

FINAFRIQUE RESEARCH

WHAT IF WE DARED THE INFORMAL BONDS?

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CONTEXT

This article aims to present an alternative financing mechanism for informal activities and very small businesses, so that they can benefit from other formal financing opportunities and, above all, under better terms than those currently available to them.

SOME CURRENT FINANCING MECHANISMS

Even today, **the predominant share of the financing of our economies falls to the banking sector, with the disadvantage of elevating the banker to a multi-sectoral specialist**, which brings together within the same portfolio entrepreneurs from the agri-food, energy, consulting or even new technologies.

We also **have high-balance-sheet financing players such as Capital-Investisseurs** who, for reasons of efficiency in monitoring their investments, generally limit themselves to large investments. (knowing that a few of them have – fortunately – oriented their investment strategies towards the Small and Medium Enterprise sector)

There are also **Microfinance Institutions**. Their popularity reveals a financing model adapted to small savings, but this sector unfortunately experiences some abuses, with the application of usurious rates.

We could have mentioned the **financing by meso-finance**, still recent, which presents itself as an intermediary between bank and micro-bank financing. Or the Nano-credits, credit granting systems generally below 100,000 FCFA offered by some Fintech companies in the sector , which are still not widely adopted.

Finally, **there is a system of informal and parallel financing, with abusive interest rates.**

One observation is obvious when we look at the existing financing mechanisms: **the neglect of the informal sector, a sector that represents more than 85% of jobs on the African continent** according to the International Labor Organization. **It is therefore necessary to define an alternative financing mechanism, adapted to this category of our economy.**

LES SOLUTIONS ONE THING BECOMES CLEAR WHEN REVIEWING THE EXISTING
FINANCING MECHANISMS IN AFRICA: THE INFORMAL SECTOR HAS BEEN OVERLOOKED,
EVEN THOUGH IT ACCOUNTS FOR MORE THAN 85% OF JOBS ON THE CONTINENT.
INFORMEL

THE INFORMAL SECTOR, OUR SURVIVAL CUSHION

For the vast majority of Africans, the informal sector serves as a safety net. In Europe, for example, this safety net is defined by each country in the form of a social model. Thus, each country has established a minimum wage that enables every worker to provide for their family's basic needs.

For the vast majority of Africans, the informal sector is a lifeline. To take the case of Europe, the survival mattress is defined by each state, on the form of a social model. Thus, in each country a minimum wage has been set, allowing each worker to meet the primary needs of his family.

In Africa, this “survival cushion” is characterized by our informal economic activities. A contract employee of a government agency who earns 65,000 FCFA per month (equivalent to 100 euros) and has six dependent children will need to take on an informal job on the side to make ends meet—if only to ensure his family has enough to eat.

Financing our informal sector would therefore amount to financing our social protection. The informal sector cannot remain the “Greatly Neglected” or the “Poorly Equipped” segment of our economy, as it is today. The African financial market should represent hope and an alternative by incorporating this informal segment of our entrepreneurial sector. **Every player in our economic chain should be able to identify an opportunity through this financial market.**

That is why we propose the introduction of a new product that could be described as an “Informal Bond.” *[A bond is a security that represents a claim against its issuer. It therefore represents a medium- or long-term financial debt.]*

INFORMAL BOND: WHAT IS IT?

According to a report by the International Monetary Fund (2017), **the informal sector accounts for between 20% (South Africa) and 65% (Benin, Nigeria) of African countries' Gross Domestic Product.** Contrary to popular belief, however, **it is not always poorly organized.** Some of its activities are organized into “corporations, cooperatives, or associations”—such as farmers' associations or motorcycle taxi associations, for example.

The idea is simply to allow groups that have historically demonstrated good organization and good governance to seek funding for their members via the Financial Market by issuing what would be called an “Informal Bond”. or a bond dedicated to the financing of informal activities.

This issue would be directly initiated by the managers of the Group, who would have previously selected, thanks to their knowledge of the sector and their members, the beneficiary members as well as the amounts of loans granted for each of them.

Assuming that the group has previously demonstrated moral integrity, it would be possible for all or part of this issue to be guaranteed by a bank or a guarantee fund of the state. This would alleviate the cost of this debt whose maturity does not exceed 18 months.

For reasons of security and transparency in this digital age, loans and repayments would be processed directly via Mobile Money between the bank acting as custodian for the transaction and these entrepreneurs in the informal sector.

This concept would have the virtue of encouraging the gradual structuring and formalization of informal sector actors, who would be offered an organizational framework to follow in order to be eligible for this financing mechanism. (Joining a group, keeping books, opening a mobile money account, ...). For their part, the states would benefit from an expanded tax base.

