Using finance to facilitate enterprise formalization: Experiences and lessons

The informal economy, widespread through countries in Africa and the Caribbean and the Pacific, constitutes a large share of the economy. Although the informal economy offers employment and income opportunities, it is associated with low business productivity, lower incomes as well as social exclusion, poor access to financial services and limited labour rights.

This publication presents lessons and experiences from the EU–OACPS Informal Economy Project, jointly implemented by the United Nations Development Programme (UNDP) and the International Labour Organization (ILO) in Mozambique, Sierra Leone, and the Solomon Islands.

Funded by the European Union (EU) and the Organisation of African, Caribbean and Pacific States (OACPS), the initiative supports the transition of informal enterprises towards sustainable growth and formalization through improved access to finance, digital innovation, financial inclusion, policy reform, and ecosystem development. The findings and lessons presented here reflect the joint efforts of UNDP and ILO, working in partnership with governments, financial institutions, private sector actors, and ecosystem stakeholders to advance enterprise formalization and inclusive economic development.

Financial intermediaries and the formalization pathway

The project positions financial intermediaries as key enablers of formalization. In addition to work with financial institutions, the project includes support to create an enabling regulatory environment for informal enterprises, reduce regulatory barriers and strengthening the capacities of informal sector intermediaries and government counterparts on financial education, business development and digitization and supports the eco system development approach.[1]

A key insight emerging from stakeholder engagement during the project is the need to view formalization not as a single step, but as a gradual journey. Enterprises often operate in varying stages of informality, meeting some regulatory requirements yet remaining outside full registration. The project therefore focuses on supporting micro and small enterprises to move along a formalization pathway through incremental progress, becoming increasingly more formal over time.

Financial service providers can play a central role in this process by simplifying registration procedures, offering payment solutions that encourage the digitalization of transactions, and creating incentives that support gradual formalization (see Figure 1).

Figure 1: How financial institutions can support businesses on their formalization journey. Formalization is a gradual journey and financial institutions can support various steps through its products and services.

[1] The project supports ILO Broader Agenda on Formalization. The Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy highlights that the transition from the informal to the formal economy is essential to achieve inclusive development and to realize decent work for all. More information on this historic convention can be found here.

Further, it is important to engage with other members of the digital ecosystem, such as telecom operators, that can support small businesses to digitize their financial transactions through payment services.

The UNDP and ILO formed partnerships with financial institutions focused on improving awareness, product development, and institutional support to pilot and roll out innovative financial products aimed at increasing access to finance for micro and small enterprises. In addition, through its Challenge Fund, the project supported financial intermediaries and FinTech companies to develop, refine, and scale technology-driven solutions that enhance access to financial services, promote financial inclusion, and improve service delivery to underserved populations.

Sierra Leone

In Sierra Leone, financial institutions, including LAPO Microfinance, Ecobank Microfinance Sierra Leone Ltd, and Irish League of Credit Unions Foundation, received technical assistance to design and refine financial products tailored to informal enterprises. These included loan products for micro, small and medium enterprises (MSMEs), digital financial management tools, and agricultural finance solutions. A key strategy has been embedding formalization messaging into routine financial interactions. Institutions engaged clients through both in-person engagement and digital communication on the benefits and pathways to formalization.

The project also partnered with Salone Trace to strengthen traceability systems and connect local cocoa producers with international buyers. By linking informal enterprises to formal value chains, the initiative demonstrated how market access can act as a powerful incentive for formalization.

Solomon Islands

In the Solomon Islands, the ILO and UNDP Informal Economy project took a holistic approach, combining payments, savings, and credit financial products and raising financial literacy of members.

The project supported the Solomon Islands National Pension Fund to offer a nano-loan product linked to the YouSave informal sector pension scheme. Delivered through mobile money, the product enables informal workers to access credit based on savings history thereby creating a pathway into formal finance. Nano loans have the potential to serve as an entry point into an MSME lending pipeline and, in turn, to incentivize formalization. The experience from the project highlights the need for increased awareness and strengthened institutional capacity to promote and scale the product effectively.

The project also partnered with Our Telekom to operationalize M-SELEN, a mobile money platform developed in collaboration with Solomon Telekom Company Limited. The platform enables bulk payments from agribusinesses, NGOs, and government entities to farmers and micro-enterprises, digitizing transactions and creating financial records, necessary steps of the formalization pathway. As of early 2026, Our Telekom works with over 1,400 agents, many of whom are women-operated MSMEs. The high adoption of M-SELEN demonstrates that digital financial services can achieve scale when they respond effectively to user needs. Beyond money transfers, the platform presents strong potential to expand access to formal financial services and support broader pathways toward enterprise formalization.

Mozambique

In Mozambique, the project implemented by UNDP and ILO focused on leveraging mobile money and strengthening institutional capacity to better serve informal businesses.

Advancing financial inclusion, a collaboration with OFEC, a non-profit organization focused on empowering vulnerable communities through financial independence and resilience. The project supported the creation of an animated series on digital financial inclusion for smallholder farmers and the development of a Digital Savings and Revolving Credit platform (E-PCR) to digitize savings groups.

In parallel, work with Vodafone M-Pesa focused on piloting and scaling up *Mini Paga Fácil*, a solution designed for informal merchants. *Mini Paga Fácil* allows individual M-Pesa customers to create a dedicated sub-wallet to receive payments related to their business activities. One of the main objectives of the product is to allow informal merchants creating a financial record for their businesses, supporting better financial management, while also enabling M-Pesa to better understand merchant behaviour and design future products for this segment, especially loans. Field-based learning revealed important barriers, including low perceived value, usability challenges, and competing informal practices such as reliance on person-to-person transfers. Based on the findings from market assessments, new value-added services and features were added to the solution, such as cashback campaigns and more inclusive market outreach using image-based communication. These adaptations helped improve product uptake and relevance, while generating practical insights to inform the continuous refinement and scaling of solutions tailored to informal merchants.

Key lessons

1. Formalization must deliver tangible value

Across all three countries, a consistent finding was that informal enterprises are unlikely to formalize unless they see clear and immediate benefits. In Mozambique, for example, while awareness of *Mini Paga Fácil* was relatively high (66% of non-users had heard of the product), actual usage remained low, with most registered users not actively transacting.

Similarly, in Sierra Leone, many micro-enterprises were already partially compliant—such as paying municipal fees—but did not perceive additional value in full registration. These findings suggest that formalization efforts must be tied to tangible incentives, such as access to credit, income opportunities, or improved financial management, rather than relying on awareness alone.

2. Digital financial services are effective entry points—but not sufficient on their own

Digital financial tools have proven to be an important first step toward formalization, particularly by creating transaction records and improving financial visibility. In the Solomon Islands, over 40,000 users were reached through financial education linked to mobile money services, demonstrating strong uptake when solutions respond to user needs. In Sierra Leone, LAPO Microfinance and APEX through use of a digital application for loan processing and disbursement. This innovation has significantly improved operational efficiency and expanded the institution’s reach. The platform is now also being leveraged to integrate formalization messaging to its customers.

However, evidence across countries shows that adoption does not automatically translate into sustained use. In Mozambique, 96.8% of surveyed merchants already used mobile wallets, yet most continued to rely on informal practices such as person-to-person transfers instead of adopting more structured business tools. This highlights that in addition to digitalization, products must align closely with user behaviour and incentives.

3. The informal economy requires segmented, context-specific approaches

The project experience highlighted significant diversity within the informal sector. In Mozambique, merchants handling higher-value transactions—such as prepared food vendors—were more likely to adopt digital payment solutions, while low-value traders continued to rely on cash.

In the Solomon Islands, adoption also varied geographically and by access to infrastructure, with rural farmers facing greater challenges due to limited agent networks and connectivity. These differences underscore the importance of targeting specific segments and value chains, rather than applying uniform approaches across all informal enterprises.

4. Sustained engagement matters more than one-off awareness

Across all countries, awareness campaigns alone were insufficient to drive behaviour change. In the Solomon Islands, initial outreach levels were lower than expected, and uptake of products such as nano-loans remained modest despite clear demand.

Similarly, in Sierra Leone, institutions found that embedding formalization messaging into ongoing client engagement—rather than standalone campaigns—was more effective. Evidence from Mozambique also showed that improved promoter training, repeated interactions, and field-based demonstrations significantly increased merchant understanding and onboarding. These experiences highlight that continuous, hands-on engagement is critical for sustained adoption.

5. Partnerships and adaptive implementation are critical for scale

The project demonstrated that strong partnerships are essential to reach informal enterprises at scale. In the Solomon Islands, collaboration between telecom providers, financial institutions, agribusinesses, and development partners enabled the rollout of integrated solutions such as bulk payments and nano-loans.

In Sierra Leone, key government institutions responsible for business services, including registration and enforcement of social security benefits, actively participated in UNDP / ILO sensitization and outreach initiatives. Institutionalizing these efforts is essential to ensure and long-term sustainability and great impact.

At the same time, implementation required continuous adaptation. For instance, in Mozambique, product design and customer acquisition strategies for *Mini Paga Fácil* were refined based on market assessments and field feedback. In the Solomon Islands, operational challenges—including low digital literacy, limited staffing, and technology constraints—required adjustments in rollout strategies and timelines.

6. Need for capacity building

Capacity building for formalization is essential across all levels of engagement. Efforts should be tailored to specific target groups, government officials, financial intermediaries, ecosystem support organizations and associations, as well as micro, small and medium enterprises.

Capacity building should foster a shared and comprehensive understanding of formalization, its meaning, pathways, and requirements. It could also highlight the benefits, including regulatory compliance, business growth, and enhanced market access. In Sierra Leone, this has been especially valuable in strengthening awareness that formalization extends beyond business registration to encompass a broader set of processes and opportunities.

7. Impact of structural constraints

In all three countries, structural constraints such as inadequate electricity supply, poor transport infrastructure, limited internet connectivity, and weak interoperability among financial service providers have increased the cost of delivering digital financial services. These challenges have contributed to lower adoption rates of digital solutions, thereby hindering access to financial services, financial inclusion, and the formalisation of informal enterprises.

The experience highlights how the combined strengths of UNDP and ILO can support innovation, financial inclusion, and market-based incentives that encourage informal enterprises to transition toward formality. These experiences reinforce that scaling formalization pathways requires both ecosystem collaboration and a learning-driven approach, particularly in dynamic and resource-constrained environments.