Chapter 10

Tool for the Financial Inclusion of Informal Retailers in Colombia

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ABSTRACT

One of the structural problems in Colombia is the informality of economic activities. Indeed, there is a high proportion of informal retailers in large cities of the country. This chapter propounds a tool, Credit Scoring, for the financial inclusion of this population. The tool is designed for obtaining resources at lower financial costs, and it aims at improving the commercial activities of these agents. In this way, informal financing, which increases poverty, is avoided. Also, in connection with this subject, surveys conducted among a thousand informal retailers in five Colombian cities—Bogotá, Cúcuta, Ibagué, Villavicencio and Arauca—were taken into account.

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INTRODUCTION

In Colombia there is a big concern about how to achieve greater financial inclusion for low-income households and people employed in informal jobs, such as retailing. These agents face several limitations that stop them from conveniently and effectively gaining access to the resources of the formal financial system; these limitations include: the lack of previous banking history, low income, and high financial costs; and, from the point of view of the financial institutions, the risks incurred, especially when obtaining reliable information about the socioeconomic conditions of informal workers is difficult.

Some studies aimed at knowing how agents finance their economic activities in informal scenarios, point to the modality of informal credits. These are financial resources, to which no major restrictions are imposed, for example, regarding guarantees. Despite the high costs underlying this form of financing, the costs of informal credits are almost equal to, or higher than, the costs in the formal financial system. In Colombia, where the informality rate in the labor market is close to 50%, an estimate for the proportion of informal loans is close to half of that figure (DANE, 2019).

Among the population engaged in informal economic activities, there is a significant part working in informal trade in the public space of cities with relevant economic dynamics. In most cases, informal retailers act as intermediaries for the selling of industrial products, and, in other less significant cases, they sell goods manufactured by themselves, especially culinary products. Government policies and programs designed to promote financial inclusion in the country have focused essentially on productive activities involving the transformation of raw materials, which, to some extent, require the hiring of specialized workforce, thus the creation of formal jobs. Accordingly, informal retailers who are not engaged in activities dealing in industrial production, and work only as intermediaries in the retailing of goods, are excluded from these programmes.

Considering the rates of informality in developing economies, in which informal trade has a relative importance, we think that it is necessary, as a transitional strategy aimed at reducing poverty, and, simultaneously, as a way to create financial habits among this population, to take into account tools allowing the integration of the population engaged in informal commercial activities into the formal economy. In this way, a progressive improvement in the process of formalizing the economy could be achieved. Indeed, creating better financing practices, would allow these agents to engage in commercial and productive activities that generate profit, and, therefore, that could improve the quality of life of people and households.

Different alternatives that have been considered when defining and measuring labor informality and, based on technical criteria, employ the definitions related to
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