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### **THE INFORMAL ECONOMY IN PAKISTAN: SIZE, SCOPE, AND POLICY CHALLENGES**

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#### **ABSTRACT**

*The informal economy in Pakistan, estimated to constitute between 35% and 55% of the country's GDP and employing 73% of its labor force, plays a critical yet underrecognized role in sustaining livelihoods and driving economic activity. This sector encompasses a wide range of unregulated and unrecorded activities, including small-scale manufacturing, street vending, and unregistered transportation services, which provide essential goods and services to millions. Despite its significant contributions, the informal economy faces systemic challenges such as limited access to credit, social protection, and legal recognition, hindering its formalization and growth. This paper explores the size, scope, and policy challenges of Pakistan's informal economy, emphasizing its economic and social impacts, as well as the barriers to formalization. By analyzing key sectors, estimating the informal sector's size, and examining existing policies, the study highlights the need for innovative strategies to integrate the informal economy into the formal system. Addressing these challenges is crucial for fostering inclusive and sustainable development, improving livelihoods, and unlocking the hidden potential of this vast and complex sector.*

**Keywords:** *Informal Economy, Pakistan, Economic Informality, Labor Force, Formalization, Policy Challenges, Social Protection, Economic Inclusion, Sustainable Development, Unregulated Employment,*

#### **Introduction**

The informal economy, often estimated to constitute over 50% of the total economy in many countries, plays a vital yet under recognized role in sustaining livelihoods and driving economic activity. Encompassing a wide range of unregulated and unrecorded activities, such as small-scale manufacturing, street vending, domestic work, and unregistered transportation services, the informal sector provides essential goods and services while generating income for millions, particularly in developing nations. Despite its significant contributions, informal workers and businesses face systemic barriers, including limited access to credit, social protection, and legal recognition, which hinder their ability to formalize and grow. This vast and complex sector, operating largely outside government oversight, presents both opportunities and challenges for policymakers, who must navigate the dual imperatives of economic inclusion and regulatory enforcement. The sheer scale of the informal economy underscores the need for a deeper understanding of its dynamics and its implications for livelihoods, economic growth, and policy formulation. By addressing these issues, there is potential to unlock the hidden potential of the informal sector, integrate it more effectively into the formal economy, and foster more inclusive and sustainable development (Guo et al., 2022).

Understanding the "incredible, alarming, and dismaying invisible hidden side" of the economy is essential because it represents a significant yet understudied segment of economic activity that impacts millions of livelihoods and shapes national development trajectories. The informal economy, often vast and growing, operates outside formal regulatory frameworks, raising critical questions about its contribution to GDP, employment, and overall economic growth. Its sheer size suggests that it is unlikely to be experiencing double-digit growth, and the lack of taxation from this sector represents a substantial loss of potential revenue for governments. This raises concerns about whether the informal economy's persistence is due to systemic issues such as rare detection, infrequent fines, and negligible prosecution, which may discourage businesses from formalizing their operations. If the costs and risks of remaining informal are minimal, why would anyone bother going "legit"?

A comprehensive and detailed focus on the informal economy is crucial for addressing these challenges. While there is growing academic and policy interest in the informal sector, both in Pakistan and internationally, descriptive statistics remain challenging to compile yet are vital for informed decision-making. Key questions include: How many people are engaged in productive informal employment, and how does this compare to the size of the labor force or the total population? How quickly is the informal sector growing relative to overall GDP growth? What types of enterprises, in terms of size and industry, dominate the informal sector? Finally, what taxes, if any, are levied on informal businesses, and how can governments design policies to encourage formalization without stifling economic activity? Answering these questions is critical for developing strategies that integrate the informal economy into the formal system, unlocking its potential for inclusive and sustainable growth while addressing the systemic barriers that perpetuate informality.

### **Understanding the Informal Economy**

This section provides a detailed overview of the definitions and characteristics associated with the informal economy, establishing a comprehensive framework that will support further analysis in this area. It elaborates on the distinct differences between informal and formal employment and economic activities. Workers are classified as being engaged in informal employment if the relationship they have with their employer is not governed by relevant labor legislation, is not subject to income taxation imposed by public authorities, and lacks social protection arrangements. Likewise, an economic unit is deemed to belong to the informal sector if its employment relationships do not comply with regulations established by public authorities (Dell'Anno, 2022).

In this context, it is essential to recognize that workers are the agents operating within the informal sector, while the economic activities they engage in are referred to as informal economic activities. There exists a significant distinction between these informal economic activities and those that fall under the category of formal economic activities. Informal economic activities are primarily characterized by an absence of various forms of government regulation, non-registration for income tax purposes,

absence of social protection guarantees, and a lack of workers' rights and protections that would typically be found in formal employment conditions. As a result, workers in the informal sector typically experience fewer benefits and poorer quality of employment compared to their counterparts in the formal sector (Ulrichs, 2022). Employment in the informal sector and the associated informal economic activities can be found in both urban and rural areas, where they can be clearly distinguished from those in the formal sector. Informal economic activities generally operate within households, small institutions, or offices with fewer than 10 workers, or they may utilize alternative premises such as sidewalks or informal markets, distinctly not being part of a factory, formal enterprise, financial institution, government entity, local government or its various sub-administrations, public institutions, or international organizations. Regarding legality, informal economic activities and the employment associated with them are often categorized as illegal, primarily because they operate without the necessary permissions due to non-registration or non-compliance with existing regulations.

Despite these legal challenges, participation in this sector remains remarkably widespread, showing a substantial increase in both the number of workers or operators engaged and the overall volume of informal economic activities, accompanied by visible economic and social costs as well as significant health risks. The income generated through these informal employment opportunities is predominantly low-paid and often comes with a high degree of insecurity; individuals frequently resort to these informal positions as a survival strategy to meet their income needs. Such makeshift job activities pose substantial barriers for businesses wishing to enter the formal market, consequently inhibiting the generation of formal job opportunities. The continuous growth of the working-age population, coupled with a persistent lack of job opportunities, actively stimulates the feasibility and attractiveness of informal employment.

In addition, heightened competition and the liberalization of trade often degrade the competitiveness of formal firms, consequently compelling them to resort to employing informal workers and participating in informal activities as a means of reducing operational costs. Various factors also significantly influence the

determinants of the informal economy, such as increased regulatory burdens, rampant corruption and bureaucratic red tape, political instability, technological inefficiencies, security concerns, and socio-cultural factors that can affect informal working conditions and arrangements. These elements collectively contribute to the persistence and growth of the informal economy, shaping the livelihoods of many individuals and families reliant on this sector for their economic survival. (Kouakou, 2024)

### **Definition and Characteristics**

Informal economic activities comprise unregistered enterprises and wage employment, or persons employed outside the capacity of firms that carry out economic activities on a regular basis. In particular, this economy involves businesses and jobs that offer goods and services to the market but remain invisible to authorities for various reasons. The primary feature of the informal economy is the lack of official registration. Informal activities typically are not registered with government institutions or are carried out by household staff who serve unregistered firms (Ali Choudhary et al., 2015). Generally, in countries like Pakistan, the informal economy may also indicate that participants fail to carry out several minimum statutory conditions required by the labor law. In addition, informality is frequently linked with tax evasion: It is typical for informal enterprises and employees to avoid their taxation liabilities.

Increasing in formalization of economic activity brings with it growing disparities in productivity growth in businesses and income disparities between counterpart workers. In comparison with the formal sector, informal activities are seen to become less innovative and yielding less return on investment. This is associated with the entry of enterprises there to unfertile niches, sluggish productivity enhancements, and the small extent of the niche. Failures in intellectual expansion and attainment of prototypical and brand management are seen foremost as handicaps. For companies, the production of quality products at moderate prices is considered challenging through a sophisticated method of production, which is the most effective standard of a trademark (Mustapha et al.2022). The effect of deficient economic activities on the minute extent of the niche is that they transfer an inadequate extent of investment in labor-intensive trades and trade

in marketable services, especially since it is such kinds of informal operations that represent the essential current and probable development of informality. Contrary to that understanding, this study evaluates the informal economy's importance in Pakistan, emphasizing the labor market's part, particularly in the past decade with a universal economic uplift.

### **Drivers and Factors**

Informal economies are often overlooked by policymakers and consigned by scholars to a single category that neglects the nuanced realities of everyday practices. Rather than focus on the informal economy as a problem to be solved, this collection examines the complex systems of work and trade that can be thought of as both operating outside the bounds of formal traces and also entrepreneurial in spirit. This stance leads to publications that survey the inventive resilience that informal economies bring forth in the face of state negligence or interference.

Most important are the ways in which these actors can play a role as both within formal forms and yet drawing strength from a network of informal social relations. This may be a nuanced outlook that acknowledges the informality and formality as interwoven sets of relations that ought to be analyzed in the same frame. Through a series of in-depth examinations of the informal economy within diverse times and spaces, this publication consequently provides a pivotal contribution to the debate on how informal economies can be understood and governed in the twenty-first century.

Informal economies have long been considered as a temporary route to formalization and gainful employment as part of an initial stage of development. However, in regions where informal economies predominate, these arenas of "non-legalized" working have their own systems of rule and unique cultures. As highlighted in the various chapters of this collection, for various actors formalization is either not something to be aimed at or is simply impossible to achieve due to a range of constraints and factors (Shahid et al.2022). Indeed, it is these different sets of constraints and networks that propel the innovative resilience discussed in the upcoming chapters. On the one hand, socio-economic conditions, especially unemployment and poverty, are often the drivers that push individuals into informal work as a survival or livelihood



strategy. Simultaneously, on the other hand, bureaucratic hurdles and regulatory constraints can preclude entrepreneurs from formalizing their activities. Informal actors thus navigate a variety of constraints, both structural and every day, that affect their individual practices and choices. Meanwhile, for some actors, cultural practices or community networks can also provide strong support for continuing or expanding informal economic activities.

### **Size and Significance of the Informal Economy in Pakistan**

The informal economy in Pakistan is significant. It accounts for between 35% and 55% of Pakistan's GDP and 73% of its labor force, as indicated in recent estimates ratios. It is important to note that the informal economy has received considerable academic and policy attention in reference to developing and emerging economies over the past few decades. There is a growing body of research drawing attention to its role in promoting economic resilience, fostering growth, and the implications for policies in areas such as state tax collection and enforcing labor market regulations. Despite the significant size and increasing heterogeneity of informal economic activities, however, detailed analysis of the informal economy in Pakistan remains relatively limited. This snapshot therefore presents some basic estimates and analyses of the informal economy in Pakistan. It is hoped to provide a useful framework for discussion and drawing attention to a major component of the country's economic landscape. By doing so, the complex role that the informal economy plays in job creation, provision of services, and its relationship with the formal economy will be illustrated.

Since the informal economy is an abstract, non-measurable concept, by necessity analysis focuses on observable, measurable aspects: the informal employment relationship, and informal enterprises. There is no single or widely accepted definition of informal employment or informal enterprises. The detail definition and classification of informal employment relationship and informal sector employed in the analysis is outlined in the subsequent section. Construction from a range of sources, (Gulzar et al., 2010). Any employment relationship that is not in accordance with these laws is defined as informal. Furthermore, any employment relationship that is unregistered and remunerated in the informal cash is classified as informal, unless there is

definitive proof to the contrary. Of the approximately 46 million workers in Pakistan's labor force, 73% are in the informal economy, as indicated by the ILO definition of the informal economy. This is consistent with recent ILO estimates. It should be noted that most informal sector enterprises are involved in the service sector and account for some 75% of the informal economy's contribution to GDP. Some typical informal economy activities in Pakistan are detail in table one, revealing a wide range of services and products. The importance and diversity of informal economic activities illustrate the importance of a nuanced perspective when discussing the informal economy.

### **Estimating the Informal Sector**

In estimating the size of the informal sector, a range of methodologies have been employed, including indirect approaches involving national accounts and employment data as well as sectoral model-based techniques, such as the Simple Multiplier Model. These techniques allow to calculate the size of unregistered informal economic activities, explaining between 12 and 69% of GDP in the period from the early 1990s to the 2018 fiscal year. Over a similar period, the share of the workforce employed informally is found to range between 63 and 72 percent, using different methodologies and data sources. Such a range emphasizes the limitations of using a single approach and further highlights the need for robust policies based on rigorous data analysis in order to address the seemingly pervasive challenges of informality (Islam & Amin, 2023).

There are various methodologies employed to estimate the size and scope of the informal economy using different types of data and approaches. This subsection highlights some of the most prominent methodologies used to estimate the size of the informal sector in Pakistan, noting the implications of these findings for the economy and broader policy perspectives. Though they only provide privileged access to unregistered economic activities, some newer methodologies allow to investigate the characteristics of informal economic activities and the individuals working in them. In offering a window on the findings of this investigative effort, results are presented on the size and scope of the unofficial economy using a selection of these methodologies, which are then briefly contrasted.



### **Key Sectors and Activities**

This section describes which key sectors and activities comprise the informal economy using the most recent national and provincial data that can measure them. By doing so, it is not only hoped to understand the size and scope of the informal economy, but also to understand its composition, which activities are part of the informal economy, and hence evaluate the implications of the informal economy in a better fashion (Ali Choudhary et al., 2015). Using the Labour Force Survey (LFS) data on enterprises, the analysis describes the key sectors that comprise the informal economy and the activities undertaken within them.

Using the sector classification from the LFS, the most recent meaty information on the composition of enterprises and workers is used. The standard ILO sector classification is very detailed and contains 314 sectors of economic activity. The more aggregated version of it contains 37 economic sectors. Whichever version is used, informal enterprises are in agriculture, construction, and a large variety of service industries. The construction and many service industries in the informal sector have very few paid employees, on average less than five, despite having high fixed costs and output; this is unlike the corresponding formal sector industries where enterprises on average have 10-20 paid employees (Sultana et al.2022).

Furthermore, using the more detailed version, 56 out of the 73 informal sectors involve non-traditional forms of employment, such as low paid regular wage employment and unpaid family labor. These are employed in factory, utilities, construction, and some service industries. Part of these patterns are also true in the more aggregated version. The sector's specialization is also examined by comparing the per capita enterprise numbers to total employment, shares in aggregate value added, and to the total nominal value of the largest relevant provincial machinery. It is too trivial that this excessively aggregated classification lacks the diversification and specialization observed within the informal economy. Nevertheless, this suboptimal classification could still cast some light on the key aspects of the economy, particularly on unregistered, undocumented, and untaxed activities that inwardly evade inspectors, bureaucrats, and statisticians. The doha, a specific category of each sector that stands out by the highest per capita employees (informal employment), are further inspected

departmentally. This section discusses various aspects of the sectors and of the doha that constitute both the high input of labour and the backbone of the economy.

### **Impacts of the Informal Economy**

Given current economic and social conditions in many developing countries today, challenges for economic policy are particularly high. This is even more critical in the cases of extremely poor countries, where limited administrative capabilities and resources further restrict the effectiveness of policy measures and their desired outcomes. One of the major challenges related to the current socio-economic environment of Pakistan is posed by the size and the impacts of the so-called 'informal economy'. The term 'informal economy' is used to describe activities that are legal in nature but are not universally registered and are completely hidden from the view of policy-makers, statisticians, and the general public. The term is also used to describe a category of shadow or illegal economic activities that are not reported to government and are therefore excluded from national income and product accounts (Nawaz et al.2021).

Investigating the informal economy of Pakistan is a crucial task. On the one hand, understanding the size and scope of the informal economy is essential for the validity of any form of macroeconomic modeling and analysis. Results of any economic policy study that omits the informal economy may be totally irrelevant because such an omission is likely to ignore a substantial part of the real economy. Macroeconomic results subsequently derived suggest possible policy outcomes that are, from the beginning, unrealistic and not relevant to policy-making. On the other hand, apart from its economic implications, hidden production alters common social structures and relationships, perpetuating the poverty and insecurity of a particular society. The current analysis of the so-called informal economy, therefore, provides a balanced view of the size and scope of the irrelevant or illegal economic activities in Pakistan from both an economic and social perspective. The impacts of economic activities which are called 'informal' by custom rather than by law are assessed in terms of both their negative and positive effects. This approach should draw a complete picture of hidden economic activities and their broader socio-economic consequences.

### **Economic Impacts**

The informal economy is often an area of hidden economic activity and the workers usually earn low or moderate income. Unregulated/Unprotected, yet the informal economic activities are common. The informal economy is typically characterized by ease of entry as opposed to formal economic activity, which is subject to complicated regulations. However, informal at times is modern; the best example of modern trade is the 'Dollar Markets' having comfortable environment, quite and peaceful malls. The worker there has more social recognition. Unregistered economic activities include grocery selling, Handicrafts, Service Providers, Building and Civil works, and Domestic Workers, Pawnshops, Auto repair workshops, Cottage Industry, Killay Khanas, Plumber, Electrician, property dealers, Pathan Kutchee' shops, and Consultant, etc (Gulzar et al., 2010).

Though the informal economy is a vital source of employment in Pakistan, significant challenges exist, understanding and addressing these will be crucial going forward. Informal enterprises often lack access to capital and financial services which can impede the ability to grow/expand their enterprise. This in turn can limit the productivity and innovation potential of informal workers and sectors. Alongside this, low productivity and a lack of technical training means informal workers often produce lower quality outputs. This can ultimately suppress the demand for informal products due to informal goods failing to meet basic quality and safety standards. While the informal economy may provide a safety net for vulnerable populations, such as the homeless, street vendors or domestic workers, there is also an increasing risk that informal economic activity will perpetuate poverty and keep workers trapped in an unproductive cycle of low paid work.

### **Social Impacts**

Informal employment generates numerous social impacts that are intricately linked to a range of intersecting factors such as class, gender, age, location, and ethnicity. As an essential feature of the informal economy, the condition of informality often creates bonds of community and kinship among workers that may be lacking in productive life outside of informal work. Informal workers commonly forge reciprocal relationships through the

sharing of tasks and joint access to markets and customers, creating support mechanisms that are critical for survival. The informal economy dispenses daily reciprocity through social networks upon which thousands depend for sustenance (Lee & Di Ruggiero, 2022).

The informal economy is indeed a vast and articulate system of exchange between localities, in which intermediaries of daily wage and informal workers channel fixed quotas of work, in exchange for a share in the finished product. In turn, such individuals provide the informal worker with a safety net in the event of an accident, sickness, or being locked into an exploitative work relationship. The precarity created by informality is alleviated for some by the formation of such bonds and the security this brings. However, the networks within which informal work is often embedded are themselves vulnerable to wider structural disparities, such as the caste system that pervades South Asia. Many of the lowest-caste groups in Pakistan are systematically trapped in low-paid, informal work. Furthermore, the informal sector operates beyond the reach of the State and is thus largely unregulated. In practical terms, this means there are no protections or social security for informal workers. Research has demonstrated the vulnerability to income and food insecurity and the proximate impacts this has on health and well-being, focusing principally on the effects of these vulnerabilities on women and marginalized ethnic groups.

### **Policy Frameworks and Challenges**

Policymaking beyond the confines of traditional governments is somewhat exceptional in the context of Pakistan, particularly where it is acknowledged in accordance with the International Labour Organization's Convention 122. Nonetheless, this acknowledgment proves inadequate when faced with the manifold and diverse issues emerging from the informal economy, which is increasingly recognized as "the emergent sector" of the national economy. In light of this reality, Pakistan requires a more structured and methodical approach to ensure that there is synchronized development by actively engaging all relevant stakeholders in this context (Channa et al.2024). This includes not just the central and sub-national governments but also essential trade unions, responsible employers, and various representative

and civil society organizations of workers. Their inclusion in the development and implementation of strategic plans aimed at promoting decent work conditions in the informal economy is crucial for meaningful progress. Such coordinated actions collectively recognize that the informal economy is neither small in scale nor homogeneous in nature, but rather exhibits significant variation and complexity. There has been a prevailing consensus across various discussions and platforms that the informal economy warrants formalization.

However, this aspiration toward enhancement encounters numerous and persistent challenges that must be addressed comprehensively. In order to pursue solutions for these issues, it becomes essential to meticulously examine the existing regulatory framework that governs the informal economy within Pakistan. This examination should include an analysis of the rationales, strengths, as well as limitations inherent in the currently prevailing laws and regulations (Zafar and Tuhin2024). These laws are specifically aimed at formalizing the economic activities that are conducted by the informal sector, and it is through this lens that we can better understand the barriers to progress. Based on an insightful discussion regarding the existing regulatory framework in Pakistan as it pertains to the informal economy, the paper will go on to provide a comprehensive overview of the valuable lessons drawn from a thorough review of existing regulatory approaches and practices. This analysis aims to uncover crucial insights and clues that can significantly help in enhancing progress toward formalization. Furthermore, it is vital to recognize that effective governance cannot rely solely on regulations; it must also encompass efforts to ensure the protection and respect of workers' rights within the informal economy.

As has been suggested in various contexts, considering the unique characteristics of the informal economy, a more balanced and coherent approach must be developed. Such an approach should reflect the specific dynamics surrounding the informal sector, addressing critical aspects like premiums, contributions, benefits available, management of work-related injuries, and other necessary social protection schemes. Achieving effective registration and regulation of informal activities can only materialize when the capacity of governments is significantly

enhanced. However, numerous analytical studies indicate that this solution remains elusive in many countries, including Pakistan, which presents a daunting challenge. In light of this, it is imperative that innovative instruments and solutions be crafted that are appropriately tailored to fit the existing capacities of governments. This localization and customization of approaches will serve to optimize the efficacy of policy interventions in the informal economy, moving towards a more formalized and equitable system that can better support the needs and rights of workers engaged in this crucial sector. (Kuhlmann & Dey, 2021)

### **Existing Policies and Regulations**

While the ILO polyvalent approach insists that the observer “should check for them (institutions) at the central level, but also at the level of the provincial legislatures and at that of the industry level or of the locality,” a better understanding of the character of informality and a sensitive institutional appreciation becomes crucial for more context-specific policy processes. This subsection will critically review the institutional framework of the informal economy and expose the nature of the networks it produces. These will consist of both formal and informal institutions located at the structural and superstructural levels of society. The aim is to analyse how this institutional frame distinguishes the informal economy in the case at hand, and thus supports subsequent discussions on the challenges and potential of policy formalization. (Kovacic, 2022)

At the level of regulation and policy, this discussion will discern between formal regulation aimed at the informal economy and that designed by the informal economy. It is shown that, whilst aimed policy uses a traditional repressive legislative style, designed policy favours a more negotiated, decentralized and bottom-up approach. Here it is found that both beyond- and within-the-border economic strategies are heavily implemented in the Kolkata case. Regarding the informal economy in Kolkata, emphasis is placed on two point-making informal practices - squatting as a commercial space encoding informal work and boss-is-as-boss-does relations coding unfreedom. It is demonstrated how the spatial and extralegal reality of most work-setting, live-in squats severely constrains both earning prospects and the capability to voice grievances. Yet since this daily experience is mediated by associated social and material



networks, survival strategies unfold in merging work and life in a squatting space (Adekola & Grainger, 2023).

### **Challenges in Formalization**

The transition from the informal economy to the formal economy has garnered substantial attention in the realm of international development since the year 2002, a pivotal moment marked by the rising recognition of individuals' needs and workers' rights. This acknowledgment gained momentum due to the adoption of Recommendation 204 on Transitions from the Informal to the Formal Economy by the International Labour Organization (ILO). Since then, numerous recommendations and policies have been formulated by a variety of international organizations, all focused on the crucial issue of formalizing the informal economy. (Sankaran, 2022).

The ongoing discussions primarily revolve around key aspects such as tax collection, the establishment of social security systems, and the proper registration of businesses that are currently operating within the informal sector. In the case of Pakistan, there exists a significant challenge regarding taxation policies, as the government finds itself compelled to generate revenues primarily through indirect taxes rather than direct taxes. The imposition of Goods and Services Tax (GST) on every single transaction, affecting everyone from the wealthy to the impoverished, underscores the inefficiencies in the tax policy framework. However, it is also noteworthy that little emphasis has been placed on addressing the informal economy. This neglect contributes to Pakistan's desperation, resulting in one of the smallest tax-to-GDP ratios globally, measured at merely 16% and 8% respectively. GST alone constitutes a staggering 67% of the total tax revenue collected, deriving its strength from a 37% share in GDP. Surprisingly, despite the informal economy's substantial contribution to the overall economic framework, it remains marginalized, accounting for merely about 1% of GDP in total economic activities (Sultana et al., 2022).

Compounding the problem is the reluctance of businesses within this sector to document their operations, alongside the government's inability to incorporate them into the taxation framework. The narrative takes a dramatic turn when considering the contrasting dynamics at play; the informal economy is often

labeled as "illegal" or categorized within the "cottage industry," which, in reality, means it operates outside the established tax net. Enterprises functioning in this sector engage in what is termed "under the table" practices, with both qualitative and quantitative analyses reflecting the economic behavior of individuals within society. In Pakistan, the share of the informal economy in total employment is strikingly high, standing at 73%. According to estimations derived from the Labour Force Surveys data, the percentage of the informal economy on the supply side reaches an alarming 74%. The formalization of businesses is undoubtedly a concern for the government of Pakistan, yet it faces multiple daunting challenges. Sectorial analyses reveal that numerous sectors, particularly the real estate, construction, and thriving service sectors, have expanded rapidly without being incorporated into the formal economy.

Consequently, this hints at a possible increase in the overall estimation of the informal economy within Pakistan. Additionally, there are erosive factors at play, including protracted bureaucratic hurdles, the illegal involvement of authoritative figures, and fierce competition that undermine efforts toward formalization. (Rasheed et al.2021) The bureaucratic structures in place act as persistent barriers to the successful formalization of the informal sector. Licensing requirements, taxation obligations, and other mandatory regulations are not designed with consumer interests in mind; hence, a push toward deregulation and liberalization of businesses is essential for expanding the commodities market and stimulating economic growth. Moreover, informal businesses harbor fears regarding potential losses in earnings should they transition toward formalization. Many operators in this sector express a preference for remaining as they are, primarily because the banking sector does not provide adequate support for their growth, instead, it focuses on collecting substantial commissions that burden them further. Thus, the juxtaposition of the informal and formal economies continues to pose challenges, revealing complex dynamics that demand immediate and comprehensive policy intervention.

### **International Comparisons and Best Practices**

In the past few decades, economic informality has gained immense attention in both academic and policy discussions. Nevertheless, in

South Asia and especially in Pakistan, the focus on its twin concept of the informal economy has remained largely unattended. This Special Issue seeks to estimate the size and implications of the informal economy in Pakistan, assess the structures of the informal economies and economic disparities within, and between the regional districts of the country, and develop policy proposals to redress the functioning and development of the informal economies and workers within it. The continued presence and perpetuation of informal economies within a country is itself antithetical to notions of social progress and development, including the effective attainment of population welfare outcomes and broader aims of social harmony, stability and political progress (Gulzar et al., 2010).

Not only does this sector's official neglect undermine the gravity of rights and entitlements due to the majority of its citizenry, it frustrates broader social objectives such the achievement of macro-economic targets, the establishment of a fair and encompassing tax regime and burgeoning societal harmony and political agreement. Four in-depth case studies from India, South Africa, China and Nigeria, are examined through a common contextual lens related to Pakistan. An economic setting caught in low-level equilibrium trap characterized by dragging institutional capacity, sluggish economic growth, poor social welfare and deep-seated social inequity. In addition, Issues also relevant but generally unexplored within the "informal economy" framework employed by the seminal works of Harris and Todaro are addressed.

### **Innovations and Technologies for Informal Economy Integration**

Recent advances in technology have made it possible to overcome some of the barriers to entry preventing the informal economy from entering formal relationships. A recent study found that more than 90% of the working poor in a number of developing countries have access to a mobile phone, and almost one-quarter to the internet. Technological advancements, which enable informal workers to receive financial services, access telecommunications or improve productivity, could thus help break down some of the barriers that have been holding informal working relationships in place for decades (Lema, 2018). These barriers are high costs of business registration and informality, expensive bureaucracy to start a business or hire workers legally, restrictive and complicated

labour regulations, lack of access to credit and finance or poor access to knowledge and information about markets, rights and obligations. There is a need to improve the health and safety of working conditions, reduce precariousness and non-standard employment while increasing welfare support.

There is a room for public intervention between labour unions interested in enlarging their memberships and political parties that tend to regulate on behalf of their constituencies, while improving the labour market institutions in ways that favour less informality. By protecting labour rights, the question is whether technological change in the workplace and in the way production is organized also has an impact on the type of employment relationship that firms make use of. The results suggest that SMEs' introduction of these investments enhances their workers' protection, in particular the level of safety in the workplace. Furthermore, creating a public domain of shared knowledge and expertise is essential to enlarge the relevance of social bargaining and make it more policy-oriented (Dugolli2021). As a demonstration, a series of twelve case studies covering countries from five continents and spanning production, service, transformation and public sectors are reported. The case studies also cover a range of policies and actions, from the use of digital platforms and mobile services to increase cooperation and union's membership, to actions taken by county-wide councils to support informal businesses.

### **Conclusion**

Considering the persistent and alarmingly high issues of poverty and the soaring rates of unemployment that continue to plague the nation, compounded by the presence of a skilled labor force that is readily available within the nation's boundaries, and taking into account the remarkable agricultural and industrial potentials that are deeply embedded within the intricate cultural and economic fabric of the country of Pakistan, a significant and undeniably urgent need arose to initiate a well-structured, strategically planned, and comprehensive agenda for informalization around three and a half decades ago. This essential initiative was seen as absolutely necessary in direct response to the challenging socio-economic conditions that the populace was grappling with, which required immediate, effective, and multi-faceted intervention strategies to alleviate their hardship and enhance their overall

quality of life. However, it is crucial to acknowledge that much of the pioneering and groundbreaking work accomplished during that pivotal and transformative time ultimately had to remain as mere documented submissions, primarily due to a variety of technical challenges and observational difficulties that significantly hindered the anticipated progress toward meaningful outcomes that could have changed lives for many individuals and families. The paper under discussion is firmly grounded in such critically important documented evidence, supplemented by extensive fieldwork initiatives and comprehensive field studies that have been methodically implemented over the years, showcasing a vast array of data and illustrative examples. As such, this paper not only highlights the chronological background and pivotal milestones in the evolution of this process but also delves deeply into the historical evolution of the informalization process as it has gradually developed and adapted over time in Pakistan, reflecting the changing societal needs.

Furthermore, it meticulously examines the various policy mechanisms and measures that were strategically employed during this complex and intricate journey, as well as evaluates the multifaceted outcomes of these initiatives to provide a balanced perspective. Consequently, it allows for invaluable lessons to be gleaned from both the notable successes and the regrettable failures encountered throughout this path. These insights underscore the pressing urgency for current policy formulation and proactive adoption, which are now critical and necessary aspects of addressing the ongoing multifaceted challenges faced by the country and its citizens consistently. Such comprehensive and concerted efforts are fundamentally essential to ensure sustainable development, promote social equity, and significantly improve living standards for the populace at large, thereby ultimately fostering a healthier society. By thoroughly understanding the intricate dynamics at play, we can better strategize to uplift the society in all its diverse facets, ensuring that future initiatives are informed by past experiences and are designed to truly meet the needs of the community.

Rapid urbanization in many of the Asian countries has placed significant stress on consumer goods and essential commodities in urban areas, leading to various challenges. Markets in developing

economies do not adhere strictly to the perfect model typically seen in more developed regions. Instead, imperfections in market mechanisms consistently characterize both agricultural and industrial markets within these Asian countries. This situation arises primarily due to the limited and sometimes inefficient operation of the market mechanism, which is crucial for the proper functioning of supply and demand. Prices for goods are frequently set administratively by federal and provincial governments, often relying heavily on the advice of the Ministry of Industries to guide these decisions. Additionally, food items necessitate a complex marketing process for agricultural produce, which heavily involves a network of intermediaries who play a vital role in linking farmers to consumers.

Additionally, there is a pressing demand for extending the informal approach in rural and economically backward areas of Pakistan, particularly for the purpose of quick employment creation in these regions. The local populace in such areas is typically resistant to working at distant locations, primarily unless adequate housing and necessary civic facilities are provided to them as part of their employment conditions. It is essential that the minimum needs of society be produced within Local Government Areas (LGA) in those economically challenged regions, ensuring that the community has direct access to essential goods and services. A more touch-bases approach could yield better results; in fact, establishing many separate units may prove to be more fruitful compared to merely aiming to create one large cumulative unit. To encourage economic growth and job creation, all possible incentives should be offered for new manufacturing units to spring up in these areas. This policy can certainly generate rapid employment on a self-sustaining basis, especially after ensuring that suitable investment is made to meet the demand for goods at affordable prices. Moreover, a focus on educational initiatives, particularly aiming to achieve almost fourteen years of education in the workforce, will further empower individuals, contributing to a robust and skilled labor market which is essential for development.

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