

Does informal finance matter for micro and small businesses in Africa?

¿Es importante la financiación informal para las micro y pequeñas empresas en África?

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Abstract

Globally, micro and small businesses require finance to support their business activities. Most of them have low profits because of the lack of support from the formal financial system. Micro and small businesses in developing countries have a dire need for financing start-ups and existing business operations. The lack of support from the formal financial system and the government forces them to explore other financial support mechanisms, making it important to investigate alternative financial channels. This paper investigates whether informal finance matters for micro and small businesses. We used a systematic literature review to answer the predetermined research question. Thirty (30) primary studies were surveyed to establish the importance of informal finance for micro and small businesses. The findings show that informal finance is a workable alternative for micro and small businesses. It supports business start-ups, existing businesses and enhances business growth, business owners' livelihoods and livelihoods in their communities. Informal finance models can be improved to work as small business promotion tools. The original value of the paper is based on the use of a systematic literature review to assess whether informal finance matters for micro and small businesses and connect theories with emerging themes. It further contributes to the debates on the importance of informal finance and contributes to future lines of research on informal finance.

Keywords: informal finance; financial exclusion; micro and small businesses; systematic literature review; Africa

JEL Classification: G21; G23; O17

Resumen

En todo el mundo, las microempresas y las pequeñas empresas necesitan financiación para apoyar sus actividades económicas. La mayoría de ellas obtienen escasos beneficios debido a la falta de apoyo del sistema financiero formal. Las microempresas y las pequeñas empresas de los países en desarrollo tienen una necesidad imperiosa de financiar la creación de empresas y las operaciones corrientes. La falta de apoyo del sistema financiero formal y del gobierno les obliga a explorar otros mecanismos de apoyo financiero, por lo que es importante investigar canales financieros alternativos. Este trabajo investiga si la financiación informal es importante para las micro y pequeñas empresas. Se utilizó una revisión sistemática de la literatura para responder a la pregunta que el título de este trabajo plantea. Se examinaron treinta (30) estudios primarios para determinar la importancia de la financiación informal para las microempresas y las pequeñas empresas. Los resultados muestran que la financiación informal es una alternativa viable para las micro y pequeñas empresas. Esta vía apoya la creación de nuevas empresas, a las empresas ya existentes y mejora el crecimiento empresarial, los medios de vida de los propietarios de las empresas y el bienestar de las comunidades más cercanas. Los modelos de financiación informal pueden mejorarse para que funcionen como herramientas de promoción de las pequeñas empresas. El valor original del presente documento se basa en el uso de una revisión bibliográfica sistemática para evaluar si la financiación informal es importante para las microempresas y las pequeñas empresas y conectar las teorías con los temas emergentes. Además, contribuye a los debates sobre la importancia de la financiación informal, a la vez que, aporta líneas de investigación futuras sobre la financiación informal.

Palabras clave: financiación informal; exclusión financiera; micro y pequeñas empresas; revisión literaria; África

Clasificación JEL: G21; G23; O17

How to cite this article

Mago, S., & Modiba, F. S. (2022). Does informal finance matter for micro and small businesses in Africa?. *Small Business International Review*, 6(1), e415. <https://doi.org/10.26784/sbir.v6i1.415>

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1. Introduction

All countries in the world have micro and small businesses in their economies, contributing to economic growth and development, poverty reduction, livelihoods enhancement and job creation (see for example Benedict et al., 2021; Hacini et al., 2022; Mutsonziwa & Fanta, 2021). Both developing and developed economies have micro and small businesses as actors in the economies (Benedict et al., 2021; Kasseeah et al., 2013; Kasseeah & Thoplan, 2012). These could be formal or informal, depending on the prevailing contexts. Financial support for micro and small businesses is an aged debate but remains a dynamic topic that draws the attention of financiers, policymakers, development practitioners and microfinance experts. All businesses require finance as a catalyst for business activities and growth (Benedict et al., 2021; Kasseeah et al., 2013; Kasseeah & Thoplan, 2012; Mago, 2014). However, banks are cautious and seem to exclude micro and small businesses whom they view as 'unbankable' because they do not have collateral for loans (Civelek et al., 2019), and do not generate large amounts of profits, thus operating at the base of the pyramid (Kasseeah & Thoplan, 2012; Lawless et al., 2015; Quartey et al., 2017).

Financial exclusion among micro and small businesses is a challenge (Haselip et al., 2014). As a result, informal finance becomes an alternative way of providing loans to micro and small businesses. Therefore, informal lending permeates both the rural and urban sectors of the economy to service financially excluded businesses (Abdulai & Tewari, 2017; Alhassan et al., 2019; Mutsonziwa & Fanta, 2021). The informal sector of the economy hosts informal financial activities, with loans coming from friends, relatives and neighbours, thus creating an array of financial relationships that are informally influenced (Benedict et al., 2021; Bouman & Moll, 2019). Informal finance is a global phenomenon used to service the micro and small business segment of the economies (Ullah, 2019). It is prevalent in developing countries where financial markets are underdeveloped (Wellalage & Fernandez, 2019). In Africa, access to financial resources for certain businesses has been cited to be a challenge, and the informal financial intermediaries close this gap (Abdulai & Tewari, 2017; Alhassan et al., 2019; Hacini et al., 2022; Mustafa et al., 2021; Zins & Weill, 2016). Financial exclusion also leads women-owned micro and small businesses to dominate the informal finance sector, using microfinance as a source of capital (Mustafa et al., 2021).

The relevance of informal finance remains an important research topic given that issues of financial exclusion are still prevalent in developing countries. This paper therefore seeks to answer the following research question: does informal finance matter for micro and small businesses in Africa?

In answering the aforementioned question, this paper aims to investigate the financial channels used by micro and small businesses in sustaining their business activities, and how informal finance contributes to business start-ups, business growth, business operations, as well as its effect on the livelihoods of business owners and their communities. To achieve the investigation, the paper uses Systematic Literature Review (SLR), a process of extracting extant literature on informal finance and micro and small businesses in Africa. Owing to its rigour, SLR is commended for producing quality results from previously published sources (Bikefe et al., 2020; Boland et al., 2017). Further advantages are highlighted in the methodology section of the paper.

The contribution of this paper is threefold. First, it could stimulate theoretical debates on the importance of informal finance in developing countries, focusing on Africa. The research themes on informal finance are linked with theories to explain the relationship, applying a research method that aligns with the best practices proposed by leading scholars in SLR. Second, this paper adds to the existing literature on the importance of informal financing in Africa. There is a considerable number of papers on informal finance focusing on developing countries but there is a dearth of such studies in Africa. Finally, this paper provides a basis for policy formulation and implementation to promote the informal finance sector in Africa, opening avenues for financing agencies and governments to explore better ways of financing business activities by micro and small businesses.

The remainder of the paper is structured as follows: the second section carries out a literature review on informal finance, financial exclusion, micro and small businesses. The third section briefly outlines the methodology used in the study. Results are presented and discussed in the fourth section. Finally, the last section provides conclusions and recommendations.

2. Literature review

2.1 Informal Finance

Micro and small businesses face challenges in accessing finance (Flaminiano & Francisco, 2021; Mustafa et al., 2021). Nguyen and Canh (2021) define informal finance as small, short-in-maturity funding that is unsecured. The finance is sourced from private moneylenders, relatives and friends and other business owners who play a significant financing role (Jasir, 2018; Jones, 2008; Nguyen & Canh, 2021). Aliber (2015) states that: "Informal finance mechanisms are as diverse as they are ubiquitous" (p. 5).

Informal finance has emerged because the formal financial system is either unwilling or unable to provide funds to micro and small businesses (Quartey et al., 2017). They view them as low income and 'unbankable'; high risk and some do not know how to design financial products for them (Flaminiano & Francisco, 2021; Quartey et al., 2017). As an alternative, micro and small businesses develop their means of accessing finance from the informal finance system, which offers an alternative investment tunnel when formal finance is unavailable (Allen et al., 2019; Flaminiano & Francisco, 2021; Mutsonziwa & Fanta, 2021). In addition, informal finance becomes attractive to micro and small businesses due to relatively high processing speed, ease of access, lower or no administrative fees, and in some cases, no collateral requirements (Nguyen & Canh, 2021).

Governments have challenges in collecting information from the sector to understand it. Businesses operating in the informal sector do not contribute to government revenue because they do not pay taxes (Scheba & Turok, 2020). However, the government rarely provides financial support to the sector.

2.1.1 Informal finance sector players

Players in informal finance include moneylenders, pawnbrokers, merchants, rotating savings and credit associations (ROSCAs), accumulating savings and credit associations (ASCAs), landlords, and relatives and friends (Aliber, 2015; Benedict et al., 2021; Jasir, 2018; Jones, 2008; Mabwe & Dundu, 2018; Nguyen & Canh, 2021). Moneylenders are people who act as agents who provide loans to individuals, and micro and small businesses (Jones, 2008). Adams and Hunter (2019) state that they receive money from lenders for loans to borrowers at a commission. They are known for charging high interest rates, but they extend loans quickly, making them efficient and convenient for customers who need urgent cash for urgent transactions (Allen et al., 2019; Ky et al., 2021). Pawnbrokers are organisations that require physical collateral to issue out loans. The collateral will be in form of furniture, kitchen utensils, machines, cars, farming equipment, and so on deposited when getting a loan (Adams & Hunter, 2019; Jones, 2008). Small business owners use pawnbrokers to get quick finance and sometimes goods they may need to supply to their customers.

Merchants or traders extend loans in kind, in the form of commodities or small amounts of money that are needed by individuals, or small businesses. For example, they lend commodities such as fertilisers to farmers or goods to small shop owners. Trade credit plays a vital role in financing micro and small businesses (Cao et al., 2019; Wang & Kong, 2019). It has the power to ease credit market friction ignited by scarce financial resources. On the contrary, ROSCAs, also known as *mukando* in Zimbabwe (Mabwe & Dundu, 2018), *hehui* in China (Jiang, 2009), are financing associations that involve people coming together to mobilise savings through cyclical contributions. They later provide loans to members on a rotating basis (cyclical loans) (Ky et al., 2021). Members will use the money to finance their micro and small businesses.

Landlordism is a practice by landlords where they provide loans to their tenants. Such loans promote entrepreneurship among tenants (Adams & Hunter, 2019). The landlord-tenant informal loaning relationship can work in reverse where the tenants provide loans to landlords who need money to build, but do not have access to credit (Nor & Masron, 2019). Relatives and friends are regarded as the most common form of informal finance (Adams & Hunter, 2019) which is interest free (Ukanwa et al., 2018).

Due to information asymmetry perpetuated by formal financial institutions, informal micro and small businesses lack access to information that will enable them to be serviced by the formal finance sector (Wellalage & Fernandez, 2019; Williams & Shahid, 2016). The informal sector emerges to close the gap. Extant literature states that "...informal financial resources fill this 'financing gap' to smooth these financial constraints" (Du & Cheng, 2022, p. 2; see also Zhao & Jones-Evans, 2016).

2.1.2 Informal finance and its importance for micro and small businesses

Informal finance has been recognised as a powerful force in the growth of small to medium enterprises (SMEs) (Wellalage & Fernandez, 2019). For example, Jiang (2009) asserts that small businesses that have played a critical development role in China rely on informal finance to finance their business activities. According to Su and Sun (2011), informal finance was used to improve business performance in the manufacturing sector in China. In turn, wholesale businesses found trade credit lucrative.

Informal finance is considered an indispensable source of funds for small businesses (Jiang, 2009). It is an important source of funds used to fund SMEs' business operations. In addition, its spill over effects include job creation and poverty reduction in communities through improved local economic development (Lwesya et al., 2021). In rural areas, informal finance dominates the financial sector because of the absence of formal finance options (Dube & Dube, 2016). In some communities, informal finance is provided to acquaintances, kin, and kith such that lenders can obtain information about borrowers at a low cost (Jiang, 2009). The informal sector uses moral constraints for loan recovery and efficient lending.

2.1.3 Benefits from informal finance

The informal finance sector offers a variety of financial arrangements (Adams & Hunter, 2019). Informal finance plays a crucial role in developing countries where formal finance systems are underdeveloped (Cao et al., 2019). It acts as "...a partial substitute for formal credit in developing countries" (Cao et al., 2019, p. 1412). Other benefits include access to finance, discipline, savings, reciprocity, and innovativeness.

Access to finance: Cuevas (1989) argues that the informal financial sector has a variety of flexible arrangements, and its innovativeness creates arrangements that lower transaction costs. Services offered by the informal sector enhance the development and growth of micro and small businesses (Wellalage & Fernandez, 2019). The informal sector provides a wide choice of finance suppliers to micro and small businesses. Extant literature shows that informal finance promotes investment among small entrepreneurs, including women and migrants (migrant entrepreneurs) (Mago, 2020). Women in Ghana have realised business growth through accessing informal finance, thus enhancing empowerment (Schindler, 2010). Accessing finance further improves the cash flow position of these businesses (Nguyen & Canh, 2021; Wellalage & Fernandez, 2019).

Discipline: Lenders practice discipline to save money for lending. Borrowers develop the discipline to pay back loans. Borrowers are encouraged through informal liability pressure to participate in a way that makes the sector sustainable (Du & Cheng, 2022). Ethical business behaviour is expected from lenders and borrowers (Madestam, 2014).

Savings: There is a massive mobilisation of savings in the informal sector that can be witnessed through the loans extended to borrowers. Savings behaviour involves strictness to ensure the accumulation of funds for the informal sector (Adams & Hunter, 2019). The savings are also significant in ensuring that lenders can qualify for future credits (Buchenrieder et al., 2019).

Reciprocity: Community members create a web of relationships that make borrowers and lenders exchange roles with time. The relationships encourage borrowers to own their promises to benefit from the lenders when roles exchange. Informal intermediaries are concerned with achieving high quality relations between lenders and borrowers to sustain the sector (Adams & Hunter, 2019).

Innovativeness: The sector enjoys financial innovation. Flexibility in the informal finance sector helps to reduce transaction costs (Adams & Hunter, 2019; Wellalage & Fernandez, 2019). Players quickly adjust to changing conditions such as political, socio-economic, technological, legal, global, and demographic. The formal financial sector tends to be inflexible and brittle, leading to sustainability challenges (Adams & Hunter, 2019). The informal financial sector has achieved lowering transactions costs between borrowers and lenders. Archer et al. (2020) established a statistically significant relationship between access to informal finance and business innovation among small to medium enterprises in Vietnam. The innovations include new product development, improvement of products, improvement of processes, and improvement of business strategies.

3. Methodology

This paper used the SLR methodology to answer the predetermined research question. The literature explains that there are several types of literature review methods that include narrative reviews, rapid reviews, conceptual reviews, state-of-the-art reviews, realistic reviews, and critical reviews (Thow et al., 2016). SLR was chosen for its strengths. It is a methodical approach for data appraisal and synthesis (Boland et al., 2017), which is lauded for achieving the best results from literature sources. It produces a systematic and scientific analysis of primary literature sources (Petticrew & Roberts, 2006), and it produces reliable, valid and unbiased results because it is meticulous (Aliaga-Isla & Rialp, 2013). None of the primary articles in this study used SLR methodology. Out of the 30 articles, 13 used quantitative methods, 10 used qualitative methods, 6 used mixed methods, and one paper did not specify the method used.

3.1 The search and selection processes

We used internet search engines to search for journal articles. Boolean operators ('AND', 'OR', and 'NOT') were used to filter the targeted journals using keywords in an advanced search protocol (Taylor et al., 2020). They facilitate the inclusion and exclusion process during journal article selection to ensure focus and quality. Databases searched include Google Scholar and Emerald Insights (see Table 1 for details). Journal articles selected were written in English, containing information on informal finance, micro and small businesses. Grey literature was considered because of the lack of peer-reviewed articles on informal finance in African countries. Old sources were included to check whether the role of informal finance is rooted in history. Journal articles not meeting the criteria were excluded from the primary studies.

Search terms and Boolean operators were used as follows:

1. ("informal finance" OR "nonformal finance" AND "micro businesses" AND "Africa")
2. ("informal finance" OR "nonformal finance" AND "small businesses" AND "Africa")
3. ("informal finance system" OR "informal finance channels" AND "micro businesses" AND "Africa")
4. ("informal finance system" OR "informal finance channels" AND "small businesses" AND "Africa")
5. ("informal finance sector" OR "informal financial sector" AND "micro and small businesses" AND "Africa")
6. ("informal finance theory" OR "theories of informal finance" AND "micro and small businesses" AND "Africa")
7. ("microfinance" OR "micro-credit" AND "small businesses" OR "small to medium enterprises" AND "African countries")

A systematic selection of primary studies on informal finance and micro to small businesses was carried out (Smith et al., 2017). Articles were selected based on whether they addressed the research question, and they were extracted from indexed journals or distinguished organisations (see section 3.2). These papers were chosen based on their relevance to informal finance and micro and small businesses. In some countries, more than one paper was chosen to close the gap of our inclusion criteria, for example, two papers were selected from Zimbabwe, South Africa, Kenya, Tanzania, Nigeria and three from Cameroon. This was done because we could not find all the information required from the initial reviewed papers.

Piper (2013) suggests that many search engines should be used to widen the selection of articles in an SLR. Using the 'advanced search expression' we searched:

Table 1. Databases

Academic database	Link
Taylor and Francis	https://www.tandfonline.com/
Emerald Insights	https://www.emerald.com/insight
Science Direct	https://www.sciencedirect.com/
SAGE Journals	https://journals.sagepub.com/
Google Scholar	https://scholar.google.com/
Springer Link	https://link.springer.com/
ResearchGate	https://www.researchgate.net

Source: Authors

In addition to the above, grey literature was obtained through Google, blogs and other websites. We adopted the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) procedure to select papers starting with articles identified through database searching. The PRISMA mechanism is rigorous and helps researchers to avoid bias in paper selections (Stovold et al., 2014). We used the inclusion/exclusion criteria below to have a focused search thus reducing irrelevant articles.

Table 2. Primary studies Inclusion/exclusion

Inclusion	Exclusion
Articles published in English.	Article written in other languages.
Articles containing information on informal finance or microfinance/microcredit.	Articles not focused on informal finance or microfinance/microcredit.
Articles available to us in the search.	Locked articles
Articles on informal finance in African countries.	Articles on informal finance in non-African countries.
Articles focusing on all small and micro sectors.	Articles focusing on specific sectors.

Source: Authors

3.2 Sample justifications

We tried to select papers from different African countries to have a representative sample of primary articles on informal finance. The selection of countries was done conveniently as relevant articles were discovered during the search. From the search, we were led, or snowballed to certain countries and decided to look at neighbouring countries to check the availability of informal finance activities. We could not get relevant articles from some countries such as Egypt, Seychelles, Madagascar, Niger, and Djibouti. This could be explained by the behaviour of search engines since informal finance activities are expected to be globally ubiquitous. Guided by the inclusion/exclusion criteria, 30 primary articles were selected from the 503 downloaded. We removed duplicates and read the abstracts of the remaining articles. We further assessed the eligibility of the articles and excluded more until we were left with 173 articles (503 minus 330). From the 173 articles, a further assessment excluded 146 articles and remained with 24. Six more articles were searched to

fill in the gaps then we ended with 30 primary articles. The 30 articles are indexed or affiliated with prominent organisations (see Appendix, Table 3).

4. Results and discussions

The purpose of this article is to investigate whether informal finance matters for micro and small businesses. Using selected primary studies, the results and discussion section provides insights to the predetermined question on whether informal finance matters for micro and small businesses. As presented in the methodology section, primary studies were systematically selected and analysed to extract data. The primary studies selected show that informal finance matters for micro and small businesses in Africa. Table 3 summarises the primary sources reviewed to provide answers to the predetermined question. It shows the author(s), place (where the study was carried out), the notes (results), methodology and theory used, journal indexation/affiliation and emerging themes. The emerging themes from the findings reveal that informal finance plays a significant role in business start-ups, business growth, business operations (injected cash flows), livelihoods of business owners and their communities.

4.1 Business start-ups

Entrepreneurs who want to engage in business activities require some form of cash to start their businesses. From the data extracted from primary studies, it was established that informal finance matters for start-ups. The challenge faced by these businesses is that they lack access to finance thereby needing to rely on their own savings (Adams & Hunter, 2019; Hacini et al., 2022; Mustafa et al., 2021). In cases where they do not have the funds, they borrow from informal sources to start their businesses. From the primary sources identified, 4 sources agree (C1, C10, C23 & C28). Consistent with the pecking order theory, businesses prefer to use their funds (internal resources) or 'insider seed money' (Bonini & Capizzi, 2019) and then look for external funds (C8) due to the insufficiency of internal financial resources to grow the start-ups (see also Bonini & Capizzi, 2019; Civelek et al., 2019). Availability of external informal sources of finance helps start-ups to grow (see also Lawless et al., 2015; Nguyen & Canh, 2021).

According to the Resource-Based View (RBV), informal finance provides micro and small businesses with an important resource (finance), making them strategic and competitive. Availability of capital makes business start-ups grow faster and stronger (C1, C10, C23 & C29). The results further state that women-owned businesses are also benefiting from informal sources when starting their businesses (C10). These results are consistent with Saviano et al. (2017) who cited the relevance of informal finance for women-owned businesses. However, the debate on support provided to business start-ups should include non-pecuniary business support services such as training (Lwesya et al., 2021).

4.2 Business operations

Daily business operations are financed by either internal or external sources of informal finance. Business owners (C1, C2, C3, C5, C7-C10, C12-C15, C18-C21, C24, C27 & C28) can use the clients' money to help fund their business operations. Funds in a form of deposits for example can be used to source raw materials (C8). Other informal forms of securing business materials without cash would be to get credit from suppliers and pay at a later stage when the sale has been made. Such finances help businesses to stay afloat without cash flow. Such options allow for flexibility in securing business funds. The trade-credit option confirms the findings of Su and Sun (2011) and Wang and Kong (2019). Access to these funds was cited to improve businesses productivity (C2). From the organisational lifecycle perspective, micro and small businesses require external financial support for the operations (C1 & C13). From the RBV perspective, resources available (including human capital) for micro and small businesses support their operations for growth, performance and sustainability (C2, C3, C13 & C30).

4.3 Business growth

Established businesses require finances to continue with their services, however, this becomes a challenge when the cash flow is low (Salamzadeh & Dana, 2021). The results from the primary sources support these findings, the 22 sources (C1-C3, C5, C6, C8, C10, C13-C18, C20, C22 & C24-C30) indicated that the money loaned from informal sources was used to help with the daily business operations. The growth of the business is linked to business expansion which results in additional resources whereby more people could be employed. This can potentially lead to improved livelihoods where the unemployed will be able to earn a living and secure the essentials in their households (C3, C13, C14 & C18). From the RBV perspective, education is an intangible resource that promotes human capital development (or skills training), thus stimulating business performance and growth (C13 & C30). Other resources available include social capital or social resources (networks), physical capital (such as buildings and equipment) and natural capital (such as land and related resources) (see Bvuma & Marnewick, 2020). All these are important for business growth and development as explained by the RBV theory. Informal finance afforded some owners (C13 & C27) an opportunity to upskill, a key

component in supporting business growth. Human capital theory explicates how upskilling enhance business performance through efficient and productive human resources (C1, C2, C3 & C13).

4.4 Business diversification

Micro and small enterprises use the funds sourced from informal finance to diversify business operations (C8, C10, C12, C16, C17, C24, C25, & C28). Moreover, diversification gives these entrepreneurs an opportunity to increase their incomes. Institutional and structuralist theorists (Williams & Shahid, 2016) argue that the development of institutions and structural changes promote micro to small businesses through provision channels to access finance (C17 & C18). As a result, business operations can be diversified (C12, C16 & C24) to enhance profitability and sustainability (C14, C18 & C24). In addition, the supply-leading theory (C19) states that financial development drives economic growth through diversification and improved business performance.

4.5 Livelihoods enhancement

Business start-ups and their growth present an income-earning opportunity for those participating in business activities. Incomes earned contribute to improved livelihoods especially in Africa where most communities live in poverty (C2-C4, C17-C19 & C26-C28). The capability approach and social networks theory state that the growth of micro and small businesses promotes livelihoods among business owners and their communities (C22). The notion of resource-based livelihoods (Singh et al., 2022), which argues that the livelihoods of micro and small business owners and members of the community are enhanced through access to informal finance, is supported by the RBV theory. The results showed that incomes earned were used for buying food, insurance for the businesses, caring for family members, and paying for schooling, confirming Ukanwa et al.'s (2018) findings. These businesses also secure livelihoods for community members as they can buy or access services in proximity. This finding is in line with literature where Mahdi (2018) also reported that these businesses enhance livelihoods.

4.6 Sustainability

The findings revealed that informal finance influences the sustainability of small businesses as when they need cash it is easily available thereby enabling such businesses to continue their operations (C14, C18, C19 & C29). The ability to access the required funds was cited as the main driver for these businesses' sustained business operations. From the financial intermediation theoretical perspective, informal financial intermediation enhances the sustainability of micro and small businesses as a result of access to funds for business operations (C15, C18 & C26). Informal accumulation of capital is facilitated by informal intermediaries (see also Alhassan et al., 2019). Additionally, sustainability of micro and small businesses can be explained using the RBV theoretical lens.

4.7 Savings

The informal sector does not only offer the needed funds for various business needs for small businesses, but affords them an opportunity to save (C9, C15, C17, C26 & C27). Schemes like *Stokvels* (in South Africa), *Njanjis* (in Cameroon), *Susus* (in Ghana) are used to encourage small businesses to save money for both social and business functions corroborating findings of Adams and Hunter (2019). Again, the financial intermediation theory asserts that informal financial intermediaries promote resource mobilization through savings arrangements via ROSCAs, ASCAs, *Stokvels*, *Njanjis* and *Susus* (C15, C18 & C27). Savings mobilisation stimulates investments in the long run, thus prompting sustainability among micro and small businesses. The savings mobilization activities are linked to the RBV theoretical framework since they strengthen the positions of businesses regarding resource power. Institutional and structuralist theories argue for the development of informal savings institutions to promote the performance of the micro and small businesses through access to finance (C17 & C18).

4.8 Financial inclusion

The primary sources did not have issues of financial exclusion as the informal sector was servicing their needs (C1-C30). It was cited that in cases where businesses experienced financial exclusion, for example being denied loans due to their classification as substantial risk (Quartey et al., 2017) thereby charging them high interest rates, the informal finance served as a cushion to manage these shocks (C11). The informal sector, therefore, promotes financial inclusion (Zins & Weill, 2016), particularly for women-owned businesses who face harsh restrictions when applying for finance (Mustafa et al., 2021; Ukanwa et al., 2018). Informal financial intermediation theory explicates that financing tools such as trade credit alleviate financial constraints among micro and small businesses (C15, C18, see also Wang & Kong, 2019) thus promoting inclusive growth. Since small businesses are charged high interest rates when accessing formal finance, the

findings confirmed that they resort to the informal sector (C11). C3, C10, C12, C21, C22 and C25-C28, concurred that these businesses benefited from informal finance for their start-ups, business operations, to avoid financial exclusions. The primary sources' access to finance for various business-related activities affirms that in Africa informal finance plays a critical role in supporting small businesses.

5. Conclusions and recommendations

The literature shows that informal finance is an old concept that is still important today. It is still attracting the attention of researchers, policymakers, academicians, development practitioners, development finance experts, and other stakeholders. This paper is an effort to contribute to the discourse on the importance of informal finance to micro and small businesses. The findings proved that informal finance matters as the savings and saved funds can be borrowed to assist with business operations, expansions as well as diversifying to other businesses to assist broaden the income streams of these entrepreneurs.

The results conclude that informal finance plays a critical role in small business operations, growth, sustainability, and livelihoods of small business owners. Micro and small businesses do not have access to financing offered by the formal finance sector since they are viewed as 'unbankable'. Banks, for example, view them as risky borrowers who create moral hazards due to information asymmetry. Primary sources reviewed showed that informal finance is important in developing countries, especially those in Africa. Moreover, informal finance benefits small businesses owned by the youth, women and men across various sectors. The results identified themes and theories linked to informal finance. The themes identified include business start-ups, business growth, business operations, and the livelihoods of business owners and their communities. Identified theories include Organisational lifecycle perspective and Human capital, Upper echelons/Taxation theory, Resource-based theory/RBV, Financing advantage, Price discrimination, Transaction costs, and Pecking order theories, Learning, industrial organization and Stochastic models, Financial intermediation theory, Institutional and Structuralist theories, Contemporary banking theory, Supply-leading theory, Principal-agency, Capability approach, Social networks theory and Money lender theory.

The contribution of this paper is threefold. First, it could stimulate theoretical debates on the importance of informal finance in developing countries, focusing on Africa. The research themes on informal finance are linked with theories used to explain the relationship, using a method that aligns with the best practices proposed by leading scholars in SLR (see for example Aliaga-Isla & Rialp, 2013; Boland et al., 2017; Petticrew & Roberts, 2006; Thow et al., 2016).

Second, this paper adds to the existing literature on the importance of informal financing in Africa. The choice of African continent is relevant since it comprises countries that face financial constraints, thus side-lining micro and small businesses. This study broadens the analysis of informal finance away from the formal finance focus. This research also observed a considerable number of papers on informal finance in developing countries but there seems to be a dearth of such studies in Africa. Furthermore, more research still needs to be done on informal finance in Africa since the financial systems face serious challenges and small businesses are excluded from the formal finance sector. This paper bridges this gap by exploring the benefits of informal finance and how it can be tailored, through policy formulation and related strategies to enhance informal financing for African micro and small businesses.

Finally, this study provides a basis for policy formulation and implementation to promote the informal finance sector in Africa. Policymakers are well positioned to develop a conducive environment for the promotion of informal finance which has been identified in the extant literature as a catalyst for economic growth and development. In addition, micro and small businesses are excluded from the formal financial sector (Benedict et al., 2021), hence the discussions in this paper will open avenues for financing agencies and governments to explore better ways of financing business activities by micro and small businesses. From the foregoing, this paper recommends that African governments should create supportive policy frameworks to promote the informal finance sector. The sector could be strengthened on its own, or, in line with the money lenders theory, it could be coupled to the formal sector to take advantage of possible synergies. Both informal finance and small business policies play major roles in promoting access to finance and small business growth. Local municipalities in Africa can encourage and support informal finance and small business development to promote local economic development.

The limitations of this paper include the selection of primary studies, where grey literature was included, which could be a problematic source of information since grey literature has disadvantages of not being peer-reviewed and not indexed with popular databases. Some studies had a general view on Africa without focusing on specific African countries. Due to the different institutional contexts, future studies could focus on African countries to close the gap of limited country-specific studies on informal finance. In addition, comparative studies on informal finance in Africa may inform future lines of research.

Research done outside the African continent validated the importance of informal finance in promoting micro and small businesses, however, these could not be considered as primary studies because of our

inclusion/exclusion criteria. Despite the use of keyword 'Africa' during the search process, studies from countries outside Africa were displayed. However, these studies were not included in our primary studies. Future studies could increase the number of primary studies or use field studies for the collection of empirical data.

From a theoretical perspective, sixteen of the primary papers did not have a theoretical analysis of findings. Therefore, future research should attach greater importance to the use of a sound theoretical framework not only to justify the hypotheses to be tested in relation to the study of informal finance in Africa, but also to discuss the respective results in greater depth and rigour.

Acknowledgements

The authors would like to acknowledge Mr Solani Ngobeni for the invaluable editorial support provided throughout the process of writing this manuscript.

Appendix

Table 3. Results from primary studies in the SLR

Identifier	Country	Notes	Method Theory	Indexation Affiliation	Themes
C1 (Anderson, 2017)	Tanzania	<ul style="list-style-type: none"> - Start-ups are owner financed, some loan money from friends and relatives. - Operational funds are affecting the start-ups and growth of small businesses. - The high interest rate and short repayment model by microfinance institutions is a challenge. - Banks are not lending them money. 	Quantitative Organisational lifecycle perspective Human capital	The Open University of Tanzania	Start-ups Business operations Business growth Financial inclusion/exclusion
C2 (Benedict et al., 2021)	Kenya	<ul style="list-style-type: none"> - Access to credit improves performance of businesses - Credit enables businesses to buy quality products - Micro-credit used to help increase productivity of small farmers. 	Quantitative Resource - based theory Human capital Upper echelons Taxation theory	DOAJ	Business growth Business operations
C3 (Buchenrieder et al., 2019)	Cameroon	<ul style="list-style-type: none"> - Important for poverty reduction in the participating communities. - Farmers resort to informal loans when rejected by banks. 	Qualitative Resource - based theory Human capital Upper echelons Taxation theories	SCOPUS	Business operations Business growth Livelihood
C4 (Cuevas, 1989)	Cameroon	<ul style="list-style-type: none"> - Women benefit from the informal finance sector with various options like self-help groups (SHGs). - Women dominate the SHGs, and they benefit more than men. 	Qualitative No theory	SCOPUS DOAJ	Livelihoods
C5 (Djossou et al., 2020)	Benin	<ul style="list-style-type: none"> - Start-ups and small businesses do not have access to formal finance. - Informal finance boosts youth entrepreneurship. - Increase in sales due to informal finance access. 	Quantitative No theory	Partnership for Economic Policy (PEP)	Business operations Business growth
C6 (Dlamini & Mohammed, 2018)	Eswatini	<ul style="list-style-type: none"> - Agricultural SMEs are largely excluded from the formal finance sector. - Informal credit is used by many SMEs to support business growth. - Start-ups depend on personal savings, loans from stokvels, money lenders, loans from relatives, friends and colleagues. - The government supports the establishment of semi-formal finance institutions to support SMEs. 	Quantitative No theory	Agriculture Economics Association of South Africa	Business growth
C7 (Dube & Dube, 2016)	South Sudan	<ul style="list-style-type: none"> - Small businesses use informal finance due to lack of collateral and access to formal credit. - Informal finance important for businesses operations. 	None No theory	African Journals Online (AJOL) PUBLONS	Business operations
C8 (Fanta, 2015)	Ethiopia	<ul style="list-style-type: none"> - Manufacturing SMEs opted for informal finance when the formal financiers reject their applications for loans due to lack of collateral. - Trade credit used to fund operational needs. - The <i>iqqub</i> was used to fund business supplies, equipment, and investments. 	Quantitative Financing advantage Price discrimination Transaction costs Pecking order theories	SCOPUS	Business operations Diversify business Growth
C9 (Fapohunda, 2012)	Nigeria	<ul style="list-style-type: none"> - Women lack access to finance to expand businesses. - Banks do not loan women-owned businesses money. - Women established microfinance groups to raise business funds. 	Quantitative No theory	DOAJ	Business growth Business operations Financial inclusion / exclusions
C10 (Guma, 2015)	Uganda	<ul style="list-style-type: none"> - Micro credit helps women to fund their business activities. - Women-owned businesses could not access finance from commercial banks as they did not have collateral for securing loans. - They used personal savings, loans, and gifts from friends and relatives for their business start-up funds. - Banks were not open to their business plans presented when asking for loans. 	Qualitative No theory	SCOPUS IBSS	Start-up funds Financial inclusion / exclusion

Table 3 Continued. Results from primary studies in the SLR

Identifier	Country	Notes	Method Theory	Indexation Affiliation	Themes
C11 (Haselip et al., 2014)	Senegal	- SMEs are self-funded, even though there are formal lending organisations including MFIs. - The SMEs are regarded by commercial banks as high risk compared to the large enterprises. - They rely on the informal finance sector.	Qualitative No theory	WoS SCOPUS IBSS	Financial inclusion / exclusion
C12 (Kasseeah et al., 2013)	Mauritius	- Women-owned businesses access funds from the informal finance sector. - They are self-employed and they rely heavily on money from friends and relatives.	Quantitative Melitz model	SCOPUS IBSS	Business operations Business growth Business diversification
C13 (Kiyai et al., 2019)	Kenya	- Informal finance improved access to credit, savings mobilization and financial skills training by micro to small businesses. - Access to finance to improves performance of SMEs.	Quantitative Human capital Learning, industrial organization Stochastic models Resource - based theory	Index Copernicus International (ICI)	Business operations Business growth Skills
C14 (Ky et al., 2021)	Burkina Faso	- Informal financing channels and their relevance to different groups. - Mobile money solutions enhance informal finance transactions. - Rural communities depend on informal lending for their business financial needs. - Small business owners register as mobile money agents to improve access to finance by community members. - Small business owners start mobile money businesses for extra income.	Qualitative No theory	WoS SCOPUS IBSS	Business operations Business growth Sustainability
C15 (Mabote, 2017)	Lesotho	- Unbanked communities access finance from the informal finance system. - Non-bank financial institutions (NBFIs), supply fund to small businesses to promote economic growth. - Informal savings groups play a significant role in providing access to finance.	Qualitative Financial intermediation theory	Central Bank of Lesotho	Business operations Business growth Savings
C16 (Mabwe & Dundu, 2018)	Zimbabwe	- Informal businesses use informal finance (savings groups). - New ventures and expansion of existing businesses.	Mixed No theory	DOAJ ROAD	Business growth Business diversification
C17 (Mahdi, 2018)	Sierra Leone	- Interdependence of formal and informal financial sectors. - Beneficiaries of microfinance do not prefer to save their money with formal financiers. - Microbusinesses preferred informal financial services to formal financial services. - Informal finance is used due to lack of access to formal finance.	Mixed Institutional & Structuralist theories	Consultative Group to Assist the Poor (CGAP)	Diversify businesses Livelihoods Financial inclusion
C18 (Masanga & Jera, 2017)	Zimbabwe	- Helps informal traders to acquire assets, purchase necessities, and pay school fees their children. - Informal urban traders have access to micro-credit (informal finance) for their business activities. - Their businesses continue to thrive due to the access.	Mixed Contemporary banking theory Financial intermediation Principal-agency Economic & Institutional theories	PUBLONS	Business operations Business growth Livelihoods Sustainability
C19 (Mashigo, 2015)	South Africa (natives)	- Many survivalist enterprises sustain their enterprises through informal finance. - In Soshanguve, informal finance is important for the survival of survivalist enterprises. - Poor access to finance forces them to approach <i>mashonisas</i> (usurious lenders) for help.	Qualitative Supply-leading theory	DOAJ	Business operations Business growth Sustainability
C20 (Massarongo et al., 2015)	Mozambique	- Informal savings and loans groups (SLGs) are an alternative way of accessing finance for business capital. - Some savings groups are supported by CARE International. - Savings groups are a source of finance for stimulating businesses.	Qualitative No theory	Institute of Social and Economic Studies (IESE)	Business operations Business growth

Table 3 Continued. Results from primary studies in the SLR

Identifier	Country	Notes	Method Theory	Indexation Affiliation	Themes
C21 (Mmasa, 2017)	Tanzania	- Women farmers using informal finance in a form of loans from friends and relatives compared to other informal credit means. - Loans are used for agricultural activities including paying rent for farms.	Quantitative No theory	Clarivate PUBLONS ROAD	Business operations
C22 (Msendema & Nyirenda, 2019)	Malawi	- ICT support in the informal finance sector enhanced access to finance by women in Blantyre. - Informal groups such as Village banks are established by women to support their small businesses. - Informal finance is important for small business growth	Mixed Capability approach Social networks theory	IST-Africa Conference	Business growth Livelihoods
C23 (Nkem & Tengeh, 2017)	South Africa	- Immigrant-owned businesses in Cape Town with no access to formal finance formed informal finance associations called <i>Njangis or Stokvels</i> . - The <i>Njangis</i> enabled the Cameroonian entrepreneurs to start and run their businesses.	Mixed No theory	WoS SCOPUS IBSS DOAJ	Start-up
C24 (Nor & Masron, 2019)	Somalia	- Informal finance in a form of tenant-financier is used by businesses in construction to build properties. - They can easily access cash for site constructions. - Informal financial sector is the only reliable source of funding for most business projects.	Quantitative No theory	SCOPUS	Business operations Business growth Business diversification
C25 (Ojong, 2019)	Cameroon	- Lower income groups borrow from the informal sources. - Women use informal financial services for investments. - Widowed women (Household heads) borrow from the sources. - Many sources of credit for economic investment purposes.	Mixed No theory	WoS SCOPUS IBSS	Diversify businesses Business growth
C26 (Oluwoyo & Peter, 2019)	Nigeria	- Financial intermediation provides funds through MFIs, ROSCAs and SHGS. - Promote savings and business growth	Quantitative Money lender theory	PUBLONS Index Copernicus International (ICI)	Financial inclusion Business growth Savings Growth
C27 (Schindler, 2010)	Ghana	- Access to credit improves women's entrepreneurial skills through training. - Informal finance strengthens women's livelihood strategies. - Informal finance enables businesswomen to access trade credit and buy micro insurance (thus improving business risk management strategies). - <i>Susu</i> collectors visit the women to collect small amounts of money which will be paid out at the end of the month as a lump sum. This forced saving techniques helps them to have capital for their orders	Qualitative No theory	SCOPUS	Livelihood Insurance Savings
C28 (Simael & Honoré, 2021)	Chad	- Women-owned businesses private finance. - Informal finance is used to diversify and grow business. - A significant and positive correlation between access to finance and business profits established.	Quantitative No theory	Institute of Development Studies	Business operations Business growth Business diversification
C29 (Tengeh & Nkem, 2017)	South Africa	- The use of informal sources of finance is influenced by a lack of credit history, audited financial records required by formal financiers. - Immigrants who do not access to formal loans use informal finance. - Immigrants who started businesses in South Africa relied on personal savings, loans from family and friends, and stokvels to fund their businesses. Stokvel funds were used for business expansion purposes. - Informal financing plays a significant role towards sustainability of small enterprises. - Informal finance beneficiaries subscribed to multiple stokvels to broaden their pool of fund.	Qualitative No theory	WoS SCOPUS DOAJ	Business operations Growth Sustainability Start-up
C30 (Uusiku, 2019)	Namibia	- Microcredit has an influence on the growth of firms. - Access to microcredit will be more effective in influencing SMEs growth if combined with other variables including education and good business experience.	Quantitative Resource - based theory (RBV)	University of Cape Town (South Africa)	Business growth

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