

# Hassan Khawar

**Q No. 1: Given the prevalence of informal sector (it accounts for over 73.3 percent of the employment), is it inevitable to regulate the sector? And if so, what policy solution would be viable in this regard?**

Regulating the informal economy is a sensitive subject. Regulations exist in multiple forms. On one hand, there is regulation for labor protection, which is tied to the rights of workers. This one is quite important, and unfortunately, long overdue. In many sectors, especially the domestic workers, the cases of labor abuse are common. The other type of regulation is to bring the informal businesses into the formal economy, which could be tricky.

Plenty of literature is available on regulation of economy, and it clearly tells us: the greater the regulation, more would be the efforts to evade such regulations, and the more the informal economy thrives. Regulating a business means more inspection visits and monitoring, which can consume a lot of time of a business—catering to the inspector's queries and whipping up documentation at every other instance. Plenty of time and energy of that enterprise will be consumed by this, constraining the commercial part of the business that will impact the enterprise's growth.

*"There is a delicate balance between labor protection and business growth, which is hard to maintain."*

Even when the World Bank added a score for labor in its Doing Business

Report, it invited a lot of criticism, and it was claimed that the Bank was viewing labor from a narrower cost to business angle. But in the long run, it's actually better because when your labor is happy and their rights are protected, productivity will increase. There will not be any labor strikes or pushback, which the critics were not accounting for.

On the other side of the spectrum, too much regulation can be unhealthy too.

If you go too pro-labor or pro-rights in a country where regulatory regimes are based on rent seeking, the businesses won't be able to breathe.

So, striking a balance is key.

## **Regulating the Sector:**

When it comes to the policy options to regulate this sector, the conventional way to attain this is to either make a new institution to regulate or assign the task to an existing institution. Then you make the rules, start penalizing violations, and start licensing and inspections.

*"However, an alternative route - although not prevalent in Pakistan - is to introduce voluntary compliance."*

That perhaps is a better way. In fact, incentivized voluntary compliance has worked well in many other countries.

For instance, when you have to export in the West, they demand you to subscribe to the higher standards in terms of labor rights. If you are involved in child labor, the violation



of Pakistan's laws may or may not create issues for you, but if the buyer learns about them, it will land you in trouble for sure. That's why export-oriented companies have far better track record of labour rights. This is more of a voluntary compliance, which is working well because the companies know they will get more business by complying with the labor rights. So, it is important to introduce a voluntary culture in this regard, rather than jumping to formulate laws and asking the labor departments to handle it. That would create more harm than good.



**Q No. 2: How do bureaucratic red tape, regulatory issues and lack of employment lead to informal labor and entrepreneurship?**

Generally, higher rates of entrepreneurship are believed to be associated with higher economic growth. But a few years ago, Global Entrepreneur Monitor collected cross-country data on global entrepreneurship. To their surprise, it turned out that there is actually a U-shaped relationship.

Countries with low economic growth also had higher entrepreneurship rates. They were struggling to find a model that could explain this pattern where both low and high economic growth had higher entrepreneurship.

*"They figured out that they needed to differentiate between the rich and poor countries' entrepreneurship."*

**Necessary vs. Opportunity Entrepreneurship**

They categorized the difference as opportunity entrepreneurship versus necessity entrepreneurship. Poor countries have necessity entrepreneurship where people are doing business out of necessity without access to capital or other facilities. They are not tapping into the opportunities offered by entrepreneurship but just fulfilling their necessities. This is widely prevalent in countries like Pakistan. However, it is a blessing in disguise too, as the necessity and absence of job opportunities is driving this kind of entrepreneurial activity.

If we begin to formalize this sector too much, it makes life difficult for these micro-entrepreneurs. Many small businesses want to remain informal. Even the small-

scale opportunity entrepreneurs find it easy to operate in informal sector, as to avoid high compliance costs. Regulation has a cost, which businesses would prefer to avoid. Either because of a fear of regulation or the sheer small scale of the business, small businesses want to steer clear of the registration process. Excessive regulation may enhance tax net but is likely to cripple economic activity, especially considering the nature of Pakistan's bureaucracy.

**Regulating the Domestic Labor**

A huge section of informal labor is constituted of domestic household workers. The news about employers torturing or abusing their minor domestic helpers comes to public attention every other day. We have not managed to regulate this segment. The journey of regulating informal economy could start from areas that are the most vulnerable to abuse, such as household labor. Obviously, that is not easy, as every other house has a domestic worker. One way to approach this could be to ban unsupervised child labor in domestic work. The parents should accompany when a child (at least 15 years of age) is hired for work. Then penalize the violations and make an example out of it along with creating awareness. In fact, the society has become more aware over time. It used to be a common practice in Pakistan to hire a 12-year or 14-year child for domestic work. But now people are becoming increasingly aware. So, awareness and regulation both can help.

**Q No. 3: How the social protection of laborers working in the informal sector can be materialized?**

This is a very interesting question, as we haven't even managed to



provide proper social protection to the formal sector yet. If you look at EOBI, the system is working, but there are a lot of issues with it. People get their salaries deducted during work, and in the end, they get mere 7,000 or 8,000—a very modest amount. One of my school teachers approached me privately when he saw that I write on pension and other related issues. He told me he had submitted his application to EOBI two years back and hadn't received his pension yet, which was Rs.6500 per month despite so much struggle. He has been going from office to office but to no avail.

People cannot get even their legitimate pension for which they contributed during their service. Even if they get it after this much trouble, all they get is peanuts. This is the condition of the formal sector. So, providing social protection to the informal sector is a difficult task.

The Ehsaas Program is making strides in this regard now. The Sehat Sahulat card is a form of social protection for the general public. We need to expand these efforts.

### **Absence of Data on Informal Sector**

Another issue regarding the informal sector is lack of proper data. There is a need to better understand the structure and geography of the informal economy first. Once its nature is understood, it can be regulated effectively. Many organizations, like PIDE, are working on the subject, but no such effort has been made from the government's end. The figures we see are vague estimates. Many innovative methods have come around lately through which the size of informal economy can

be aptly estimated, such as using energy consumption or night-lights data from satellites to track activity.

A program called SEED is conducting a study in KP attempting to estimate the sub-provincial GDP and also look at the possible size of the informal economy. Using nightlights to estimate economic activity in the province is an exciting avenue that is being explored for this study. It can prove highly fruitful in determining the sector's size.

### **Q No. 4: How can the government assure job security of the informal workers, especially in the construction and transport sector—given they lost jobs in the COVID-19 pandemic?**

There can be a law or a policy on labor protection, but the pandemic is a once-in-a-century occurrence. Regulating small businesses during such circumstances means unwittingly pushing them to leave the space. That's where the state has to intervene - which it has done this time. The government offered loans to businesses to cover the employees' salaries and also provided relief in bills.

You can push the construction and transport sector to employ people by offering financial help for that.

*“Co-opt them; don't coerce.”*

If the government co-opts and assists them financially, the policy is more likely to succeed. There are two schools of thoughts when it comes to regulation. The first kind is labor rights hawks. They would say that the labor should be protected at any cost. The other kind is economic growth hawks, who say that the economy should

be protected at any cost. So, it falls on the state to draw the balance. Opting for either of the extremes will not work.

### **Q No. 5: How can the government compensate the informal workers in old age (as there is pension for those formally employed) and the family in accidental death?**

The major player in the construction sector is the government—either directly or indirectly. The public sector development programs doles out a lot of construction work, which can be the entry point for formalizing the construction sector. Another way to attain this is the housing sector, such as the Naya Pakistan Housing Scheme, the low-cost housing projects. This sector can be co-opted through these projects to subscribe to higher labor standards.

In the transport sector, there are many companies like Uber, Careem, Bykea, which need to be considered separately while regulating the sector. The issue is not just of labor rights or economic growth rights, but also the provision of quality services.

When the government enters this sector, it has to adopt the 21st century mindset where these modern business models are growing too. These enterprises need space to grow. Working for labor rights is fine, but it should not be capitalized on by the existing transporters to jeopardize the modern competitors' business. So, the government needs to be careful regarding such plays too.

### **Q No. 6: It's been widely accepted that the informal sector acts as a buffer and helps with poverty alleviation. What policy**

## **actions do you recommend the government take in this regard?**

Pakistan's informal sector is quite resilient, mainly because there is no other option. It has to bounce back. Shaukat Tarin said recently that many people lost their jobs during the pandemic, but almost 90 percent regained them. That is because they did not have any other option. Whenever the economy gets back on track, they have to come out and resume their activities, be it transporters or street vendors. So, firstly, the government's policies should not constrain the informal sector. Secondly, there should be a grievance redressal system for labor abuse. Thirdly, state should incentivize people to formalize their business rather than coercing them.

When it comes to the informal sector, many things require to be considered. For instance, for the necessity entrepreneurs, one needs to explore how they can be converted into opportunity entrepreneurs. SEED found that in Peshawar, there are many women entrepreneurs from low-income households. However, they do not progress much due to lack of access to finance and limited opportunities for training in business and technical skills. Such entrepreneurs can be given access to capital or good training. The state also needs to see what the living conditions of these informal laborers are, how they can

be facilitated, and so forth.

## **Q No. 7: As for ensuring a balance between businesses' growth and labor rights, the formal sector also poses this dilemma. How can the government push for it head on and beyond the voluntary initiatives, be it the formal or informal sector?**

First, we have to see our own capacity. A recent incident involving Johnny & Jugnu (a small restaurant) in Lahore went viral on social media. The SHO sent a person to the restaurant and demanded free burgers. They refused, so the police shut down their restaurant and locked up their staff. The issue got traction due to social media and action was later taken against the SHO but imagine how it goes for other unknown businesses. Now, when there is an attempt to regulate the sector for labor rights, next we there is a labor inspector demanding free burgers too! So, rent seeking is an important consideration in Pakistan's context.

Recently, during an event, I met the owner of Johnny & Jugnu. He says when he opened the restaurant, it became quite popular. The place was persistently crowded and became renowned for its reasonable prices and decent food. He said he has a knack for experimenting with recipes. But ever since he

opened his restaurant, 80 percent of his time goes to dealing with the government. There are officials from the local government, DHA, or income tax coming to the restaurant every now and then to ask questions, leaving no time for him to pursue his passion. This is the situation we have.

However, despite all this, the idea of labor rights cannot be dropped completely. Doing so means there is an open space for businesses to exploit the workers. We need to increase our regulatory capacity first and assure the businesses that these policies are not for rent seeking. Second, we have to introduce a bare minimum grievance redressal system, so that even if the sector is not regulated, the labor would know they can come forward with their complaints. The provincial governments would have such systems for sure. There is a PM portal too. However, do the common people like domestic workers, sanitation workers, or the rickshaw walas know their rights? Does the Bhatta (brick-kiln) worker know that he can report abuse on the PM portal? Hence, not only is there a need for a redressal system, but also a need to publicize it widely. This will be a vital step in ensuring labor rights protection across the country.