

Essay

Informal economy: the way forward

Outline

Thesis Statement: Informal economy can be addressed through economic and social reforms at individual, institutional and structural level.

Introduction

I What is informal economy?

A. "Informal economy is a segment of unregistered and undocumented economy" - USAID

II The contemporary situation of informal economy in Pakistan

A. "\$457 billion" World Bank

B. "Nearly 75% of the total labour force is engaged in informal sector employment." - (Labour Force Survey 2020/21)

III What are the major causes of informal economy of Pakistan?

A. Individual Level

1. Lack of tax morality

Unnecessary details

2. High poverty rate
Case in point: 39.4% is poverty rate of Pakistan (World Bank)

B. Institutional level

1. High illiteracy rate
Case in point: 62% of Pakistanis are illiterate

IV What are the ways forward for Pakistan's informal economy?

A. Individual level

1. Creating sense of tax morality
"Free riders who do not pay" from - 'Why Pakistan will survive' by Mohsin

Hamid

2. Ending economic marginality
3. providing education to all
i- Lowering illiteracy rate

B. Institutional level

1. Giving technical and vocational training to all

2. Ensuring ease of doing business
3. Spreading awareness about tax system

C- Structural level

1. Addressing corruption
 - i- Digitalization
2. Increasing threat of detection
3. Introducing supportive program for informal workers.

Further mature your arguments

Conclusion

Ever since independence, Pakistan has been lurching from one crises to another crises. If one crises buries its head, then another rears its ugly head. Presently, rising ~~the~~ issue of informal economy has become a serious threat to economy of Pakistan. Informal economy can be

addressed through economic and social reforms at individual, institutional and structural level. There are several causes of informal economy including high illiteracy rate and high poverty rate which create an uncertain environment for formalizing of economy. As every cloud has a silver lining, Pakistan can also address the significant reasons of informal economy by using realistic approach. The dark clouds of informal economy can be mitigated by creating sense of tax morality among people across the country. To achieve the aim of formalizing economy, there is dire need to eliminate economic marginality. Pakistan can bounce back from this quagmire by providing education to all without any inequality. There is an impelling need to give technical

and vocational training ~~training~~ to all. Ensuring ease of doing business, spreading awareness and addressing corruption, informal economy can ~~be~~ converted into formal economy.

This essay defines the meaning of informal economy and the contemporary situation of this phenomenon. Examining the definition and magnitude, it turns into highlighting the leading causes of informal economy, and after this, the discussion suggests robust solutions to tackle the issue of informal economy.

No need of adding connecting paragraph

Informal economy refers to unregistered economy. USAID defines the informal economy is a segment of the economy which fosters activities falling outside the ambit of state imposed regulation,

taxation and observation.

The definition clearly reflects that informal economy is an unregistered and undocumented economy.

To understand the concept of informal economy of Pakistan, it is ~~an~~ imperative that ^{to} highlight the current position of informal economy of Pakistan. The dismal panorama of informal economy is showing dark picture of Pakistan's economy. According to the World Bank report, Pakistan has \$457 billion is marked as an informal economy. It is a huge amount of a country which affects the development of Pakistan. Moreover, there are a number of labour forces which are not registered, and they use every source of

the country, but does not pay it. As per the report of Labour Force Survey 2020/21, nearly 75% of the total labour force in Pakistan is engaged in informal sector employment. There is no denying the fact that these reports are sending alarming bell to the country, and which warrant immediate remedies. Therefore, the current position of informal economy of Pakistan is very dangerous, but the situation is not all bleak for the country. It can be addressed with holistic approach.

Irrelevant details

Before suggesting the ways forward, it is essential to highlight the leading causes of informal economy. The essay is turning to discuss the core causes of informal economy which create conducive environment for entrepreneurs,

informal workers and
labour force.

The most important leading cause of informal economy is lack of tax morality among people. Regrettably, a huge number of citizens avoid to register their income and work in the record of government. The size of informal economy is more than 40% of the GDP of Pakistan. It shows that people are unwilling to pay tax to the country. This act contributes to economic crisis which hampers not only the survival of Pakistan but also the survival of the people. Thus, the culture of avoid to pay tax is a serious cause of informal economy.

Besides the lack of tax morality, high poverty rate of Pakistan is also

responsible for informal economy of Pakistan. According to the World, Pakistan's poverty rate is 39.4%, meaning that 95 million people in the country live in poverty.

It shows that the high poverty rate forces people to remain in informal sector.

However, due to high poverty rate, Pakistan is suffering from the problem of informal economy.

Furthermore, exploring the main reasons of informal economy, high illiteracy rate of Pakistan poses serious threat to formal economy of Pakistan. 62% of Pakistani people are illiterate. Due to high illiteracy rate, the citizens are unable to register them in formal sector. They also have no awareness about the advantages not only for the state but also for the citizens. Although

the government of Pakistan has taken potential measures to address this issue, still it has need to introduce more supportive program to meet this fundamental right. Therefore, Pakistan has high illiteracy rate which provide friendly environment to informal economy.

Considering above causes of informal economy, it is a grave situation which requires robust ways forward. So, the essay suggests the suitable way forward to address informal economy. The discussion proposes most important ways forward to eliminate informal economy.

There is always a light at the end of the tunnel. Informal economy can convert into formal sector by creating sense of morality. Mohsin

Hamid, the prominent author, criticizes those who do not pay tax to country by calling "free riders" in his book "Why Pakistan will survive". Undoubtedly, everyone has to pay tax to state because it is our moral responsibility. Thus, everyone should pay tax to country and create sense of morality which can reduce the threat of informal economy.

Furthermore, it is dire need to address informal economy by ending economic marginality which can play pivotal role in eliminating the main reasons of informal economy. To meet the purpose of reducing informal economy, the government should introduce supportive program for poor people which can

fulfil the fundamental need of people. Benazir Income Support Program (BISP) and Ihsas Program are green signals to reduce poverty.

Such type of programs can play significant role in eliminating economic marginality which can help in addressing the issue of informal economy. Hence, Pakistan can eradicate the major sources of informal economy by ending economic marginality.

In addition to, there is an imperative need to provide education to all which can support in eliminating informal economy. Education has the ability to build sense of moral responsibilities among the people. To convert informal economy into formal economy, first of all, the government has to take robust measures

For reducing high illiteracy rate. Article 25-A of the Constitution of Pakistan states that the state is responsible for providing free and compulsory education to all. Despite the fact that so many initiatives have been taken to diminish illiteracy, still there is a dire need to assess strategies and provide all fundamental facilities to achieve the aim of education. To conclude, providing to education to all can help formalizing economy.

Moreover, to stifle the core causes of informal economy, Technical and Vocational ^{Education} Training (TVET) can play pivotal role in this regard. Pakistan has 3,740 technical institutions, and it produces 0.45 million of skilled workforce annually. As per the

current population of Pakistan (241.5 million) these institutions are nothing. The authorities concerned must introduce technical program along with full and half scholarship in order to decrease the source of informal economy. Hence, to eradicate informal economy, TVET can play significant role.

Reducing the sources of informal economy, the government has to ensure ease of doing business which can help in addressing the issue. Due to complex system of registration and wastage of time, businessmen are avoiding to register their business, and prefer to remain in informal sector.

In 2021, the Securities and Exchange Commission of Pakistan (SECP) released a

List of over 100 companies involved in illegal business activities. It reflects that the companies are contributing to damage the economic sector of Pakistan by avoiding to pay tax. Therefore, the government has to introduce friendly program which provide ease of doing business.

It is also pertinent to mention that spreading awareness about tax system can support to address informal economy. In this regard, media is the potential tool which can build an environment of moral responsibility of paying tax to government. The platforms of social media like Facebook, YouTube and Whatsapp can develop tax culture by spreading awareness about tax systems. Hence, to solve the problem of informal

economy, it is an essential to spread awareness about tax system.

Suggesting the ways forward of informal economy, there is a vigorous requirement to address the plague of corruption. Unfortunately, there are so many harbingers which paint the bleak picture of transparency. To address the sources of corruption, digitalization is one of the effective methods which can play an important role in eradicating corruption. Estonia has digitalized its infrastructure that enables secure and transparent data sharing between government agencies and citizens. So, digitalization is one of the potential sources of eliminating corruption which can help in addressing informal economy.

Furthermore, informal economy can be diminished by increasing threat of detection. Government bodies must take action against those who are not registered in the record of government.

The fear of detection can help in eradicating the problem of informal economy. Therefore, increasing threat of detection can play pivotal role in informal economy.

There is also need of introducing supportive programs for informal workforce to meet the motive of erasing informal economy. These programs would provide facilities to informal workforce in which it can fulfil its needs.

In Covid-19 lower and middle class workers faced unprecedented level of difficulties, and due to unregistered,

government also ^{was} unable to reach them to provide basic needs. Therefore, government can solve the problem of informal economy by introducing supportive program for workforce labour.

To conclude, in the light of above discussion, it can be said that informal economy has emerged in Pakistan due to high illiteracy rate and high poverty rate. However, there is always a light at the end of the tunnel, so Pakistan can bounce back from this quagmire by taking initiatives to address informal economy. In this regard, the government of Pakistan can translate this vision into reality by institutional and structural reforms. It is an imperative need that the authorities concerned must introduce programs to provide fundam-

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ental education to all, to
reduce poverty across the
country and to ensure
ease of doing business. If
the government adopt these
remedies, there is a high
chance to convert informal
economy in formal economy.

For me, this essay would score
around 12-15 marks
Areas to improve:
Deconstruction of the topic
Knowledge gap
Maturity of argumentation