

6th INTERNATIONAL CONFERENCE ON
MANAGEMENT, ECONOMICS & FINANCE

10-12 March 2023

Prague, Czech Republic

Credit Transactions of Informal Businesses: The Role of Financial Record-keeping and Digitization

Deepak Kumar¹, Rouhin Deb²

¹Indian Institute of Management Ranchi India

²Chief Economist, Assam Government, Assam, India

Abstract

Informal businesses constitute a bulk of activity and employment for many developing countries.

Most of these small businesses are unable to grow due to lack of formalization, limiting access to credit. There is a serious government push towards the formalization of the informal enterprises. However, the process is slow and there exists a hidden enterprise culture. The literature acknowledges the desire of certain businesses to remain informal. Our paper explores the phase in which the informal firms move towards formal registration. The analysis is done on three clusters of informal firms located in India. We examine whether improved practices of accounting accompany credit transactions with the suppliers and customers. The smartphone penetration, cheap data and low transaction costs has tremendously increased digital transactions. The digital payment systems may assist recording of financial transactions, helping informal firms indulge in credit transactions and get working capital loans through payment banks. We find that the financial record keeping and digitization accompanies the use of credit, subsequently, leading to use of loans by the informal firms. The study contributes to the literature on the steps towards formalization of informal firms.

Keywords: financial formalization, financial statements, small business, UPI, credit