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Informal Economy refers to all the workers and working units who are not formally under the cover such as the small businesses - which are not registered under formal cover. Actually the economy of a state is a combination of formal and informal businesses.

Economy is the new name of Ideas and efficiency. Informal economy also prevailing in Pakistan, due to unstable economy, poverty, gender gap, as well as in the whole world. It comes with challenges and opportunities but we have to work on way-forward to counter its challenges.

Informal Economy consists of all the workers and working units which are not registered by government and

are not under formal cover. Informal economy is a blessing in disguise for those who are lacked in education and skilled, having no access to finance, unaware of technology and working locally in vulnerable conditions because it brings opportunities of work for these. Along with opportunities it also comes in with many challenges. According to **International Labour Organization** India has 90 percent informal economy. China has 30% informal economy while **Pakistan** has 80 percent Informal economy.

Pakistan has high informal economy of 80% workforce as compared to China with 30% of informal economy. Pakistan is a developing

country with a GDP growth rate 2.38% in 2024 according to Pakistan Economic Survey (PES)-2023.

Dwindling and unstable economy of a developing country such as Pakistan owes to many factors such as: poverty, lack of education and skills, low wages, vulnerable working conditions, gender discrimination. Some works which are not under formal cover in Pakistan are; **Small Medium Enterprises** such as medical stores, at-home handicrafts business, food corners, small textile units are mostly not registered in Government's economic circle.

Whole-sale

retailers are also informal businesses.

They are mostly also tax evaders and power thief by not disclosing Commercial usage of power.

Househelp and domestic workers also contribute towards informal economy. House-maids working for minimum salaries, labourers working on streets, vendors and technicians and plumbers are also informal way of earning.

After Covid-19 mostly persons specially women are laid-off by organizations and therefore most of them shifted to either **on-line work** or work from home. **Agriculturist** of few hectares come under the informal economy because they are not under government taxation system.

Informal Economy brings many challenges along with opportunities for uneducation, underemployed, unemployeed and un-skilled persons.

The most concerning challenge of Informal economy is **dwindling Economic growth** of state. Pakistan is already a developing and poor country, informal economy increases its economic instability due to lack of effective revenue collection system. According to Pakistan Economic Survey of Pakistan 2023 the growth of economy in Pakistan is 6 percent only and informal economy also takes its part in it.

Informal economy also comes in with **tax evasion**.

These small, informal working units and workers which are not registered in government's business cycle and are not filing tax returns annually are evading the taxes. They exempt themselves from taxes because they are running small businesses with

least capital. Mostly whole-sale shops, make-up business, smaller agriculturists and vendors are tax evaders.

Another major drawback of informal economy is slowing down of the **public service delay** due to lack of finance and revenue due to tax evasion.

The income generated through informal economy does not contribute to economic growth of state, so less revenue is generated - causing delay in public services such as education, health and communication.

Unhealthy competition is created between formal and informal working units because formal working units are authorized and registered by

Government so they have to follow government's rules and regulations, providing standard working conditions and paying taxes make their total gross income less than informal businesses. Informal working units are not answerable to government for violating their rules and regulations, wages taxes and working conditions. So these factors leads to an un-healthy competition which promotes interests in informal working units resulting in unstable economy.

Substandard and vulnerable working conditions are the main characteristics and also challenge posed by informal economy. Informal workers have to work in vulnerable working conditions, insuitable specially for women dignity and honour.

Job insecurity and low wages last but not the least challenges of informal economy. Informal workers have no job security, they can be expelled or fired any time by the employer. They are exploited by the employer as said by Marx the capitalist retains the surplus value and exploiting the employee by low wages.

Despite, all these challenges there are many solutions and wayforwards to counter this issue. The most important step to counter the issue is to equip the youth with **education and skills**. Skilled and educated youth know its worth and can stand-up for its right and can not be exploited.

Pakistan with more than 52 percent youth can be a growing economy if its youth is equipped with education and skills. China is the most impressive example in front of us. Being the most populous country it made youth its strength by empowering it with education and skills.

Making tax collection system more effective and efficient can solve the above mentioned challenges. Federal Board of Revenue (FBR) the institution responsible for tax collection has to broaden its circumference and has to catch big fishes which are out of water — tax evaders to make the economy stable by collecting Revenue. In 2024 FBR has met its target of revenue collection given by IMF.

but there is room for more improvement.

Improvement in working conditions can also shift regime from informal to formal economy. Conducive and healthy working environment and free environment specially for women which is free from harassment, gender discrimination and cultural difference can be a guarantee of formal economy.

Similarly fixing **the minimum wages** can be another solution to the challenges posed by informal economy. Government have to fix the minimum labour wages and also keep check and balance on its implementation. Government tried many times to form policies but

failed in the implementation of these policies. In the budget of FY-2023-2024 government set the minimum wages at 50,000 per month but there are millions who are not paid the set wages for labour. Some are merely working for ten to twenty thousands per month in a state having inflation rate reaching to above 30 percent in 2023.

Another way-forward to all these challenges is provision of **job security**. Labourer should be assured of his job that he/she would not be expelled or fired according to the will of employer despite all his hard work.

In a nutshell, informal economy comprising of free workers and working units which are not under the cover of government may bring some opportunities along with many challenges of unstable economy, hindering public service delivery, low revenue collection, sub-standard working conditions and job insecurity. But all these challenges can be countered by skilled and educated youth, effective revenue collection system and conducive working environment. Implementing all these proposed suggestions may stabilise the informal dwindling economy to a stable and blooming economy.