

BRIDGING THE FINANCE AND THE TECH INDUSTRY TOWARDS INFORMALITY

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“Ignoring technological change in a financial system based upon technology is like a mouse starving to death because someone moved their cheese”

– Chris Skinner

The informal sector covers a significant chunk of the overall economy in Pakistan, approximately 56% of the overall GDP (Khuong et al 2020). It has strived on its own, bypassing the legal ecosystem, though has faced my headwinds, but it stood standstill. The challenge also brings opportunities with it. The policymakers have also come up with public initiatives to bring the informal sector into its tax net. The question doesn't only rely on whether to bring the informal sector into the tax net or not? But the real questions are what could be the best possible tools that could help the informal sector for picking up its business gainfulness? What are its possible entrances through legal framework that could benefit the overall economy?

When we talk about the informal sector, of the many initiatives taken by the Government, an important inclusion that could add value to it is the Fintech. In simple words, Fintech is a combination of finance and technology. The term Fintech (Financial Technology) refers to computer programs and other modern technologies used by businesses that provide automated and improved financial services, (Deloitte, financial advisory, 2020).

In Pakistan, there have been a few operational Fintech firms, such as Finja, CreditFix, TEZ Fin, JazzCash, and others. The Government has recently through SECP also set up a website that serves as a platform for idea generation for startups. The website contains the startup models; this also contains the Fintech firms in Pakistan.

As we talk about the informal sector of Pakistan, many individuals start their businesses through the informal sector mainly due to the Government machinery and its tedious procedures such as red tape, etc. Especially, many women find it difficult to start their business due to formal channels because the bureaucratic process is often filled up with complicated procedures.

With the advent of Fintech, which is in the infancy stage in Pakistan, there lies a huge potential not only for the public sector but also for the private sector to come up with reasonable business models that can fill the vacuum particularly in the informal sector. The informal sector is well familiar with the mobile phone, additionally, its branchless banking services such JazzCash e.g., however, there is still a further need to improve its applicability and

usage. One of the key hurdles that Fintech is facing for inclusion into the informal sector is the complexity of the rules and regulations. The rules and regulations should be flexible enough to accommodate the needs of the business models of the fourth industrial revolution (industry 4.0). The digital landscape in the rest part of the Globe has come up with solutions to this problem. It has introduced the concept of Regtech (regulatory technology), which is a new technology that uses information technology to enhance regulatory processes. With its main application in the financial sector, it is expanding into any regulated business with a particular appeal for the Consumer Goods Industry, (Schuffel and Patrick 2017).

Keeping in line with Regtech, the state authorities should devise policies that could make financial inclusion through Fintech much easier and accessible especially for the informal sector. Among the Fintech companies in Pakistan, one of them is Finja. The Finja is getting common these days because of its easy accessibility and usability. It fills the financial services needs especially for SME businesses and merchants (karyana shops), by providing a simple lending ecosystem. The Punjab

Government has adopted a similar business model, it's known as the ePay Punjab. It's collaboration between the Punjab Information Technology Board and the Finance Department of Punjab. It also enables the citizens to pay taxes. There is also a dire need to increase the financial literacy level among the citizens. This can be achieved mainly by the policymakers to create public awareness, channelizing the smartphones particularly to create public awareness regarding basic financial literacy, such as cash management, microfinance, money transfers, saving accounts, etc. The policymakers

should use Fintech and Regtech to promote a business culture especially for the informal sector of the economy in a simple and competitive way.

With regards to SME's and their linkages with the informal sector, a growing trend is the digitalization of businesses, especially through e-commerce. Although in Pakistan the e-commerce is still in the growing stage, which hasn't reached its full potential yet, however, the policymakers can clout the e-commerce business model by enabling a branchless banking channel such as Fintech. The informal

sector through e-commerce, along with the effective payment mechanism such as Fintech, could have a level playing field.

The policymakers need to make the institutions more inclusive, which can induce the right incentives for the business models to flourish. With the right legal framework designed, facilitating the informal sector by providing it easy access finance facility, it's for sure that the informal sector can not only be added into the taxpayer's list but also add a lot of value to the faltering economy.