

# Pakistan's informal economy: The way forward

## Outline:

### (1) Introduction

The informal economic sector of Pakistan is blooming swiftly. If not addressed properly, it will facilitate tax avoidance, low gross national production and some far reaching socioeconomic consequences. Pakistan has to adopt modern economic policies to harness the fruits of informal economic sector.

### (2) Exposing and understanding the informal economy of Pakistan (Defining informal economy and its current status)

### (3) Driving factors which actuated the informal economy

- a. The informal economic sectors lack legal protection and recognition.  
(No particular legislation for informal economy)
- b. Low or absence of tax net in informal economy  
(Encourage people to invest in informal economic sectors)

- c Non presence of adequate record keeping institutions  
(No data about informal economic hubs)
- d Weak local governments provides a free hand to informal economic sectors  
(local vendors and small businesses are operating freely)

#### (4) Consequences of neglecting informal economy

- a Difficulty in formulating appropriate fiscal Policy
- b Low tax collection from informal sectors affects tax to GDP ratio
- c Informal economic sector a cause of low gross national production

#### (5) Way forward: strategies for harnessing the informal economy

- a Provide legal protection to informal workers  
(written rights and duties of informal workers)
- b Inclusion of informal sector into formal sector  
(linking both sectors in a supply chain)

- c Promotion of financial schemes  
(facilitate them with microfinances)
- d Revision of labour market law  
(introduction of comprehensive labour laws)
- e Investing in education and skills development  
(Role of National Vocational and Technical Training Commission NAVTTC)
- f Improve social safety net for informal workers  
(Enhance their standard of living)
- g. State's organs should play a strong role in detection of unregistered economy operators  
(Role of media to instill a sense of social responsibility)

## (6) Case in point: Success stories of informal economy

- i Punjab small industries cooperation (PSIC)
- ii National rural employment guarantee act India (NREGA)
- iii Brazil's Bolsa familia program

## (7) Conclusion

Pakistan's informal economy presents both challenges and opportunities. By implementing targeted strategies Pakistan can harness the potential of informal economy.

Few months ago a Pakistani vlogging channel "Lense with Abrar" was on an expedition to India. During his stay in Rajasthan, once he stopped his bike at a sugar-cane juice vendor. At the end when Abrar was paying the money, the local vendor refused to accept currency rather he requested Abrar to pay through "PayTm" an online transaction app. This video got viraled in Pakistan that how Indian govt has worked on its informal economy. There are many lessons in this story for Pakistan. Pakistan is struggling with its informal economy because of many factors like having no legal protection, weak tax net, lacking adequate record of informal economic sector. These factors left far reaching socio-economic effects on Pakistan which could be turned into development if given adequate look-after. The informal economic sector of Pakistan is blooming swiftly which has both good and bad impacts. Pakistan has to adopt modern economic policies to harness the fruits of informal economy.

The informal economy is the sector of economy which is unregistered. Usually based on small startups, local vendors, street shops, local hotels and home based works. This contributes a large part of economy but sadly it remained out of the state's tax net. According to the World Bank, the informal sector accounts for more than 60 percent of the total workforce. Another report states that an estimate 60 percent of Pakistan's economy is informal. But this huge sector has remained non-regulated and out of state's breach, which need to be settled.

Now lets look at some driving factors which activated the informal economy.

one main cause is that the informal sector lack legal protection and recognition. This indulges Pakistan in an economic illusion. As the government found it difficult to analyze the overall

economic sources. Thousands of local vendors and mini business operators did not even know that why should they register their businesses from state. Also historically, government has taken no concrete steps to register informal economic sectors. No particular legislation has been made by Pakistan to provide informal sector a legal cover. Hence, this factor activated informal economy.

Besides this cause low or absence ~~beside~~ of tax net in informal economy also gave a freehand to informal economic sector. Non-taxation system in informal economy encourages people to set local businesses without any interference. Lack of tax net in informal economy steers to many other revenue challenges. Like everyone in Pakistan found it very feasible to start his own mini-business at local level. Narrow state's interference in these businesses reduces the chances of

failure. But this low state's interference also left state with many drawbacks like no tax revenue. The low tax net hence, motivates people to involve vigorously in informal economy.

Along with this non presence of adequate record keeping institution activates informal economy. An institution could help government to locate informal economic hubs. Which will indirectly help Pakistan in making informal economy a formal economy. Institutes like security and exchange commission of Pakistan (SECP) can help state to maintain a brief record of informal economic sectors in Pakistan. This record could help state in formulating informal economic sectors inclusive policies. No record of informal businesses like small vendors keep them out of state's sight. And this activates informal economy. Lastly weak local governments give local businesses a free hand to operate. As

most of the informal economic hubs operate within local government's jurisdictions so it is pertinent to strengthen local governments to formulate informal economic hubs. But the role of local governments are just ~~to~~ paper not spirit, here in Pakistan. The over centralized local government system of Pakistan did not authorize it to take some concrete steps for the inclusion of informal economy. So this way weak local governments encourage people to opt informal economic businesses freely.

After discussing the driving factors of informal economy it is pertinent to give a cursory glance to the consequences of neglecting informal economy. firstly, it makes difficult for state to formulate appropriate fiscal policies. Pakistan is also plagued in the same syndrome. most of the fiscal policies designed for economy



do not benefit the informal economy. or gives a particular result from a particular sector of economy without taking informal economic sectors into account it is impossible to formulate a uniform fiscal policy. Till the whole informal sector acts in a single economic playground it is impossible for Pakistan to include small and local businesses part of economy. Hence in this way the informal sector becomes a hurdle for Pakistan to formulate a inclusive, uniform fiscal policy.

Secondly, non-inclusion of informal sector results in low tax collection and Pakistan extra weight in low tax to GDP ratio. The taxation system is designed in such a way that it covers only registered economic organs. The whole informal system is out of taxation breach, which contributes no fiscal benefits for Pakistan.

Dr. Ishrat Hussain in his book "Governing the ungovernable" states that only 21 percent out of registered tax payers pay taxes. where the whole informal sector is out of tax net. This is stark reality which reflects the whole burden on those 21 percent tax payers.

Because of this every year Pakistan borrow money to adjust fiscal deficits. Hence, it badly attenuates economy of Pakistan.

finally, the bloomed informal economy is also a cause of low gross national production. Unregistered small businesses work at their own and do not contribute for Pakistan GNP.

GNP is the sum of nationally produced items but unfortunately the whole sector which contributes in GNP is left unregistered in Pakistan. Informal economy contributes almost 70 percent of GNP in Pakistan. Because Pakistan is majorly based on items which are produced

by different ethnic or tribal groups based in villages or urban homes. But the misfortune is that not a single percent from informal economy is contributed to GDP. As the whole sector is out of states taxation realm.

Before ending the discussion it is very pertinent to discuss in detail the way forward and strategies to harness the benefits of informal economy. One major step to take is, provide legal protection to informal workers. By defining written rights and duties of informal workers, Pakistan can help the informal sector. The legal protection will provide a secure and just working environment, which will motivate the local vendors to work more efficiently. A particular legislation for informal sector to enhance the performance and tap the actual capabilities of this sector, could enhance the contribution of

informal sector for the development of Pakistan. This will provide workers a sense of inclusion and will contribute in socio-economic development of Pakistan.

Also, Pakistan should amalgamate informal sector with the formal. This could be made possible through the many ways like linking both sectors in a supply chain model. This interdependency will result in enhanced performance of both sectors. Inclusion of informal sector with formal is a feasible way to harness the benefits of informal sector, which could be a panacea for the informal economic boom. This step will sow the seeds which will help Pakistan in harnessing the benefits of informal economic sector.

Besides, this facilitation Pakistan can promote financial schemes for local vendors. Providing micro finances and soft loans improve the standard of

local business owners. Through these schemes a sense of competition will emerge in local business market. These loans will help local vendors to upgrade their start ups and in bearing the taxes. Soft loans also help in modernization of informal economy, and this will automatically help the economy of Pakistan. A quick inflow of money will enhance performance of informal sector and in this way Pakistan can harness the benefits of informal economy.

Along with this, Pakistan can revise the labour market laws which will make it sure that every worker works with full dignity and zeal. A comprehensive labour market law has become the need of hour in Pakistan. This law could help workers in their wages, working conditions, and security of their income. Labour market laws must be formulated by Pakistan, so that a local small entrepreneur

have defined set of laws to work under for the socio economic development of Pakistan. These laws will put the foundation towards informal sector inclusion.

Then investing in education and skills development could help Pakistan in making informal sector an asset for economy. Education and skills will strengthen the basis of local working market. With education and skills any local business could be easily converted into a lucrative business. Pakistan should invest in education and skills development of youth. Like NAVTC is providing vocational skills, through which people can start their local or home based businesses. This will help state in converting the informal economy into formal.

Moreover, Pakistan should improve social safety of informal workers. By improving their living standard and making them safe from other

social evils, Pakistan can enhance their performance. Pakistan with its bureaucracy and other agencies can help informal workers in improving their conditions of work and problems they face on daily bases. Bribery, Bhatta Khori have become an order of the day in Pakistan. Pakistan must overcome many other issues which a local vendor face on daily basis. on the last, state organs must play <sup>their</sup> role in detection of unregistered economic zones so that particular actions must be taken in accordance. Along with detection the organs can find out the severity of the informal sector. Media and other law enforcement agencies can help state in detection and incultion of informal sector through finding their working bases, intensity of business and Pros and cons for Pakistan. Through ~~this~~ this Pakistan can get the benefits of informal economic sector.

Lets give a look at some success stories of informal economy. on first we have Punjab Small industries cooperation which provide soft and micro loans to flourish informal economy's benefits. Secondly National rural employment guarantee act India which works in rural areas to ensure employment for the locals so they can contribute in economy. lastly there is Brazil's Bolsa familia Programme which provides financial assistance to families which helps them to start home based business.

In a nutshell it can be said that Pakistan's economy posses both challenges and ~~threats~~ opportunities. one -the one side it provides employment opportunities for many, it also faces issues like legal recognition and some other systematic issues. By implementing targeted, visionary strategies such as inclusive policies, financial support, Pakistan can harness the benefits of the informal economy. which requires the tireless efforts by all state organs.

As it is commonly said

“ There is a will  
there is a way ”