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Q No 1. Like any other developing country, Pakistan is witnessing the persistent expansion of informal sector. As an economist, how would you describe its impacts on the economic development of the country?

The terms informal and formal are described in many different ways in literature. For simplicity, in formal economy businesses and economic activities are on government record. Hence there's proper documentation, taxation and record of the number of employees. All government laws and policies are applicable on the formal economy. For instance, such businesses have to abide by minimum wage laws, taxation, policy for health insurance etc. Similarly, fund flow from banking sector are in formal economy as economic transactions are on record.

On the other hand, simplest example for informal economy would be the huts in Quaid e Azam University. There's no record of the owner, number of employees, the revenue earned. Although real economic activities take place in informal economy, there's no record on whether such businesses pay direct taxes or give their workers' rights as per legal framework.

Since informal economy is non-documented, its contribution in GDP and GNP cannot be directly accounted. Having said that, informal economy plays a role in economy through demand side. It also gives income-generating avenues and employment opportunities. This economy also



has demand-side forward and backward linkages with formal economy. The only difference is that it doesn't play a direct role in revenue generation for government through taxation. However, it does indirectly contribute to the government revenue, but it does play a role in development.

Q No 2. How do regulatory issues cause informal employment and entrepreneurship?

It's relatively easier to start a business activity in informal sector. There is no need to seek permission from any authority or we can say that entry and exit in such business activities is simple and easy. For example, a street vendor only needs to identify a space and start his business. Moreover, it's a gateway for small business entrepreneurs, as it doesn't require much investment either. Hence, we can say it relatively provides free entry and free exit and is less capital intensive. Whereas, to formally start a business, one requires going through proper documentation procedures, fulfillment of certain criteria and getting permission from

relevant authorities. This is difficult and cumbersome for a layman due to bureaucratic hurdles, red tape, kickbacks and bribe etc. Eventually, small entrepreneurs prefer informal over formal.

As for regulatory issues, they can be economic or administrative, depending upon the economic activity. Let's say some 20 vendors operate in a street with a capacity for 10 vendors. Now this will create traffic management problems. The service road of the Islamabad sabzi mandi is one example. In such a case, district administration is faced with dilemma of keeping the traffic flow and managing the vendors in the area. From this perspective, street vending is closely linked to administrative regulations hence the emphasis shouldn't be on taxation rather licensing and registration is the way forward. But as this also involves city laws, we need to approach it from the legal perspective. Once we know city bylaws for street vending, we'll be able to clearly understand current status of vendors and solutions that can be derived.

Q No 3. The informal sector includes people from different sectors, such as domestic workers, home-based workers and construction workers. Do you think entire informal sector can be regularized or formalized? How challenging can this be? What benefits can this result in?

We should keep in mind that regularization has two aspects. One aspect is for the purpose of ensuring proper implementation

of all laws related to economy including minimum wage and taxation. Given informal sector largely comprises small businesses and low-paid workers, implementing this will kill informal economy. We have to understand the dynamics of informal economy. The second option is to regularize through incentives. For example, government can incentivize by providing easy installment loans, giving preference to registered people for allocation of space when a commercial location is specified, Seht Sahulat card for employees etc. People are more likely to share information if they are incentivized. Therefore, transformation from informal to formal should be based on incentive.

However, one should also acknowledge that most businesses in informal economy will not satisfy the requirements for formalizing. What will happen? Shall all those noncomplying be closed down? So many workers will go unemployed and we can't afford this. In this scenario, formalization is un-pragmatic. We should be more focused on regularizing and licensing.

From administrative perspective, government should have information about who owns the business, how many people are employed in the sector etc. Government needs information for maintaining law and order. It is the responsibility of government authorities to ensure the quality of stuff being sold in vending it is their responsibility to ensure that no criminals are involved in it. We can have licensing regime for street vendors which will not only provide revenue for the government but also legal protection to the vendors.

Q No. 4. It's been widely accepted that informal sector acts as a buffer and helps with poverty alleviation. What policy actions do you recommend for government in this regard?

Although informal sector helps in creating source of income for many, the poor in informal sector are not able to earn enough to transition above the poverty line. Nonetheless, informal sector does positively contribute towards poverty alleviation by playing a role in income generation. As for transitioning above poverty line, the business initiator or the entrepreneur is more likely to move up the ladder. As for workers, they need to earn more but the sector is not capable of paying them enough. Apart from that I believe that informal sector is also source of informal entrepreneurial training for many. People working at an informal set up can learn skills and start with their own venture leading to higher prospects of moves out of poverty.

Q No 5. As most of the lower working class falls under informal economy, how can government provide social security to these workers? Do you see this happening in foreseeable time?

As people employed in informal sector are not documented and registered, government policies do not apply on them. Neither can government minimum wage laws be applied as they are not viable in the context and dynamics of informal sector. To begin with, the government can generate a record of labor in this sector not to enforce minimum wage laws and taxation rather to provide health and life security through government

institutions. That's one way through which people in informal sector can benefit. However, people employed in informal sector are wary of government intentions when we talk about registration.

Currently, we need to study and assess existing laws and policy frameworks in order to ascertain whether these laws and policies cater to the needs of informal sector or threaten it. If the contemporary legal framework is more protective than threatening, we can assume that there is information asymmetry. Therefore, we need to inform people working in informal sector of the rights and laws that help them. Secondly as discussed earlier, we need to differentiate among those laws that pertain to economic aspect and those that apply on administrative aspect of informal economy. Economic laws should be more tilted towards protection whereas administrative laws should be more concerned with running the life in the smooth way.

We should view informal economy from a positive lens instead of viewing from negative connotations. Informal sector serves as the entry point for small entrepreneur and all economic activities in this sector are real and not speculative. We should recognize the role this sector plays in giving coverage to poor as there's no strict qualification or education requirement to work in this sector. The more stringent requirements we apply for this sector the harder it will become for poor segment of populace to survive.