agency with responsibility for financial cooperatives and financial inclusion, support the provision of consumer-centric financial services that meet the needs of the various informal sector stakeholders in Ecuador. Since the late 2000s, a series of reforms paved the way to the growth of social finance. These reforms contributed to the government institutionalizing financial cooperatives

34 AFI (2018). Gender Diversity within AFI Member Institutions
35 ILO (2019). ApexFinCoop - Strengthening the apex organization of financial cooperatives in Nepal. 28 June, 2019.

as financial service providers to the same extent as private sector entities. According to existing literature, "95 percent of the popular and solidary-based organizations were finally registered and put under the control of the SEPS" after the law was passed.[36] Therefore, adopting a solid regulatory framework encompassing all types of cooperatives is believed to have contributed to gaining consumer confidence with strong performance indicators. This includes ensuring cooperatives meet international standards such as Basel 1 and Basel 2.[37]

These efforts resulted in an expanding financial cooperative sector that allows informal sector workers and MSMEs to access much-needed finance. Since 2012 when SEPS was established, financial cooperatives have registered significant growth as assets grew by 142 percent, from US$6 million to US$14 million; deposits increased 161 percent to US$11 million; and membership grew by 51 percent to more than 7 million members. Considering Ecuador's population of 17 million people, this level of membership reflects a high amount of the population belonging to financial cooperatives.

"What makes the success of financial cooperatives is that they are working with and for the people. People feel that they are part of this institution, whereas you are only considered a client when you go to a traditional bank. It's two different ways of doing business."

Jorge Moncayo, Superintendencia de la Economía Popular y Solidaria de Ecuador

Insights from other countries have also shown the resilience of cooperative financing entities in times of economic recession and their higher propensity to support informal economic units, which are hit the hardest by external shocks. Financial cooperatives, together with microfinance institutions, often act as a lender of last resort to informal sector workers and small-scale enterprises during crises, such as the global COVID-19 pandemic. This enables informal sector actors to overcome liquidity shortages and ensure business and livelihoods continuity.[38] A case study from the **Philippines** exemplifies the major role financial cooperatives have played in channeling financial support during the COVID-19 crisis. Several savings and credit associations in the country changed their loan repayment conditions and even paid out members' dividends before their due dates. At the same time, the Philippines' regulatory body for cooperatives pressed them to tap into community development funds to assist community members.

HOW TO FOSTER FINANCIAL COOPERATIVES?

Most countries face the absence of a sound and comprehensive legislative framework to expand financial cooperatives. As the large majority of financial cooperatives operate with the poor and the informal sector, embedding these economic actors into legislation is of paramount importance for countries committed to working with the informal sector and leading the transition towards the formal economy.

"We also need to push Congress to get a law for cooperatives because they are a key sector for reducing the informal sector in the economy and for recovery of COVID-19."

Otto Boris Rodriguez, Banco Central de Reserva de El Salvador

In an encouraging development at the international level, financial cooperatives have been integrated into multiple policy frameworks: ILO Recommendation 193 on the Promotion of Cooperatives (2002) and ILO Recommendation 204 concerning the Transition from the Informal to the Formal Economy (2015) make explicit reference to cooperative financial institutions.[39] The former highlights the importance for governments to "facilitate an autonomous system of finance for cooperatives, including savings and credit, banking and insurance cooperatives." The latter posits the need to promote other business model forms and economic units, including cooperatives of all kinds, as part of the integrated policy framework that the ILO upholds to ease the transition towards formality.

36 Unda, Luisa, The Feeling is Mutual: Financial Cooperatives in Ecuador (October 2, 2014). Available at SSRN: https://ssrn.com/abstract=2512119

37 Ecuador Key Informant Interview

38 ILO (2013). Resilience in a downturn: The power of financial cooperatives.

39 See R193 - Promotion of Cooperatives Recommendation, 2002 (No. 193) and R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

6. IMPROVED DEFINITIONS, INFORMATION AND DATA MANAGEMENT

The informal sector itself is widely understudied and ill-defined, as noted by a key informant from the Philippines.

> "Unfortunately, the data that we have does not focus on the informal sector, so to speak, but rather on the unbanked population as a whole. This distinction is key as the informal sector encompasses financially underserved populations, but the unbanked population may go beyond informality. How big is the overlap? How do we define the informal sector? Is lack of access to banking services a factor to be included in the definition or a consequence of informality?"
>
> **Jenny Romero, Bangko Sentral ng Pilipinas**

The Bank of **Mozambique** concurs:

> "It's really difficult to have numbers to properly measure the impact of anything that does. That's one of the reasons we rather talk about rural areas or certain professions which are often part of this sector."
>
> **Sandra Bila, Banco de Moçambique**

Other financial inclusion policymakers echoed the need to better understand the informal sector given the extensive population and economic scope.

Beyond a common definition, financial inclusion policymakers express a widespread desire for better data on the informal sector fit for evidence-driven policies; there is also a strong need for the data to be disaggregated, particularly by sex. This includes data on sector trends, financial access within the informal sector, and tracking the outcomes of policy measures. More robust sex disaggregated data is essential for a deeper understanding of the informal economy - what informal workers and informal MSMEs need and want in terms of tailored financial services, as well as barriers and opportunities towards formalization and improving economic outcomes. This deeper understanding is specific to each country, while key themes and research can cut across contexts.

In **Ecuador**, sex disaggregated data for financial cooperatives, which cater to people in the informal sector, allows the Financial Inclusion Unit to see the upwards trends in inclusion indicators. The data also allows Ecuadorian policymakers to analyze categorical breakdowns and trends, including gender differences,[40] to understand and formulate appropriate responses to the emergent gender gaps.

Using data from the Bankita Program, which comprises a large customer base from the informal sector, **Angola** uses a growing evidence base to understand informal sector dynamics. Data analysis pointed to barriers to uptake, such as distance from banking facilities, which can now be addressed. Authorities work with financial service providers to detect irregular account behavior relating to unauthorized intra-family usage. The findings have allowed the bank to better coordinate with the ministry responsible for families and youth.

BRIDGING DATA GAPS

Overall, when aiming to close data gaps, it might behoove researchers and policymakers to refrain from targeting the informal sector as a whole, instead of focusing on demographics and professions that are most unlikely to be part of the formal economy. Even in the absence of data specific to the informal economies, many policymakers are harnessing the power of data to better understand the intersection of financial inclusion and the informal sector. This data is drawn from diverse sources but includes information from financial service providers, diagnostic studies, and attempts to parse data from financial inclusion studies, which may not disaggregate informality but can provide informed indications. Central Banks and IOs, seeing the informal sector's importance with its size in both population and economic activity, are beginning to build the evidence base on the informal sector and financial services.

40 While overall financial access rates were roughly equal for men and women, loans were markedly higher covering 59.75 percent of men but only 38.42 percent of women, this despite further statistical data indicating women had slightly lower default rates and higher long-term deposit rates. Ecuador Key Informant Interview.

Angola is in the process of contracting research on microfinance, including market conditions, stakeholder mapping, demand and needs, and microfinance supply analysis.

This diagnostic study will support Banco Nacional de Angola in improving the conditions for informal micro- and small- enterprises in the country. The study will feed into Banco Nacional de Angola's approach and policies regarding their financial inclusion objectives.

Given the limited information currently available on MSMEs, particularly the informal sector, the **Philippines** is exploring the design and conduct of a demand-side survey for MSMEs to generate new insights and more granular data on MSME's access to finance. The results of this survey could support evidence-based policymaking and provide deeper market insight for financial service providers to help them broaden their products and services.

> "The data gaps are large and impede devising targeted policies… Without comprehensive data on this issue, we cannot propose comprehensive policy actions."
>
> **Jenny Romero, Bangko Sentral ng Pilipinas**

GSMA is seeking to understand in greater detail how mobile money is used in the informal sector, noting that while currently there is not a strong grasp of this sector, data is expanding. This is part of the drive towards understanding the linkages between mobile financial services and the informal sector. Better data on markets and customers will lead to better mobile money policies.

CONCLUSIONS AND RECOMMENDATIONS

Based on the shared experiences and lessons from a diverse set of countries presented in this Guideline Note, a range of policy areas and measures were identified at the intersection of the informal sector and financial inclusion: from the latest in digital advancements tailored to the informal sector to multiple examples of the coordination required to link up work across priority areas.

ENSURE MULTI-STAKEHOLDER COORDINATION

Coordinating across different government arms such as ministries, legislatures, and regulatory bodies is key to coherent policymaking. Financial policymakers and regulators have a critical role to play given the importance of financial access to the informal sector. Along with this cross-government coordination, a "big tent" approach should include relevant organizations with strong links to the informal sector, including unions, associations, women's groups, and youth groups. Successful collaborations across various countries on IDs, women and youth involvement, digital commerce, mobile money, and regulations demonstrate the possibilities when policies on financial inclusion and the informal sector are coordinated and harmonized.

KEEP INFORMAL SECTOR DYNAMICS CENTRAL TO DESIGN AND REGULATION OF FINANCIAL SERVICES

Those working in the informal sector, particularly women and the youth, face unique challenges when it comes to accessing different types of financial services. This includes the widespread lack of identification documentation, mismatched hours, and distance to formal financial service providers, as well as less tangible factors such as feelings of social marginalization. The success of tiered KYC regulations, simplified accounts programs such as in the Philippines, the Bankita program in Angola, mobile money in Mozambique, and YouSave micro pensions in the Solomon Islands show the major gains that can be made when financial services are tailored directly to the informal sector workers and MSMEs.

INCLUDE DIVERSE POPULATION SUB-GROUPS AND WOMEN IN FINANCIAL INCLUSION AND INFORMAL SECTOR POLICIES AND PROGRAMS

Diverse population sub-groups and understanding women's experience amplifies the unique issues in relation to informality and financial inclusion. Policies and programs targeting the informal sector must address these differentiated challenges. This includes ensuring that women and sub-groups, such as ethnic minorities, people living in displacement, and people living with a disability are meaningfully engaged at different policy levels, have a seat at the table through the government agencies, associations and NGOs that represent them, and that special needs and vulnerabilities inform policy and programming. A transformative approach to policymaking should be adopted to enhance the decision-making power of these groups, strengthen positive norms, and aim to change the underlying structures that perpetuate gender inequalities in informality and financial access.

ENGAGE WITH ALTERNATIVE FINANCIAL INCLUSION PATHWAYS INCLUDING FINANCIAL COOPERATIVES

Financial cooperatives offer localized and inclusive solutions for the diverse and sometimes vulnerable population groups in the informal sector. Along with other financial services, from state or postal banks to the newer-developing digital financial providers, financial cooperatives can offer a path to much greater engagement with financially underserved groups, particularly women who generally make up the majority of the membership. Peer-to-peer learning with Latin American countries, where financial cooperatives have long been part of major informal sector financial inclusion gains, should be explored. Specific regulatory frameworks should be put in place for financial cooperatives.

INCLUDE THE INFORMAL SECTOR INTO RESEARCH, STUDIES, AND DATA COLLECTION

Existing and upcoming research should integrate the understandings of informality, including informal workers and informal MSMEs, into their research and data collection methodologies. Conceptual ideas of informality and the multiple variables that they entail should be thoughtfully included in financial inclusion, labor, and business studies wherever possible. This recommendation includes seeking out partners to further the research agenda of informal sector dynamic;, for instance, the obstacles to financial services, the types of products needed and desired by informal workers and informal MSMEs, and the key concerns around how informality interacts with financial inclusion in different contexts and across time.

CONTINUE SHARING EXPERIENCES AND LESSONS FROM PEERS AND GLOBAL SPECIALISTS

A diverse range of countries are creating inroads and finding policy successes regarding the informal sector and financial inclusion. From global leaders in mobile and financial cooperatives to targeted accomplishments in particular programs, financial policymakers and regulators should continue to share lessons and best-practice in the informal sector.

WHEN COLLECTING DATA, ENSURE IT IS ALWAYS DISAGGREGATED, ESPECIALLY BY SEX

One of the most powerful and useful tools for developing solutions to different target populations is to have a clear understanding of the existing usage and future needs. Ensuring data is disaggregated by sex, at the very least, will start to provide these insights and support effective evidence-based policymaking decisions.

With these recommendations in mind, it is critical to note that a piecemeal approach will not bring about the necessary changes to make successful inroads into either financial inclusion or informality or the nexus between them. Instead, a deep understanding of the informal sector and its relationship with financial inclusion needs to be continually updated, along with sustained efforts to improve outcomes in both areas.

Policies and programs must keep the people who work in the informal sector at the center of their formulation and implementation. Understanding how financial inclusion impacts and is impacted by the conditions and actions of street vendors, fisherfolk, domestic workers, and many more will ensure these policies and programs are inclusive and coherent.

The importance - demonstrated in the informal sector's immense size and scope in many countries - and the dynamic nature of the informal sector demands these efforts. While the challenges are manifold, the opportunities for sustainable development, poverty reduction, and improved financial inclusion have been demonstrated across many countries in bringing the informal sector onboard.

ANNEX - KEY INFORMANT INTERVIEWS

The authors extend thanks to the key informant and contributors who shared their insights and experiences, which formed the basis of the Guideline Note.

TABLE 1: KEY INFORMANT INTERVIEWS (2020)

COUNTRY	NAME	ORGANIZATION
THE PHILIPPINES	Jenny Romero, Mary Jessil R. Santos & Golda Cainglet	Central Bank of the Philippines *Bangko Sentral ng Pilipinas (BSP)*
ANGOLA	Teresa Pascoal, Catarina Joao, Margareth da Silva & Edilson Pimenta	Central Bank of Angola *Banco Nacional de Angola (BNA)*
EL SALVADOR	Otto Boris Rodriguez, Clemente Alfredo Blanco, Hazell Raquel Del Cid Marroquín, Ricardo Contreras & Jorge Alberto Flores Torres	Central Reserve Bank of El Salvador *Banco Central de Reserva de El Salvador (BCR)*
MOZAMBIQUE	Sandra Bila	Bank of Mozambique *Banco de Moçambique*
NEPAL	Prakash Shrestha	Central Bank of Nepal *Nepal Rastra Bank (NRB)*
ECUADOR	Jorge Moncayo	Central Bank of Ecuador *Banco Central del Ecuador*
TUNISIA	Mahmoud Montassar Mansour	Microfinance Supervisory Authority of Tunisia *(Autorite de Controle de la Microfinance)*
-	Killian Clifford & Mariana Lopez	GSMA
-	Valerie Breda	ILO – Social Finance Unit

TABLE 2: INFORMATION SUPPLIED (2020)

COUNTRY	NAME	ORGANIZATION
THE GAMBIA	Fatou Deen-touray	Central Bank of the Gambia (CBG)
THE SOLOMON ISLANDS	Riley Henao Mesepitu	Ministry of Commerce, Industry, Labour and Immigration
ANGOLA	Teresa Pascoal	Central Bank of Angola *Banco Nacional de Angola (BNA)*

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