



ITP Research Form

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Paper Title: **Financial Inclusion and Access to Credit: Building a Bridge Between the Informal and Formal Economies in South Africa**

Abstract:

In the course of our research, we sought to discover whether lack of access to financial services and formal credit was the primary barrier to building a bridge that could transition members of the informal economy into active participants in the formal South African economy. Specifically, we hoped to determine whether and in what ways microfinance institutions could target the informal economy and provide financial services to people who might otherwise be excluded from formal banking in South Africa. What we discovered, however, is that access to credit is but one small piece of a much larger puzzle: while lack of access to formal credit and banking solutions has contributed to income inequality, rampant unemployment, and poverty, these problems can also be attributed to lack of literacy, both financial and actual. Although microfinance has been proposed as a solution in other developing nations, it has not proven to be an available solution under the current regulatory regime in South Africa. This paper examines the informal economy in South Africa—the one in which the poorest and least resourced people in the country fight for survival by engaging in microenterprise and bartering—and explores possible avenues of reform that might allow for this population to enjoy some of the fruits of South Africa's success in the African and global economies. Ultimately, bridging the divide between the informal and formal economies will require three things: (1) regulatory overhaul, (2) technological innovation that can make loan servicing less expensive for banks, and (3) an increased focus on educating the poorest South Africans to improve their financial (and actual) literacy.