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FINAL REPORT

**PAKISTAN
INFORMAL SECTOR STUDY**

Submitted to USAID/Pakistan

Under PDIF (391-0470)
Contract No. 391-0470-C-00-08

March 1991

Development Research and Management Services (Pvt.) Limited

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LIST OF ABBREVIATIONS

CAO	Chief Accounts Officer
CCA	Committee of Commission Agents
CCM	Chief Commercial Manager
CDA	Capital Development Authority
COS	Chief Operating Superintendent
DC	Deputy Commissioner
DFI	Development Financial Institution
DIG	Deputy Inspector General of Police
DSP	Deputy Superintendent of Police
ETO	Excise and Taxation Officer
FEBC	Foreign Exchange Bearer Certificate
HDA	Hyderabad Development Authority
ILO	International Labor Organization
KDA	Karachi Development Authority
KMC	Karachi Municipal Corporation
KTC	Karachi Transport Corporation
LDA	Lahore Development Authority
LHV	Lady Health Visitor
LMC	Lahore Municipal Corporation
ME	Micro - Enterprise
MMPI	Mobile Motor Police Inspector
MVE	Motor Vehicle Examiner
NGO	Non-Governmental Organization
NLC	National Logistics Cell
NMC	National Manpower Commission

NOC	No Objection Certificate
NTRC	National Transport Research Cell
OPP	Orangi Pilot Project
PMC	Peshawar Municipal Corporation
PMA	Pakistan Medical Association
PMDC	Pakistan Medical and Dental Council
PNC	Pakistan Nursing Council
PSV	Public Service Vehicle
PTA	Provincial Transport Authority
PUTC	Punjab Urban Transport Corporation
PWR	Pakistan Western Railways
RTA	Regional Transport Authority
RTC	Road Transport Corporation
SBP	State Bank of Pakistan
SOW	Statement of Work
SP	Superintendent of Police
SSHMI	Survey of Small and Household Manufacturing Industries
TAC	Transport Advisory Committee
TBA	Traditional Birth Attendant
TRN	Temporary Registration Number
WAPDA	Water and Power Development Authority
WPRTB	West Pakistan Road Transport Board

EXECUTIVE SUMMARY

1. INTRODUCTION AND OVERVIEW

As elsewhere in the world, the informal sector in Pakistan is an economic sector as well as a profound manifestation of the organization of the state and society: it is at once an economic, political and sociological phenomenon. Those studying the informal sector may understand it in terms of one or more historical forces. It can be understood as a chaotic but transitional phase in the movement from rural livelihoods, values and institutions to orderly urban organization; or, as the creative response of ordinary people or manipulators trying to break free of the hegemony of centralized state systems over civil society; or, as anarchic responses to a pervasive institutional vacuum in social, political and economic organization at the local level.

The size of the informal sector in Pakistan is a source of continuing discussion in scholarly circles. One set of estimates for Pakistan (provided in a World Bank report and discussed in Section 2 of this report) indicates that about 75 per cent of the urban labor force in Sindh and Punjab is employed in the informal sector. This estimate, however, is based on a definition that is not consistent with the more limited definition of informality used in this report.

There are many facets to the informal sector. It is an undocumented phenomenon, with highly decentralized (or atomistic) elements, and significant variation across the constituent elements. It is the subject of an endless stream of contentious characterizations. There is little empirical work to help differentiate speculation from reality, and even less that would enable confident policy formulation. There is a vast opportunity for undertaking careful empirical research on the origins of informality in each sub-sector or activity, the potential gains to formalization, and alternatives to a highly regulated formal sector. There is a substantial challenge in identifying policy reform at the Federal, Provincial and local levels, deciding how best project interventions can be made, and recognizing that which is best left alone by planners and administrators at all levels.

This study, commissioned by USAID/Pakistan, is the first, broad description of the informal sector from the perspective of the "de Soto problem." Its primary purpose was exploratory and descriptive, rather than prescriptive. It sought to review the main theses of Hernando de Soto's book *The Other Path*, analyze their relevance to Pakistan's political, economic and administrative environment, and document specific examples in Pakistan where legalization of informal activity would result in major

improvements in economic efficiency. The study was carried out by a team of 13 individuals who examined seven sub-sectors of the urban informal sector in eight cities of Pakistan. The draft report on the study was prepared and discussed with USAID during the second half of 1990.

In terms of examining the broad political, economic and administrative theses of *The Other Path*, the study operates at a level that is best characterized as speculative. At a more disaggregated level, however, the study yields empirical findings that represent greater (albeit non-uniform) levels of confidence. The empirical findings can be summarized under three main headings:

- o Hypotheses on the main sources of informality in each of the seven sub-sectors studied for this report;
- o Alternatives to informality that suggest possibilities for reform in the short term; and,
- o Major issues that need additional research work.

The remainder of the Executive Summary is organized under these three headings.

2. SOURCES OF INFORMALITY

2.1 Levels of Analysis

This study is a comprehensive study, in the sense that it covers seven sub-sectors and eight cities. Its findings, while tentative, suggest that two levels of analysis are important for understanding the sources of informality. At a visible level, one can observe informal activity as a response by those engaged in it. But analysis at this level is often insufficient for revealing the dynamic or long term factors that appear to cause people to be creative or manipulative through the informal rather than the formal sector.¹ Both levels of analysis are attempted in this study, but with varying degrees of success.

¹In the terminology of economics, we are looking for changes at the margin that make informal activity a more attractive alternative to the formal sector. Any exogenous change (in market demand, policy or technology) that affects the informal and formal sectors differentially results in non-uniform growth of the two sectors. This is illustrated in textbook economics fashion in Annex 5, which reproduces a solved problem from Gary Becker's *Economic Theory*.

2.2 Housing and Human Settlement

The major, observed sources of illegal activity in housing are: (a) the general shortage of serviced plots that are legally available in planned settlements - this leads to illegal occupation, sub-division and development of land, as well as the illegal diversion of municipal services to the informal sector with a revenue loss to the municipality; (b) the allotment of plots at a price that is considerably lower than its market value - this promotes illegal activity in pursuit of capital gains; (c) costly standards and procedures for zoning, safety and construction, and for regularization of illegal *katchi abadis*.

The major dynamic factor seems to be the inability of state systems to come anywhere close to the demand for housing associated with urbanization and rising incomes. The high cost of understanding and following official procedures is also relevant as a factor that affects the formal and informal sectors differentially.

2.3 Education

It appears that the major long term constraint on formalization is the unrealistic and prohibitively expensive standards for registration of schools.² In order to register, a school has to fulfill the requirements for provision of playground, laboratory, physical space, teacher qualifications, uniform curriculum standards, toilets, financial statements and solvency, many of which are impossible for most schools to fulfill. As a result, only a handful of schools have registered as required. The problem is compounded by the inability of formal sector schools (largely state schools) to keep pace with the rapid increase in demand for schooling that has come about due to increases in urban population, incomes and the age structure of the population.

2.4 Health

In common with housing and education, the health sub-sector has been experiencing large increases in demand associated with rapid urbanization and increasing incomes. Unlike those sub-sectors, however, informal health services do not appear to be creative or manipulative responses to over-regulation. They appear, instead, to be responses to deficiencies in the availability of services in specific professional and locational categories, primarily nursing care, rural areas and poor urban

²To the best of our understanding, registration is a requirement for legal operation of schools.

areas.

2.5 Trade and Commerce

The informal trade and commerce sector caters largely to low income groups. This study concentrated on specialized *mandis* (local markets) for fruit and vegetables, and small vendors. The dynamic factor behind the growth of these activities is a combination of two forces - growing market demand, and supply restricted explicitly by administrative means. The source of growing demand appears to be the growing number of urban low income households, which generate the demand for cheap goods and services through informal trade and commerce in the cities. The restriction on supply emanates from administrative restrictions (often complete bans) imposed by local governments on the right to vend and set up markets in the numbers demanded, and at locations that are in great demand, particularly by the urban poor.

2.6 Transport

In common with the housing, education and health sub-sectors, the urban transport sector has been witnessing growing demand in recent years.³ In addition, intra-city transport (in common with the housing sub-sector), has provided an attractive source of investment for illegally obtained money (including narcotics-related income). From the administrative point of view, the supply of legal transport services has been restricted in two ways. First: government has always been slower than the private sector and the consumer in accepting new forms of transport. The interplay between the local, Provincial and Federal levels of government in setting this constraint is not clearly understood. Second: government at the Provincial and local levels has been restricting the availability of permits for various forms of transport, sometimes transferring route permits to the state sector. The limited number of permits has been rationed by administrative means, encouraging recourse to illegal activity or influence as a means of competition.

Unlike all other elements of mechanized road transport, trucking is an almost completely deregulated, competitive and legal enterprise: truck permits have been freely available since

³The discussion in this study is confined to mechanized road transport and distinguishes between inter-city bus transport, the various forms of intra-city transport, private taxis in cities, and trucking.

deregulation in the 1970s, and what illegality there is, does not appear to be a "de Soto problem."

2.7 Manufacturing

The immediate source of informality, in the de Soto sense, appears to be the incentive to avoid legal costs for inputs and taxes given, particularly, the broad and discretionary powers of government functionaries. This could be a major source of cost differential between the formal and informal sectors. Some of the costs of doing business legally originate with legislation from colonial times; others are costs of administrative procedures (particularly, the approvals and No Objection Certificates required to set up business legally).

To summarize, the sources of illegality appear to be: (a) costly and time consuming procedures for registration, in particular the NOC - this leads to lack of willingness to register; (b) the interest of enforcing agencies to prevent registration, and look the other way in exchange for illegal payments; (c) legislated costs, such as those of the labor and social security laws under the Factories Act (1934) and the Shops and Establishments Ordinance (1969)⁴; (d) broad and discretionary powers of government functionaries charged with enforcement, such as inspectors from various agencies dealing with electricity, food, sanitation, social security, education, etc. - this leads to evasion of registration.

In manufacturing, there are extensive linkages between the formal and informal sectors, including linkages for production, distribution, exports, input supply and the provision of credit. Perhaps the most significant hurdle in the way of greater linkages is the reluctance of the formal sector to do business with informal sector enterprises which are not subject to the contract enforcement mechanisms of the formal sector. Linkages between the formal and informal sectors exist when contracts can be enforced through informal mechanisms: there is, in effect, an informal system of law enforcement operating in response to the presence of the informal sector.⁵

2.8 Informal Financial Sector

The formal financial sector in Pakistan presents, in general, a picture of stagnation and inefficiency in the provision of

⁴Some of the requirements of the Factories Act and the Shops and Establishments Ordinance are listed at Annexes 11.1 and 11.2.

⁵This is true not only in manufacturing but also in other sub-sectors such as housing, finance and transport.

financial services. On the demand side, Pakistan has been witnessing an explosion in the demand for an increasingly diversified set of instruments for savings, loans, foreign exchange, equity and insurance against risk. The dynamic factor in the growth of the informal sector is its responsiveness to this demand.

Unfettered by government control and nationalization, the informal sector has been able to respond with a variety of suitable new instruments for customers (what bankers in the formal sector call product development). In the informal sector, there is a great variety of service standards, interest rates, maturity periods, collateral requirements, etc., that address the emerging needs for foreign exchange, small saving deposits, personal finance, working capital and long-term investment. Explained in this way, informality in the financial sector is simply the result of the formal sector's inability to respond to the demands of businessmen, small investors, small borrowers, and ordinary citizens.

3. POSSIBILITIES FOR REFORM IN THE SHORT TERM

3.1 Two Arenas for Reform

The study examined the potential for legalization of informal sector activities, as well as alternatives to the informal sector. Some possibilities need additional in-depth research beyond this study while others can be proposed as measures for reform in the near future. Proposals in the latter category are presented below under two headings:

- o Possibilities for immediate administrative reform; and,
- o Possibilities for immediate economic policy reform.

These possibilities are discussed next.

3.2 Administrative Reform

i) Making the No Objection Certificate Pro-Active

The most far reaching administrative reform that could be undertaken by government at all levels relates to the well known No Objection Certificate (NOC), perhaps the most pervasive and crippling form of reactive and arbitrary administrative control over legitimate economic, social and political activity in the country. The NOC is also the least substantive administrative device, since it is often given in response to influence, bureaucratic imperatives or bribes. There are two sets of

possibilities for making the NOC more pro-active and less reactive:

a) Each level of government (Federal, Provincial and local) should draw up a "negative list" of a small number of activities for which an NOC would be required for purposes of (demonstrable) public interest.

b) If an NOC is required in the public interest, whether from one or more agencies, only one agency should be designated as the "concerned agency." That agency alone should be required to issue an NOC, within a stipulated time period, unless statements of objection are received from other agencies within a stipulated period.

ii) Realistic and Simplified Requirements for School Registration

Our understanding of the present situation is that legalization is synonymous with registration with the Provincial Education Departments. The costs of legalization (and therefore the incentive for informality) could be reduced significantly if more realistic standards and simplified procedures were devised for registration. The standards, under the West Pakistan Registration of Unrecognized Educational Institutions Ordinance (1962), pertain to requirements for classroom space, playgrounds, toilets, laboratories, teacher numbers and qualifications, financial solvency, etc. and constitute, under the prevailing reality, an impossible set of standards for most private schools to achieve. The result is that almost all private schools remain informal.⁶

iii) Simplified Procedures for Regularization of Katchi Abadis

Since 1986, the Federal Government has had the stated policy of regularizing *katchi abadis*, but the policy has been implemented through cumbersome and costly procedures. As a result, large numbers of low income dwellings remain in the informal sector, without the benefit of secure ownership and municipal services, and subject to the extortion and victimization that accompanies informal human settlement.

iv) Allotment of Residential Plots

In the formal sector, a large number of residential plots are allotted through discretionary, administrative means for prices below their market values. The government justifies this practice as a way of making housing or capital gains accessible to low income families, but there is no evidence in support of this

⁶Longer term reform would need to focus on assessing standards through indicators of output rather than input; see Section 4 below.

contention. This mechanism promotes illegal rent seeking activity, the use of insider influence in lieu of competition and market forces, and inequity in the allocation of public funds. Greater market orientation in the allotment of plots would tend to reduce illegal activity in the housing sector, and serve to integrate its formal and informal components.

3.3 Economic Policy Reform

i) Ending Foreign Exchange Controls

Perhaps a major part of informal foreign exchange activity could be legitimized with little effect on the economy, through appropriate amendments in the Foreign Exchange Regulation Act (1947) and the State Bank Act (1956). The introduction of Foreign Exchange Bearer Certificates has already made foreign exchange remittances effortless. It is highly doubtful whether remaining regulations have any significant effect on controlling the flow of foreign exchange⁷. Their major effect seems to be to increase the cost of transactions, particularly to small customers and ordinary citizens, and put substantial foreign exchange flows into informal systems (such as the *hundi*).

ii) Removal of Permit Control over Mechanized Road Transport

There appears to be no reason for the continuation of government controls on the number and direction of route permits allowed for inter-city buses and various intra-city public service vehicles (such as minibuses, vans, Suzukis, etc.). The system of inter-city bus permits was instituted (during the 1940s) by the British Parliament in order to protect the interests of British shareholders in the Indian railways. In today's circumstances, this and other permit control systems simply inhibit competition, promote illegal rent seeking activity, and strengthen the influence and nuisance value of transporters⁸: they do not serve any desirable social purpose. Regulation would still be necessary in respect of standards of operation, but it cannot be justified as a means for restricting entry into the transport sector.

⁷A multi-country study by IMF economists Mohsin Khan and Nadeem ul Haque (*Finance & Development*, March 1987) found that capital flowed across tightly controlled official regimes as if there were free mobility of capital, the restrictions being almost entirely evaded through invoicing mechanisms and the informal sector.

⁸some of whom are reported to have influenced train timings in order to reduce competition to their buses.

iii) Elimination of Subsidized Housing Finance

The existence of a large and heavily subsidized housing programme financed at negative real rates of interest drives out legal private investment in the housing sector, rations "cheap" capital to the privileged few, and forces the vast majority of the un-privileged into the higher cost informal sector. It is a wasteful expropriation of public funds that was recently estimated to be the equivalent of about 3.5 per cent of the Federal Government's budget deficit.⁹ The elimination of subsidized housing finance in the public sector, greater market orientation in housing finance, responsiveness to low income groups, and modification of collateral arrangements are likely to increase investments in the sector, increase overall productivity, and undermine the incentives for informality.

4. SUGGESTIONS FOR ADDITIONAL RESEARCH

4.1 General Suggestions

If funding is available in needed amounts, in principle all of the seven sub-sectors considered by this study could benefit from more in-depth studies. Important cross-cutting themes for such studies would include:

- o Empirical measures of differences in efficiency and productivity between formal and informal pursuit of similar enterprise;
- o Differences in the earnings of self employed individuals and the urban poor between the formal and informal sectors;
- o The analysis of costs and benefits of existing procedures and legislation; if linked to citizens' groups and non-profit centers, this kind of research could set the stage for far reaching reform through a powerful combination of economics and public interest litigation; and,
- o The efficacy of bringing socially desirable administrative procedures into the fold of enabling legislation at the Federal, Provincial or local levels.

Specific research directions that could be given priority are suggested below.

⁹World Bank, Pakistan Shelter Sector Review: June 23, 1989. Report No. 7214-PAK.

4.2 Possible Priorities for Additional Research

i) Cost-Benefit of Laws and Procedures Affecting Manufacturing

Examination of existing laws and administrative procedures in terms of their costs and benefits is a desirable exercise for all aspects of economic and social activity. In the manufacturing sector, however, such an exercise could be carried out as a matter of priority. The reasons for this suggestion are that: (a) it would be conceptually simpler to carry out such research in manufacturing, where costs and benefits can be quantified in the least controversial manner, than in many other sectors in which unquantifiable social costs and benefits are often claimed in association with administrative procedures and legislation; and, (b) it would pertain to an area of economic activity that is significant in terms of employment and scope, and has public recognition as such.

The administrative procedures that could be studied under such a study are given in detail in the section on manufacturing under Part B of this report. Relevant legislation that needs to be examined includes the Factories Act (1934), the Shops and Establishments Ordinance (1969), and the various labor and social security laws. Details of all relevant laws are available in bookstores in priced publications.

ii) Comparisons of Efficiency, Productivity and Transfer Payments

There is no literature in Pakistan that could indicate whether efficiency and productivity are greater in the formal sector or the informal sector.¹⁰ One major confounding factor is that the formal sector receives numerous forms of protection and subsidy which could lend an upward bias to estimates of productivity in the formal sector (unless care is taken to net out the effect of transfer payments). Another confounding factor, working in the opposite direction, is that informal enterprises avoid many or most of the costs that saddle the formal sector (including procedural costs, but also employee benefits, excise and income taxes, education cess, and various other legal costs and user charges).

Careful empirical studies are needed in some of the important sectors (including finance, housing, manufacturing and education) to estimate delivery costs, efficiency, productivity and transfer payments. A non-uniform pattern of findings may well emerge from such empirical work: differences in terms of productivity might dominate some sectors, and differences in rents through state protection or cost avoidance might dominate in others.

¹⁰and literature from other countries is either contradictory or ridden with heroic assumptions.

iii) Education: Assessing Standards in Terms of Output

The operative but untested assumption behind laws such as the West Pakistan Registration of Unrecognized Educational Institutions Ordinance (1962) is that enforcing standards in the provision of inputs improves the output of an educational institution. Specifically, that requirements of space, playgrounds, laboratories, toilets, teacher qualifications, financial solvency, etc. result in better educated students. Such assumptions can be tested by examining the relationship (both quantitatively and otherwise) between inputs available in a school and the performance of its students on various measures of achievement. While any such exercise is open to debate and interpretation, it would constitute a major improvement over the current practice of pursuing unrealistic standards of inputs without any reflection on or assessment of results. Moreover, it would facilitate the creation of standardized measures of student, school and teacher performance that could be monitored by parents, administrators, students, citizens' groups and government at the local, Provincial and Federal levels.

iv) Local Government: Allowing Organic Development of Communities

A thoughtful study that examines the feasibility of the following suggestion (from Part A of this study) could be a substantial contribution to future generations in Pakistan:

Legalization of existing informal housing and promotion of private sector housing finance cannot, on their own, bring about an end to illegal settlements. The dynamic factor behind informality is that the demand for housing far exceeds the supply of officially sanctioned development that is determined by the slow pace of urban planners at the municipal and Provincial levels. There is no reason to believe that the situation could change very much in the future. An important implication for the government is to accept pluralism - the equal co-existence in law of planned and informal housing. The government could allow the organic growth of localities, let them devise their own informal rules, and allow the incorporation of local government on demand when inhabitants of a new community are ready to so constitute themselves. In this way, a natural transition will take place from civil society to local government, as it did in many other countries.

Part A

**OVERVIEW
AND
GENERALIZATIONS**

1. INTRODUCTION AND SCOPE OF STUDY

1.1 Introduction

As elsewhere in the world, the informal sector in Pakistan is an economic sector as well as a profound manifestation of the organization of the state and society: it is at once an economic, political and sociological phenomenon. Those studying the informal sector may understand it in terms of one or more historical forces. Some understand it as a chaotic but transitional phase in the movement from rural livelihoods, values and institutions to orderly urban organization; others, as the creative response of ordinary people or manipulators trying to break free of the hegemony of centralized state systems over civil society; others still, as anarchic responses to a pervasive institutional vacuum in social, political and economic organization at the local level.

The informal sector consists of highly decentralized (or atomistic) elements, and significant variation across the constituent elements. It is a largely undocumented phenomenon, but one which is the subject of an endless stream of contentious characterizations. There is little empirical work to help differentiate myth from reality, and even less that would enable confident policy formulation. There is a vast opportunity for undertaking careful empirical research on the origins of informality in each sub-sector or activity, the potential gains to formalization, and alternatives to a highly regulated formal sector. There is a substantial challenge in identifying policy reform at the Federal, Provincial and local levels, deciding how best project interventions can be made, and recognizing that which is best left alone by planners and administrators.

1.2 Purpose of Study

The present study is the first (preliminary) review commissioned by USAID/Pakistan on the informal sector. It was undertaken as a broad rather than in-depth exercise. Its primary purpose was exploratory and descriptive, rather than prescriptive. It sought to review the main theses of Hernando de Soto's book *The Other Path*, analyze their relevance to Pakistan's political, economic and administrative environment, and document specific examples in Pakistan where legalization of informal activity would result in major improvements in economic efficiency. As an exploratory exercise, the study was not directed specifically at coming up with policy recommendations, but it does provide opportunities for serious reflection on administrative and economic policy reform.

The main theses of de Soto's book are not explicitly stated as these are either in his book or in the Statement of Work (SOW) attached at Annex 1. The consultants extracted a list of statements from de Soto's book (principally from the *Introduction* and the *Foreword* by Mario Vargas Llosa), and these were presented to USAID officers at a meeting held at the beginning of the study. These theses are discussed in this study both in general terms (in Part A of the report), as well as in the specific context of each of seven sub-sectors (in Part B). Interesting case studies and photographs are provided in Part C of the report, while additional illustrations of informal activity and details of regulations affecting business activity are presented in the Annexures.

One part of the SOW (Items 1-5) dealt with the issue of informality, while another part (Items 6-11) dealt specifically with small enterprises. In the SOW, issues concerning small enterprises were spelled out as specific questions. In addition to the written SOW, it was agreed in a meeting between USAID and DRMS that issues of women's participation and welfare would also be examined. Findings pertaining to small enterprises and women are summarized in two sections of Part A; detailed discussion is carried out in the context of each of the sub-sectors in Part B.

1.3 Approach

The study was carried out by a team of 13 individuals who examined seven sub-sectors of the informal sector in eight cities of Pakistan. Observations for the study were drawn as follows:

<u>Sub-Sector</u>	<u>Cities Covered</u>
Financial and Commodities Markets	Karachi, Peshawar, Faisalabad
Housing and Human Settlement	Karachi, Rawalpindi/Islamabad
Manufacturing	Karachi, Faisalabad, Gujranwala, Sialkot
Trade and Commerce	Lahore, Peshawar
Health	Karachi, Rawalpindi/Islamabad
Education	Karachi, Rawalpindi/Islamabad
Transport	Karachi, Peshawar, Faisalabad

The empirical scope of this report is determined by the working definition of the informal sector. It was agreed between USAID and DRMS that the study would concentrate on what we called "the de Soto problem" - the consequences (particularly victimization) of pursuing legal objectives through what are purported to be illegal means¹. This is a narrower definition than the ones used in many other contexts, where the informal sector is generally considered to be all that what the formal sector is not.

Even with a narrow working definition, however, there is room for doubt and interpretation in the context of specific sub-sectors. The unavoidable result is conceptual "fuzziness" in parts of the report. It was agreed between USAID and DRMS that issues arising out of the interpretation of the working definition would be resolved by discussion within DRMS, and between USAID and DRMS, based on a review of the study.

2. HIGHLIGHTS OF DATA, RESEARCH AND POLICY ISSUES

2.1 Estimated Size of the Urban Informal Sector

It is next to impossible to obtain statistical estimates of the size of the informal sector, using the de Soto definition of informality. An alternative definition, used recently by the World Bank (1988: Chapter III), does, however, yield some statistical estimates of the labor force employed in Pakistan's urban informal sector. According to this definition, the informal sector is taken to be that component of economic activity which is left over after the formal, regulated sector is accounted for: the estimate of informal sector employment is obtained by subtracting formal sector employment from estimates of the urban labor force. (This approach has also been used by other economists.) Using this "residuality approach," World Bank (1988) estimated that, as of 1984-85, "the informal sector appears to account for some 75 per cent of total employment in urban Sindh and Punjab." These estimates suggest that about 6.9 million out of the 10.8 million persons employed in urban Sindh and Punjab worked in the informal sector.

Based on the number of people employed, the World Bank (1988) estimates indicate that informal sector employment is concentrated in manufacturing, construction, commerce, and the transport and communications sectors. The study also reported that "the structure of the manufacturing sector has changed dramatically since the early 'seventies, with major expansion in the unregulated

¹"Legal objectives" do not include criminal activities such as drug trafficking, theft, gun running, etc.

sector and rather limited growth in the large-scale regulated sector. Summary data from the World Bank study are reproduced in Table 1.

Table 1
Informal Sector Employment in Urban Sindh and Punjab, 1984/85

<u>Sector</u>	<u>Per cent Informal Sindh</u>	<u>Punjab</u>
Agriculture, Forestry, Hunting and Fishing	100	100
Mining and Quarrying	0	0
Manufacturing	66	74
Electricity, Gas and Water	58	10
Construction	84	90
Wholesale, Retail Trade, Restaurants and Hotels	98	99
Transport, Storage and Communication	69	77
Financing, Insurance, Real Estate and Business Services	19	64
Community, Social and Personal Services	62	44
Other Activities	100	100
Overall Informal Share	76	76
Total Informal Employment	2.9 million	3.9 million

Source: World Bank, Report on Employment Issues in Pakistan, December 1988, Chapter III.

Clearly, these estimates are based on some extreme assumptions, but they are the best aggregate data available on the subject. It should be emphasized that the definition used in arriving at Table 1 does not correspond to the de Soto definition used in the remainder of this study.

2.2 The Formal-Informal Duality

There appear to be two broad ways of characterizing informal activity. The first, more established convention is to call all that activity "informal" which is not classified as formal, or which is not subject to direct government regulation. The origins of this convention appear to lie in the work of economists, planners and sociologists who use the paradigm of duality. This idea has many intellectual antecedents; for Pakistan, perhaps the most comprehensive application of the duality paradigm is given by Qadeer (1983) in a book on the growth and dynamics of Lahore City. Based on Qadeer and others cited by him, duality is represented by the following opposing characteristics of the formal and informal sectors:

<u>Formal Sector</u>	<u>Informal Sector</u>
Difficult entry	Ease of entry
Large scale	Small scale
Upper and middle incomes	Lower incomes and poverty
Protected markets	Competitive markets
Corporate ownership	Family and self employed
Links with international trade	Local market
Capital intensive	Labor intensive
Modern technology	Traditional technology
Fixed locations	Transient patterns
Reported/legal activity	Unreported/illicit activity

In duality formulations such as those of Qadeer, informality is attributed to market linkages (and commonality of interests) between local elites and the rich nations, which form a combination that inhibits modernization and progress in the informal sector, thus rendering it perpetually poor and exploited. Another explanation for informality comes from those who share de Soto's view that informality is the inevitable result of state hegemony over the law and over formal institutions, which inhibits the ordinary and rightful pursuit of livelihood by un-privileged citizens. In the convention adopted by de Soto, the informal sector is defined by reference to its illegal status in terms of official laws and requirements: "*The Other Path* is an exhaustive study of the informal economy, or black market, in Peru ..." (p. xiii).

2.3 Major Policy Concerns

An important common element in both the formulations outlined above is the belief that informality imposes costs on (and

discriminates against) the informals. The costs are generally understood in terms of victimization and loss of income, resulting in poverty and low productivity.

The International Labor Organization voiced the concern in the 1970s that government policy appeared not to take notice of the poverty afflicting the informal sector, and, in fact, discriminated against the informal sector under the presumption that it was less productive than the formal sector. These concerns generated interest among economists, who compared the levels of earnings between the formal and informal sectors. Some economists have found that, at least among the self employed, those in the informal sector earned more than those in the formal sector engaged in the same occupations.²

Currently, public policy concerns focus not only on poverty but also on the productivity and efficiency costs of informality. The presumption appears to be that the integration of the informal sector into the formal sector will result in gains in terms of productivity, efficiency and employment. There is, however, no careful empirical research that supports this presumption in the case of Pakistan. In fact, even among those who speak for the informal sector in Latin America, there appears to be disagreement about whether the informal sector is more or less productive than the formal sector. Some studies purport to show a large gain from formalization based on the assumption of higher productivity in the formal sector. In de Soto's book, however, the point is made that the informal sector is considerably more productive than the formal sector.

While gains to formalization may be self evident in some sectors (such as housing), the extent of such gains in other sectors, and their magnitudes, remain important question marks for public policy. If a formal sector activity is dominated by various forms of subsidy and protection from competition, then giving the same privileges to what are now informal enterprises is likely to leave a country worse off, even as the newly formalized improve their own position in the business of earning rents.

This observation is related to references in de Soto's book to the belief that the informal sector is, in essence, a market economy, whereas the formal sector is protected and pampered at a substantial cost to the country. From this point of view, the greatest gains would accrue, in the first instance, from making the formal sector more competitive, thereby improving efficiency and reducing the unequal distribution of resources and incomes between the formal and informal sectors.

²Blau (1986) examined evidence from Malaysia, while Haque (n.d.), Kazi (1987) and Burki (1990) examined data from the urban informal sector in Pakistan.

It is clear from this brief discussion that concepts and empirical findings pertaining to public policy for Pakistan's informal sector need to be clarified considerably before policy changes can be undertaken with the requisite degree of confidence. We have sifted through available economics literature on Pakistan and presented a review in Annex 2³. The informality problem, however, has social and political dimensions as well, and these are introduced in the next section with reference to de Soto's main theses, before returning to economic issues.

3. ORIGINS OF THE INFORMAL SECTOR: SPECULATION

3.1 Transition from Rural to Urban Organization

Many observers have noted similarities between urban Pakistan and the description of the urban informal sector provided for Peru by de Soto. While it is beyond the scope of this study to attempt a scholarly comparison between Peru and Pakistan, it would be useful to narrate a story, using quotations from de Soto's book (page numbers are noted in brackets), which observers of Pakistani society could discuss:

"All these changes [described below] began when the population of self-reliant farming communities began to move to the cities, reversing the long historical trend that kept them in isolation." [p. 7] "In the past forty years, indigenous migration has quintupled the urban population⁴ and forced cities to reorganize." [p. 3.]

"... the cities have also conferred individuality on their inhabitants. Individual effort has come to predominate over collective effort." [p. 3]

"New organizations have emerged in an attempt to restore or reformulate some of the values and attachments that were being lost. Over the years, regional, church, and sports clubs, neighborhood committees, street vendors' associations, and even transport operators' committees have tried to secure the well-being of their members. In the cities, the extended family has been transformed into a network of commercial or productive relations:

³An excerpt on the informal sector from the 1990 *World Development Report* of the World Bank is also reproduced at Annex 2.

⁴Pakistan's 1981 urban population was eight times that of 1931.

economic activities conducted among "cousins" and "uncles" are now commonplace. [pp. 3-4].

"As the economic activities with which they are associated have grown, these organizations have also begun to play a dominant role in relation to the state. Thus, the provision of such basic infrastructures as roads, water supply, sewage systems, and electricity, the construction of markets, and provision of transport services, and even the administration of justice and the maintenance of law and order have, to varying degrees, ceased to be the exclusive responsibility of the state and are now offered also by these new organizations." [p. 5]

"And as the state's role has diminished, so too has that of traditional society." [p. 5]

"What is disturbing is that only part of the ground relinquished by the state has been occupied by these new organizations. The rest appears to have been taken over by violence. Attacks, kidnappings, rapes, and murders have coincided with increasingly aggressive driving habits and unsafe streets. The police have gradually lost control of the situation and some of their members have been involved in scandals and become seasoned criminals." [p.5]

Most of the six theses quoted above are points that have also been made repeatedly in Pakistan.⁵ That they have relevance in the context of Pakistan, appears undeniable. The thrust of these theses is to draw attention to informality as a transition from rural to urban organizations and values.

There is, however, another theme in de Soto's book which is common to Pakistan and which could provide insight into far reaching reforms. This theme could be narrated as another stylized description, but one where the dichotomy is not between the urban and the rural, nor, in the first instance, between the formal and the informal, but between the state and society.

3.2 Vacuum Between the State and Civil Society

If we take a macro perspective of the Pakistani state and society today, we realize that the state has more-or-less ignored

⁵For example, by Dr Akhter Hameed Khan and those who have worked with him in Karachi and Gilgit.

what Antonio Gramsci called civil society. It has refused to accept the relevance of civil society to administration, resource mobilization and the tasks of governance generally. It is not surprising, therefore, that state institutions have become alienated from society. In the worst cases, state institutions have also become corrupt and exploitative of ordinary people. This has created an illogical and unsustainable situation. Logically, it is civil society that should decide the role of the state - there has to be a social contract through which certain functions are ceded by civil society to the state. The social contract has to be articulated from the grassroots. If the state does not acknowledge the supremacy of civil society in determining a social contract, it creates the potential for revolutionary (sometimes violent) change. Most recently, we have witnessed the writing (as it were) of the social contract in Eastern Europe.

Those who reflect on Pakistan's situation today sometimes make comparisons with the situation prevailing in Iran before the Islamic Revolution - social fragmentation, political polarization, corruption, the alienation of state institutions from public interest, etc. became the breeding grounds for revolutionary change. This is not the place to speculate whether Pakistan will gravitate towards an Iran-like outcome or some other future. The issue, in any event, is the creation and sustainability of a humane society, the articulation of the role of civil society and its links to the state. For, if the role of the state and its "networkers" is perceived to be exploitative, then society will undoubtedly turn upon the state, and upon its own members.

How might this situation have come about in Pakistan?

In countries that were not colonized, the institutions of civil society have evolved (themselves and in their relationship to the state) over a period of centuries. Interest groups, unions, trade associations, human and consumer rights organizations, NGOs, local government, the press, and the professions have all had their beginnings in civil society. Over time, and in parallel with the development of the nation state, they have developed their relationships to the super structure of the state, to representative democracy, centralized bureaucracies, and national associations and movements.

In colonized countries, the development of civil society was circumscribed by the demands of a centralized colonial administration. After decolonization, many of these countries attempted to establish indigenous state institutions to replace those of the colonial administration. The result, however, was dysfunctional and anomalous: post-colonial countries created the super structure of representative democracy, economic organization and national bureaucracy, but without much thought to civil society, the grassroots from which the social contract has to emerge.

Today, countries such as Pakistan appear "modern," "developing" and "democratic" in terms of their super structure. This is the illusion of the state, the official society and its related formal sector. The illusion exists because, for decades, the colonial and post-colonial state has dominated national life in all spheres, hegemonized nation building, and monopolized national resources. The reality is that the formal super structure created by the state sits on top of an institutional vacuum. Faced with economic or political crises, the super structure begins to crumble. The vacuum becomes visible in the shape of social fragmentation, ethnic strife, the insolvency of the official economy, the irrelevance of the public sector, and other similar symptoms.

In this situation, state responses appear as palliatives, pre-ordained to failure, because they are directed from a super structure that has had no symbiotic relationships with civil society. To understand the relationships between the state and civil society, it is useful, following Max Weber, to think in terms of three arenas of experience - work, culture and politics. People do not experience the actions of the state abstractly - they experience them concretely through work, culture and politics.

Let us take a brief look at state-society interactions through the prism of work-culture-politics. By and large, the situation is as follows: Palace politics and intrigue sustain the political leadership; local government is isolated from ordinary citizens because it operates as a "closed shop"; development is reserved as the domain of planners and administrators; public interest is displaced by public monopolies; state systems are the purveyors of patronage for the privileged; public funds are dispensed for personal gain; religious themes and symbols are monopolized by the state and its "networkers"; religion and culture are bureaucratized; local knowledge is discarded in favor of imported "scientific" knowledge; and so on. It is difficult to believe that the Pakistani state today has the ability and legitimacy to benefit society through the arenas of work, culture and politics.

To live, communities seek alternatives. The alternative to state institutions is not only the reform of state entities: for most Pakistanis, it is the organization of civil society in ways that serve them best. Whether in work, culture or politics, Pakistanis in all walks of life are developing alternative organization, alternative values, and alternative leadership. In Pakistan, the life and work of Akhter Hameed Khan⁶ has been one man's pursuit of creative alternatives that address the common problems of many post-colonial societies. Few people have

⁶Currently Director of the Orangi Pilot Project in Karachi, and advisor to the Aga Khan Rural Support Programme in Gilgit.

understood the day-to-day impact of the void in civil society as well as he has, and fewer still have responded to it with his legendary, single-minded pursuit of community organization. In the last thirty years, he has provided leadership and advice to projects in places as diverse as Comilla (in Bangladesh), Daudzai (near Peshawar), Orangi (in Karachi), and in Chitral and the Northern Areas of Pakistan. In all these projects, the organization of civil society into voluntary, broad-based community organizations has been a fundamental prerequisite for economic and social development.⁷

The present situation is that thousands of Pakistani communities have begun to take on the tasks of governance. Confronted with decaying, and sometimes corrupt and exploitative state systems, Pakistanis are giving up on government. But they are taking on the tasks of governance themselves. We see civil society organizing itself into NGOs, welfare societies, youth organizations, financing committees, neighborhood watches for security, human rights organizations, non-profit research institutes, public interest litigation groups, and so on. The irony is that this trend appears to have started flourishing during the days of Martial Law, when representative democracy (and the freedom to make political choices) was nowhere in sight. Perhaps, Pakistanis could then perceive very clearly that the alternative to state systems is the organization of civil society, for the right to influence state systems had been severely curtailed. After the restoration of representative democracy, one sees greater freedom and fearlessness in expressing basic human and economic rights through organized effort within civil society. Perhaps Pakistanis now perceive, correctly, that the organization of civil society is a complement to representative democracy.

With this story, we can perceive, yet again, the similarities between de Soto's theses and the situation in Pakistan. One can summarize the similarity by saying that the informal sector is part of society's spontaneous and creative response to the crisis in governance - in administration, resource mobilization and representative government. It may not always be a just and equitable response, but it is the most readily available alternative to state systems that most individuals have found in pursuit of their legitimate goals.

This is a story which, if accepted, might account, in general terms, for the origins of the informal sector. But it needs to be treated as speculation, for, within the informal sector, there is great diversity across sub-sectors, and we need to understand what accounts for the origins, growth and dynamism

⁷There are striking similarities between Akhter Hameed Khan's approach and the thinking of Rajni Kothari, a political scientist at the Center for the Study of Developing Societies in Delhi.

of the informal sector in specific contexts. We also need to examine whether legalization of informal activity could be a gainful exercise. At this point, it becomes important to examine specific sub-sectors of the informal sector; this exercise is carried out in the remaining sections of Part A.

4. THE SOURCES OF INFORMALITY: DESCRIPTION

4.1 Introducing Two Levels of Analysis

This study is a comprehensive study, in the sense that it covers seven sub-sectors and eight cities. Its findings, while tentative, suggest that two levels of analysis are important for understanding the sources of informality. At a visible level, one can observe informal activity as a response by those engaged in it. But analysis at this level is often insufficient for revealing the dynamic or long term factors that appear to cause people to be creative or manipulative through the informal sector.⁸ Both levels of analysis are attempted in this section for all the seven sub-sectors studied, with varying degrees of success.

4.2 Housing and Human Settlements

In the matter of urban housing and the development of human settlements, the major dynamic factor seems to be the inability of state systems to come anywhere close to the demand for housing associated with urbanization and rising incomes. The regulated annual addition to the supply of residential plots and houses through the formal sector is considerably smaller than the annual demand generated by a flow of migrants into the cities, and increases in demand by those already in the cities. This imbalance between overall demand and formal-sector supply leads to people in the informal sector taking matters in their own hands. The high cost of understanding and following official procedures is also relevant as a factor that affects the formal and informal sectors differentially.

⁸In the terminology of economics, we are looking for changes at the margin that make informal activity a more attractive alternative to the formal sector. Any exogenous change (whether in market demand, policy, or technology) that affects the informal and formal sectors differentially results in non-uniform growth of the two sectors. This is illustrated in textbook economics fashion in Annex 5, which reproduces a solved problem from Gary Becker's *Economic Theory*.

The main sources of illegal activity in housing are: (a) the general shortage of serviced plots that are legally available in planned settlements - this leads to illegal occupation, subdivision and development of land, as well as the illegal diversion of municipal services to the informal sector with a revenue loss to the municipality; (b) the allotment of plots at a price that is considerably lower than its market value - this promotes illegal activity in pursuit of capital gains; (c) costly standards and procedures for zoning, safety and construction, and for regularization of illegal *katchi abadis*.

4.3 Education

The education sub-sector appears to be similar to the housing sub-sector, but the order of importance of the dynamic or long term factors behind informality seems to be reversed. It appears that the major long term constraint on formalization is the unrealistic and prohibitively expensive standards for registration of schools. (To the best of our understanding, registration is a requirement for legal operation of schools). The problem is compounded by the inability of formal sector schools (largely state schools) to keep pace with the rapid increase in demand for schooling that has come about due to increases in urban population, incomes and the age structure of the population.

The source of informality in education is the legal requirement that every school be registered with the Provincial Departments of Education under costly and unrealistic conditions. In order to register, a school has to fulfill the requirements for provision of playground, laboratory, physical space, teacher qualifications, uniform curriculum standards, toilets, financial statements and solvency, many of which are impossible for most schools to fulfill. As a result, only a handful of schools have registered as required: they operate while the officials look the other way. Elite private schools which are not registered with the Education Department often register with external examining bodies in England. Others appear to be making extra legal payments to the authorities in order to continue in business. In general, the cost of doing business informally is substantially lower than if the schools were registered; the social gains from registration under the present system are questionable.

4.4 Health

In common with housing and education, the health sub-sector has been experiencing large increases in demand associated with rapid urbanization and increasing incomes. Unlike those sub-

sectors, however, informal health services do not appear to be creative or manipulative responses to over-regulation. They appear, instead, to be responses to deficiencies in the availability of services in specific professional and locational categories, primarily nursing care, rural areas and poor urban areas.

Informality in the health sector mainly takes the form of some professionals conducting business for which they are not qualified; this includes various categories of para medics (including traditional birth attendants, dispensers, nurses) operating as doctors, and untrained individuals operating as para medics. In this situation, the issue is not so much one of legalization, as of increasing the number of professionals in critical categories and locations, and then enforcing the law.

4.5 Trade and Commerce

The informal trade and commerce sector caters largely to low income groups. This study concentrated on specialized *mandis* (local markets) for fruit and vegetables, and small vendors. The dynamic factor behind the growth of these activities is a combination of two forces - growing market demand, and supply restricted explicitly by administrative means. The source of growing demand appears to be the growing number of urban low income households, which generate the demand for cheap goods and services through informal trade and commerce in the cities. The restriction on supply emanates from administrative restrictions (often complete bans) imposed by local governments on the right to sell at locations that are in great demand, particularly by the urban poor.

In trade and commerce, some of the major sources of illegal activity are: (a) the government's inability to provide enough centralized locations where economies of agglomeration and scale could be maximized, and search and transactions costs for traders could be minimized - this leads to informal *mandis*; (b) municipal bans on fresh licenses to vend, which leads to extra legal payments for the right to vend; when licenses are available, spaces are not available as demanded by vendors; (c) the availability of goods on which import duties and taxes have not been paid - these cannot be sold legally (but are sold, for example, in the various *bara* markets). Except for (c), about which little can be done, it appears that informality is due to local government restrictions on the right to undertake a business, or to undertake it at demanded locations.

Informality in the transport sub-sector is perhaps the most differentiated in origin and in degree; it is a difficult sub-sector to understand with any thoroughness. The discussion in this study is confined to mechanized road transport and distinguishes between inter-city bus transport, the various forms of intra-city transport, private taxis in cities, and trucking. Clearly, one source of illegality in the transport sector is the general tendency to pay bribes to officials rather than paying the legal costs; this is not a problem of informality in the de Soto sense.

Of all the elements of mechanized road transport, trucking is the most deregulated and competitive component; truck permits have been freely available since deregulation in the 1970s. What illegality there is, is part of the general picture of people in society evading enforcement of laws by illegal means.

Intercity transport has some interesting historical background, dating back to pre-independence days. In order to protect the British shareholders of the Indian railways, the British government decreed that the number of permits for buses and trucks would be restricted, and granted with the permission of the railways. (Most of the pertinent legislation was enacted during 1939-44.) In the 1960s, the veto of the railways was abolished; in the 1970s new permits were freely given, but in the 1980s again there was restriction on new permits for plying between major metropolitan centers, though permits to smaller cities with low passenger traffic were available and then used illegally on major routes.

Permits are rationed through administrative means and not auctioned. The Road Transport Authorities sell the permits, at below their scarcity value. (In Peshawar, the official cost is Rs 3,000 for three years, but the cost of buying the permit in the market is Rs 350,000). In NWFP, the holding of permits is dispersed; in Punjab, it is concentrated in a few hands and associated with substantial political power and nuisance value in society. In Punjab, politically powerful transporters deter the issuance of new permits.

For intra-city transport, observations are drawn from Karachi and Peshawar. In Karachi, one source of illegality in buses is community buses owned by Cooperative Societies that deviate from approved permits (they are only allowed pickup and drop from school and work). "Yellow devils" (Ford Transit vans) and the Mazda-based minibus are not now illegal, but in the beginning they were illegal, like all new forms of private transportation at the time of introduction. When newly introduced, the Suzuki van was illegal. Now the source of illegality is the restricted number of route permits in the passenger category, with

many plying on freight permits which are valid throughout a province.

Private taxis (not the black and yellow variety) as public service vehicles are distinguished by their number plates - white numbers on blue background in Karachi, black numbers on white background in rest of Pakistan. Typically, the owners take one operational permit and use it for several cars. This helps them avoid the legal costs and taxes; instead, they pay bribes to avoid the legal charges.

In common with the housing, education and health sub-sectors, the urban transport sector has been witnessing growing demand in recent years. In addition, intra-city transport (in common with the housing sub-sector), has provided an attractive source of investment for illegally obtained money (including narcotics-related income). From the administrative point of view, the supply of legal transport services has been restricted in two ways. First: government has always been slower than the private sector and the consumer in accepting new forms of transport. The interplay between the local, Provincial and Federal levels of government in setting this constraint is not clearly understood. Second: government at the Provincial and local levels has been restricting the availability of permits for various forms of transport, sometimes transferring route permits to the state sector. The limited number of permits has been rationed by administrative means, encouraging recourse to illegal activity or influence as a means of competition.

4.7 Manufacturing

Going by appearances, the informal manufacturing sub-sector is more efficient than its formal counterpart. For example: the growth of the informal and small scale sector since the early 1970s has been attributed, in large measure, to the devaluation of the rupee which removed a major source of advantage enjoyed by the large/formal sector over the small/informal sector. The removal of other forms of protection in the future (such as subsidized capital, export rebate, etc.) may, on the efficiency hypothesis, lead to faster growth in the informal sector, since protection favors the relatively inefficient formal sector.

It is not clear, however, whether the informal sector is inherently more efficient than the formal sector, or whether it is so because of the large volume of legal charges that it manages to avoid. The immediate source of informality, in the de Soto sense, appears to be the incentive to avoid legal costs for inputs and taxes given, particularly, the broad and discretionary powers of government functionaries. This could be a major source of cost differential between the formal and informal sectors.

Some of the costs of legality originate with legislation from colonial times; others are costs of administrative procedures (particularly, the approvals and No Objection Certificates required to set up business legally). To summarize, the sources of illegality appear to be: (a) costly and time consuming procedures for registration, in particular the NOC - this leads to lack of willingness to register; (b) the interest of enforcing agencies to prevent registration, and look the other way in exchange for illegal payments; (c) legislated costs, such as those of the labor and social security laws; (d) broad and discretionary powers of government functionaries charged with enforcement, such as inspectors from various agencies dealing with electricity, food, sanitation, social security, education, etc. - this leads to evasion of registration.

Among the legislated costs, the various labor and social security laws appear to be the most daunting to business enterprises, many of which go "small and informal" so as to come below the minimum number of employees (ten) at which most of these laws become applicable. Enterprises with 10 or more employees are covered by the Factories Act of 1934 and therefore by social security and labor laws. Enterprises that are household based appear to be exempted from any registration requirements. Those that are not household-based but are one-person establishments are not covered by the Shops and Establishments Ordinance (1969), but that Ordinance does appear to cover household-based enterprises with more than one and less than 10 employees. Therefore such household-based enterprises may be covered by some of the labor laws (such as laws on child labor, working hours, safety, and most other labor laws) through the Shops and Establishment Ordinance (1969).

4.8 The Informal Financial Market

To the extent that the problem of the informal financial sector is part of the larger problem of distorted capital markets and banking in Pakistan, it is not dilated upon in this report. It is well known that the formal sector in Pakistan suffers from an extremely limited number of financial and commodities institutions, government regulations over the banking and insurance sectors, ceilings on returns to savers and interest charged to borrowers, and administrative rationing of credit and foreign exchange (although the picture looks slightly different when account is taken of Foreign Exchange Bearer Certificates). There is a picture of stagnation on the supply side, in the provision of financial services.

On the demand side, Pakistan has been witnessing an explosion in the demand for an increasingly diversified set of instruments for savings, loans, foreign exchange, equity and

insurance against risk. The dynamic factor in the growth of the informal sector is its responsiveness to this demand. Unfettered by government control, the informal sector has been able to respond with a variety of suitable new instruments for customers (what bankers in the formal sector call product development). Explained in this way, informality in the financial sector is simply the result of the formal sector's inability to respond to the demands of businessmen, small investors, small borrowers, and ordinary citizens.

5. ALTERNATIVES TO INFORMALITY: REFLECTIONS

5.1 Issues Pertaining to Legalization

There are contradictory assertions in the literature reviewed by the consultants⁹ about the effect and desirability of legalizing informal activity. The contradictions arise from assertions about the relative efficiency and productivity of the formal and informal sectors. Some studies suggest that the formal sector is more productive than the informal sector, thus there is potential for gains from formalization. Other studies indicate that the informal sector is considerably more efficient than the formal sector. Moreover, the issue of gains from legalization has not even been addressed empirically in Pakistan. And even when relevant studies are undertaken in the future, they may not provide consistent estimates of potential gains, since informal activities are largely undocumented and the relevant data bases would differ greatly from one another.

Given the level of speculation on the issue of gains from legalization, the conceptual and empirical directions for future studies have to be charted out with reference to received theory and the preliminary findings of this study.

The expectation that there are gains to legalization can be understood in terms of the expectation that legalization might bring about:

- o Higher value added;
- o More equitable distribution of income; or,
- o Increases in public revenues.

The last mentioned is a gain to society only if public expenditures are valued more by society than private expenditures.

⁹including references provided by USAID in the SOW.

In Pakistan's context, it cannot be taken as an unquestioned generalization that public expenditures largely conform to this perception.

The first two points are related. Conceptually, some of the potential gains to legalization might accrue to existing informals (and to society) on account of improved value added, while other gains might result simply from reductions in the transfer payments from the informal sector to various individuals in the state system and the formal sector. The latter gain is a gain to the informals, but not necessarily a gain to society. In other words, the net gain to society should be conceptualized in terms of productivity gains net of informal transfer payments.¹⁰ Both kinds of gains could serve to promote a more equitable distribution of income.

5.2 General Findings on the Gains from Legalization

The results of this study yield a number of empirical generalizations as working hypotheses that could be taken up for more in-depth empirical research. It appears that the seven sub-sectors studied group into four categories with respect to potential gains from legalization:

- o The gains from legalization are probably clearest in the housing sector.
- o In the health and education sectors, there is almost nothing to be gained by the informals if they are legalized. There may, however, be gains to society, but these have to be set off against the large costs of legalization under the prevailing system.
- o In the manufacturing sector, informal activity is largely a successful attempt to avoid the very high costs of formality. It is difficult to imagine either private or social gains to legalization under the prevailing framework of regulation and taxes in the formal sector.
- o In the transport, financial and trade sectors, informality is largely a result of administrative restraints on the operations of legal enterprise. Here,

¹⁰It is conceivable that reported "evidence" of higher productivity in the formal sector simply reflects the rents and special privileges given to that sector but not to the informal sector. In other words, legalization might bring about greater equity between the formal and informal sectors, but may or may not improve overall efficiency.

the gains to legalization would be visible only if the business environment were first made more competitive through greater use of economic rather than administrative instruments.

The specific situation of each of the sub-sectors is discussed in the next section in a more reflective, prescriptive mode.

5.3 Sector Specifics on Alternatives to Informality

5.3.1 Housing

Rapid legalization of katchi abadis has clear gains. The gains will accrue from secure tenure, the right to demand municipal services and the obligation to pay for them, and freedom from extortion and thugs. This will enable people to borrow against their real estate, and make it feasible to provide formal sector loans for low income housing. Simultaneously, it may be desirable to phase out administrative rationing or discretionary grants of residential plots and subsidized credit: these mechanisms promote illegal rent seeking activity, the use of insider influence in lieu of competition and market forces, and inequity in the allocation of public funds.

The existence of a large and heavily subsidized housing programme financed at negative real rates of interest makes it difficult to encourage legal private sources of investment in the housing sector. Formal sector housing finance is provided at a great cost to the government. It is estimated that this cost is equivalent to about 3.5 per cent of the budget deficit.¹¹

At present, low cost housing credit is rationed to a privileged few and the vast majority of housing is financed in the higher cost informal sector. The subsidized housing finance and subsidized developed land also imply wasteful use of public resources. Since these are available only to the formal sector it means that productivity in the informal sector is likely to be at a higher level than in the formal sector.

Greater market orientation to housing finance, responsiveness to low income groups, and modification of collateral arrangements are likely to increase investments in the sector. A greater legal role for the private sector in mobilizing resources and housing finance would increase productivity, and undermine the incentives for informality.

¹¹World Bank, Pakistan Shelter Sector Review: June 23, 1989. Report No. 7214-PAK.

Legalization of existing informal housing and promotion of private sector housing finance do not, however, promise to end illegal human settlement. The dynamic factor behind informality is that demand for housing far exceeds the supply of officially sanctioned development that is determined by the slow pace of urban planners at the municipal and Provincial levels. There is no reason to believe that the situation could change very much in the future. An important implication for the government is to accept pluralism - the equal co-existence of planned and informal housing. The government could allow the organic growth of localities, let them devise their own informal rules, and allow the incorporation of local government on demand when inhabitants of a new community are ready to so constitute themselves. In this way, a natural transition will take place from civil society to local government, as it did in many other countries.

5.3.2 Education

Our interpretation of the present situation is that legalization is synonymous with registration with the Education Department. The cost of doing business informally is lower than if the schools were registered. So school owners will not gain from legalization. It is conceivable, however, that legalization might improve some standards, in which case society might gain. Thus, the potential gains to society from legalization have to be set off against the high (some would say prohibitive) cost of legalization.

The costs of legalization (and therefore the incentive for informality) could be reduced significantly if more realistic and practical requirements were devised for registration by the Provincial Education Departments. There is also a need to orient standards more towards output than towards inputs. For example, a Federal or Provincial testing service (or standard tests) could provide more relevant indicators of school standards to students, teachers, parents and the government than the current practice of setting standards for curriculum, space, playgrounds, toilets, financial solvency, etc.

5.3.3 Health

If the description of sources of informality in health (as given in this study) is correct, then the problem would appear to be one of inadequate numbers of trained professionals in specific categories and locations. This does not appear to be a problem in the de Soto sense.

There is probably a need to examine the orthodox positions of the medical profession, as represented by the Pakistan

Medical Association, and assess whether various categories of para medics can be legally allowed to extend a limited type of coverage to the mass of the population. At the same time, the public would expect the government to draw up and enforce realistic standards for both state and private health care.

5.3.4 Trade and Commerce

The problem here is not fundamentally one of legalization of activities, but rather the removal of administrative mechanisms for resolving scarcity that arises from the limitation on the number of vendors (and mandis) and where they can be located. An economic instrument (such as an auction of vending rights) could remove much of the incentive for illegal trade and commerce in the cities.¹² In other words, while there may be a valid argument (such as congestion) for limiting the number of opportunities, there could be a better way of resolving the resulting scarcity. There is a need to involve local governments and citizens' groups in moving away from colonial practices and towards a greater market orientation.

5.3.5 Transport

There is, in principle, no reason why inter-city bus transport could not be made as competitive as the trucking business. What regulation is required could be directed through standards of operation, rather than restrictions on entry. Potential congestion on highways could be an issue, but what it requires is integrated planning (for pricing, investment, imports, etc.) within the entire transport sector to cater to growing demand, rather than restrictions on one or the other mode of transport.

Similar planning is also required for the cities. In the largest cities, traffic congestion and pollution appear to be more serious and immediate problems than on the highways. If this is indeed the case, then restrictions on the number of local permits for private transport might have some justification in the public interest in the short term. In general, however, there may be little justification for the universal practice of restricting the number of route permits for buses, minibuses, taxis and other forms of public transport in the cities.

¹²But this has potential pitfalls,: it could simply shift illegality and bribery from lower levels of government to higher levels! Besides, unless citizens' groups are well organized, there is no mechanism for controlling the current practice (of contractors) of first winning an auction and then, against the rules, raising the unit charges collected from consumers.

If the government is interested in seeing mass transport grow in the private sector, it could eliminate or drastically reduce import duties on public service vehicles, reduce (ideally to one or two) the number of agencies with which an operator has to deal, and enter into dialogue with the operators of public service vehicles (who are not generally members of other trade associations).

5.3.6 Manufacturing

Under the present system of regulations, discretionary official enforcement and incentives for avoiding legal costs, it is the consensus of informals in the manufacturing sector that they are better off than they might be in the formal sector. The attractiveness of informality in the manufacturing sector lies in its cost advantage to the informals. Thus, informality protects the informals from the legal costs to be paid for inputs and taxes, but it denies them the subsidized inputs that are provided to the formal sector.

The alternative to informality needs to be motivated with a whole range of reforms that make private enterprise less costly and more legitimate. Conceptually, the recognition of private enterprise pursuing legal objectives is the single most important deterrent to illegal activity.

Fewer administrative and procedural costs for registration and operation could be an immediate area for action; fewer discretionary powers of enforcement and easier procedures for No Objection Certificates (NOCs) would be part of such action. For the longer term, there is a need to review labor and social security laws, and the assortment of industry-specific laws, in terms of their costs and benefits. Such an economic review of legislation¹³ is important for all sectors, but it could probably demonstrate its greatest and most visible utility if applied at an early date to the manufacturing sector.

5.3.7 Financial Markets

Similar reasoning applies to the financial sector. The informal financial sector is responding to demands to which the formal sector cannot respond. Legalization of informal activities will not be welcomed by consumers and the informals under the present conditions of regulation in the formal sector. The alternative is to recognize the role of market forces and private enterprise in the financial sector, and deregulate it to the point

¹³the marriage of law and economics, for which precedents and models are available in several countries.

of greatest possible efficiency.

A start could be made in foreign exchange transactions, already liberalized through the introduction of Foreign Exchange Bearer Certificates. It is highly doubtful whether current regulations have any significant effect on controlling the flow of foreign exchange.¹⁴ Their major effect seems to be to increase the cost of transactions, particularly to small customers and ordinary citizens, and put substantial foreign exchange flows into informal systems (such as the *hundi*). Simultaneously, it would be useful to experiment with greater latitude in remitting money (including foreign exchange) through the Post Office (assuming that the Post Office can be made more efficient). This suggestion recognizes that one of the attractions of the *hundi* system is that money can be delivered at the doorstep, thus reducing the cost of going to a bank.

Many other suggestions are possible, but they belong under the general subject of deregulation and privatization, rather than the specific topic of informality.

6. ISSUES OF SPECIAL INTEREST TO THE INFORMAL SECTOR

6.1 Major Impediments to Business Activity

6.1.1 Administrative versus Economic Management

It is widely believed by economists and policy makers that Pakistan is an over-regulated and over-administered country. This is a function more of administration than legislation or explicit policy statements¹⁵. Through various centralized control points, the government sets administrative limits on the right to pursue a large variety of activities, thereby creating scarce resources for which ordinary citizens have to compete (for example, the right to ply buses or vend at particular locations). The government relies on administrative mechanisms such as permits, licenses and No Objection Certificates (NOCs) to ration the limited

¹⁴A multi-country study by IMF economists Khan and Haque (1987) found that capital flowed across tightly controlled official regimes as if there were free mobility of capital, the restrictions being evaded through invoicing mechanisms and the informal sector.

¹⁵In fact, policy statements in recent years have supported deregulation, but administrative practices continue to be at variance with stated policy directions.

rights to pursue various activities. Thus, competition is directed at government administrators, and takes the form of competition for favors, influence and bribery.

Replacing administrative management by economic management might entail one or more of the following general recommendations:

i) Careful examination of the major sectors of informal activity to determine whether restrictions on the rights to pursue an activity are warranted by considerations of efficiency, equity or other well defined public interest¹⁶.

ii) If a determination is made that the right to pursue an activity should be restricted in the public interest, the restrictions should be imposed through legislation at the appropriate level of government, rather than by administrative order.

iii) To the extent that restrictions are deemed essential and duly legislated, economic instruments (such as auctions) should be preferred to administrative instruments (such as NOCs and permits given at nominal prices) in rationing rights (unless considerations such as those under (i) demonstrate otherwise).

iv) In cases where administrative mechanisms are demonstrated to be superior to economic instruments, administration should be pro-active rather than reactive.

These recommendations can be approached at two ends - empirical studies to highlight areas for potential reform, and immediate administrative reform.

6.1.2 The Possibility of an Immediate Administrative Reform

The last point can be illustrated most clearly with a suggestion that could be implemented sooner than more wide ranging administrative and policy reform. The illustration pertains to the extensive and crippling effect of an administrative device called the No Objection Certificate (or NOC). The NOC is perhaps the single most pervasive and costly instrument of state control that inhibits the registration and operation of legitimate economic, social and political activity. It is often also the least substantive administrative exercise, since it is often given in response to influence, bureaucratic imperatives or bribes. There are two sets of possibilities for making the NOC more pro-active and less reactive:

¹⁶For example, if an activity produces excessive congestion or pollution.

i) At the Federal, Provincial and local government levels, there is a need to draw up a "negative list" of a small number of activities for which the NOC is required in the public interest.

ii) When an NOC is required in the public interest, whether from one or more agencies, only one agency should be designated as the "concerned agency." The concerned agency should be required to issue an NOC within a stipulated time period, unless statements of objection are received from other agencies within the stipulated time.

6.2 Voice for the Informal Sector

The SOW asked the consultant to "determine if there exist any Pakistani organizations advocating pluralism and/or the promotion of the informal sector, something akin to the Institute of Liberty and Democracy in Peru." The short answer to this query is "No."

In Pakistan, there are various types of organizations in civil society - for human rights, prisoners' rights, women's rights, animal rights, conservation and environmental protection, and so on. It is baffling to note, however, that there are no organizations in civil society that pursue the themes of economic democracy and consumer rights.

There are, of course, special interest groups of traders, businessmen, merchants, transporters, etc. There can be no presumption, however, that such groups as these (including the Chambers of Commerce and Industry, the Chambers of Agriculture, associations of traders, etc.) can speak for interests other than their own. While they are legitimate players in national dialogue, and carry weight *vis a vis* the government, their natural tendency is to seek special privileges for themselves and protection from competition. It is doubtful whether such groupings in the private sector can represent the voice of the informals.

7. SPECIAL FOCUS ON SMALL ENTERPRISES

7.1 Sectors in Which Small Enterprises Predominate

Section 7 has been constructed with reference to specific issues raised in the SOW (and identified in indented paragraphs).

... identify sectors in Pakistan in which investors or entrepreneurs with 0 to 5 employees predominate in terms of investment: e.g., private housing, urban retail

services, urban transportation (taxis), automotive and bicycle repair, and so forth.

The primary focus of this study was on sectors (such as housing, transportation, etc.), rather than on activities (such as bicycle repair, domestic service, etc.). Of all the sectors examined, published secondary data on small enterprises were found only for manufacturing (through the Survey of Small and Household based Manufacturing Industries - SSHMI). The most recent SSHMI survey is for 1983-84, which indicates that 95 per cent of the establishments were employing five or fewer persons.

Impressionistic evidence from this study suggests that, in the transport sector, intra-city transport may be dominated by small enterprises in modes such as "Suzuki wagons," minibuses, taxi cabs, private taxis and motor rickshaws and *tongas*. Available information does not allow an inference whether investment in these modes is greater than in other modes of transport, and other elements of the transport sector (such as inter-city).

Small enterprises do tend to predominate in informal trade and commerce in the forms of itinerant vendors and semi-fixed vendors (e.g. those operating kiosks, particularly outside mandis and public places). In informal health and financial services, as well, most of the business is carried out by concerns run by one man or woman. In education, however, most of the activity is by enterprises that are typically larger than five employees.

7.2 Legal Obligations

For sectors where major small enterprises are very important, determine the legal obligations required of a small enterprise which wants to offer goods or services for sale to the general public for profit.

Specific questions from the SOW are answered as follows:

i) Are new small entrepreneurs allowed to officially set up business in this sector? Or is it reserved for certain firms?

In finance: not allowed.

In housing: no legal bar, but standards have to be met.

In manufacturing: no legal bar, but various NOCs have to be obtained.

In trade: shops are freely allowed, but vending licenses are restricted.

In health: any qualified person can set up the business for which he/she is qualified.

In education: registration is open to all those who fulfill the stringent requirements.

In transport: permission to operate is restricted to those with access to a limited number of permits, but trucking is entirely open.

ii) Do new small enterprises have to register as a firm? Do they have to register separately with different authorities? Describe the steps in the overall process.

The details are given in the sub-sector profiles and case studies (Part B and Part C) and the Annexures; a summary follows.

In finance: there are no small firms in the formal sector.

In housing: a firm can be registered as a private limited company, partnership, cooperative, etc.

In manufacturing: approval of the Directorate of Industries is required (for sanction of the unit, given through NOC); of the municipal corporation (for manufacturing license); and, depending on activity: of the Health Department (NOC, for safety), fire brigade, electricity inspection division. For more than 10 employees, additional registration is required under the Factories Act and various labor and social security laws.

In transport: approval of Deputy Superintendent of Police is required (for public service vehicle driving license); of the Motor vehicles examiner (for fitness test); of the Excise and Taxation Office (for registration of vehicle); of the post office (for payment of road tax); and of the Regional Transport Authority (for route permits).

In health: a doctor has to be registered with the Pakistan Medical and Dental Council. A clinic would have to be registered under the Shops and Establishments Ordinance (1969).

In education: a school would have to register with the Department of Education and fulfill the conditions described in detail in Part B.

In trade and commerce: for operating a shop, registration is required under the Shops and Establishments Ordinance (1969); for vending, permits are required from local government.

iii) Once properly registered, what kind of regulations does

the small enterprise have to follow? e.g. labor regulations, price controls, time and place of business, quality controls.

In general: Enterprises with 10 or more employees are covered by social security and labor laws. Those that are household based appear to be exempted from any registration requirements. Those that are not household-based but are one-person establishments are exempted from the Shops and Establishments Ordinance (1969), but that Ordinance does appear to exempt enterprises that are not household-based and have fewer than 10 employees; therefore, they are not exempt from some of the labor laws (such as laws on child labor, working hours, safety, and most other labor laws). In addition:

In finance: there are no small firms.

In housing: only if you are getting land officially through Cooperative Societies do you have to sell at cost price, rather than at market price. Quality controls and standards are enforced by local government.

In trade and commerce: there are price controls, and regulations enforceable in the areas of health, food inspection, sanitation, weights and measures, and the local government can check for compliance with the designated place of operation.

In manufacturing: quality controls are exercised through the Department of Health (for food and beverages), and by concerned agencies for electricity and sanitation, and the building inspectors of local government.

In transport: there is fare control (by provincial Road Transport Corporations), restrictions on routes (by Road Transport Authorities), specified number of passengers (by RTA), and vehicle fitness examination (by the motor vehicle examiner). There is also a prescribed weight of cargo that can be carried by a given type of vehicle.

In health: there are no special controls.

In education: the Department of Education can check on all the conditions of registration, but this is not enforced.

iv) In assembling the factors of production and inputs needed for the business, for example, in renting space, hiring labor, getting electrical connections, opening a bank account, buying or registering a business vehicle, and so forth, are there regulatory requirements the small entrepreneur must meet, beyond the usual financial cost of the inputs?

In general, relevant regulatory requirements seem to operate through the mechanism used for incorporation: private

limited company, partnership, cooperative society, etc.

In hiring labor: to claim wages as an expense, the National Identity Card number, biodata, and address of employee is needed. In education, a school also has to show minimum teacher standards and the availability of six months staff salary.

For opening a bank account: procedures vary by form of incorporation. For private limited company, the State Bank of Pakistan requires a signed copy of the Articles and Memorandum of Association, the incorporation certificate, a board resolution, and a list of directors.

In the transport sector, an operator may be subject to regulation by: the Road Transport Authority (for route permits), the Excise and Taxation Office (for registration of public service vehicle), the post office (for token tax), and the police (for public service vehicle license). An operator would also have to operate from an approved bus terminal.

In housing, zoning laws and building standards would be the relevant regulatory framework.

In education, physical space requirements would have to be met.

v) What business taxes are the small enterprises supposed to pay?

The same taxes as those paid by larger enterprises, including income tax to the Federal Government, and an annual fee for renewal of registration paid to the provincial government.

vi) Are small enterprises inspected to determine whether they are registered and conform to regulations and tax laws?

All businesses are subject to inspection by the Excise and Income Tax Departments. They may also be subject to inspection in accordance with the form of their incorporation (for example, by an Inspector of the Cooperatives Department, in case of cooperative societies).

It appears that almost all the seven sectors studied for this report (except health sector activities) are subject to inspection by concerned government departments.

7.3 Various Other Questions

i) In general, are the small enterprises in this sector in conformance with most regulations, or do they generally operate

with substantial legal problems?

No generalization can be made that they are in conformance with most regulations; the impressionistic evidence is that they are generally not in conformance.

ii) How are conflicts between the small entrepreneurs and the authorities worked out?

Generally through extra legal means, such as bribes, extortion and intimidation.

iii) What kind of organization, if any, is there between small entrepreneurs in a given sector? e.g. family relationships, an official or unofficial union or trade organization or chamber of commerce, connections with political parties.

Most small enterprises are family based. Among others, the research team noted the following organizations:

- Committees of commission agents.
- Various market associations.
- Anjuman-i-tajiran* (traders associations).
- Transporters unions.
- All Pakistan Goods Forwarding Association (of truckers).
- Motor rickshaw drivers associations.
- Taxi drivers associations.
- All Pakistan Power Looms Association.
- The Pakistan Medical Association.
- National and provincial chapters of private schools association.
- Most cities also have Chambers of Commerce and Industry.
- Some cities also have Chambers of Agriculture.

8. WOMEN'S INVOLVEMENT AND WELFARE

In the informal financial sector, women have no role except in savings and neighborhood "committees." There are various forms of the committee system (described in Annex 10), but its essence is: (a) regular, equal collections from all members, in order to (b) award the total thus collected to one member, either by drawing lots or according to some other agreed rule.

In housing: women as home-makers are particularly affected by the insecurity of tenure and the lack of basic services. They are the principal users of water and energy, and so bear a major brunt of the illegal pattern of development.

In manufacturing: women are mainly engaged in the

production of hosiery goods, tailoring, packing of medicine, stitching of leather, paper, sports goods and the processing of dry fruits. Women's participation in the sector is the highest but their productivity in this sector is amongst the lowest. The higher participation rates and the low returns in this sector are due to the fact that women prefer to work from their homes and piece-rate work allows them the option. The informal sector allows them entry and access into enterprises which would otherwise be denied to them, and it offers conditions which enable women to work flexible hours from their homes. The women doing piece work belong to families of the poorer working class.

In the context of health, education and transport, we conjecture that if facilities are not available within the community, women's status and health suffer more than men's.

In trade and commerce: women play a minor role. They are involved in selling vegetables, toys and trinkets, at selected locations (e.g., at shrines and the periphery of major markets). They are involved in trade and commerce because of the low level of capital and skills required to operate in these activities.

More detail on the role of women is provided later on in the report.

Part B

**SUB-SECTOR
PROFILES**

9. HOUSING AND HUMAN SETTLEMENTS

9.1 Overview

The term human settlements is being used to describe not just the informal housing arrangements, but also access to basic services like water supply, sewerage, electricity, etc. The informal sector has evolved sophisticated arrangements not only for access to houses but to the basic ancillary services that are required. Regularization of some *katchi abadis* has led to the creation of a continuum of categories ranging from completely formal to completely informal.

The rapidly increasing population of Pakistan has exerted enormous pressure on the housing sector especially in the urban areas and housing has emerged as a dominant urban problem. A clear and dynamic picture can be constructed of the housing sector from a review of the literature in this sector.¹⁸ The informal sector is thriving in housing and human settlements because the government response to rapid urbanization has been too slow and too costly. In simple words, the government machinery has been incapacitated in the face of rapid urbanization. Over the years, the demand for low income housing has far exceeded the development of housing schemes by government agencies. The principal constraint in the housing sector appears not to be in the supply of building materials but in the supply of land for new housing. The informal sector has responded by buying or occupying large tracts of peripheral-urban land, and converting it to residential plots for low income families.

Although the housing sector expanded quantitatively it lagged behind the pace of demographic changes. The number of houses increased by 2.8 per cent between 1961 and 1981 whereas the population expanded by 3.4 per cent during the corresponding period causing a severe population - housing disequilibrium. The housing population has increased by 271,000 units per year; an additional 70,000 units are needed each year to maintain the current habitation density of 6.5 persons per household.

¹⁸ Most of the available research work on housing and human settlement has been done by three individuals: Arif Hasan, a town planner who works with the Orangi Pilot Project (OPP) and teaches at the N.E.D. University in Karachi; Tasneem Siddiqui, until recently the Director General of the Hyderabad Development Authority; and Akhter Hameed Khan, the Director of OPP. The results of their research are available in interviews, project reports and magazine articles.

Table 2
Number of Households and Population Statistics

Area	No. of Hhds. (^{'000})		Population (^{'000})		Annual Growth Rate of Hhds 1961-81	Annual Population Growth Rate 1961-81
	1961	1981	1961	1981		
Urban	1,647	3,554	9,655	23,841	3.8%	4.5%
Rural	5,512	9,033	33,226	60,412	2.5%	3.0%
All	7,160	12,588	42,881	84,253	2.8%	3.4%

Sources: 1981 Census Report of Pakistan, Housing Census 1981

A qualitative analysis of the sector reveals the deterioration in living conditions both in formal and informal housing. Table 3 illustrates the temporal changes in habitation density which has increased to 6.5 persons per household, the number of persons per room has however remained constant at 3.3. This was mainly due to slightly larger units built in the past two decades; average number of rooms per household increased from 1.7 to 2.

Table 3
Housing Units by No. of Rooms and Hhd. Size

Area	Persons/Hhd		Persons/Room		Rooms per unit/Hhd	
	1961	1981	1961	1981	1961	1981
Urban	5.84	6.71	3.1	2.6	1.8	2.6
Rural	5.41	6.44	3.3	3.6	1.6	1.8

Source: Pakistan Shelter Sector Review, World bank Report 1989

Currently 18 per cent of the total houses (54 per cent

in urban, 5 per cent in rural areas) have access to electricity and only 16 per cent have piped water facility. Based on a survey¹⁹ conducted in 1973 nearly one tenth of the total units are classified as *pucca* houses. The proportion is much higher (32 per cent) in urban areas.

The development charges demanded by municipal authorities are far in excess of what low income families can pay. The result is a proliferation of low-cost informal sector arrangements for the support of human settlements. The informal sector has developed a complete system of urban development in most *katchi abadis* or squatter colonies. The process starts with illegal sub-division of land; the man who performs this service may be called the illegal sub-divider. Not only does he provide residential plots on easy installments, he also provides loans for house building and training in construction work. Protection is purchased by contributing, through the illegal sub-divider, to the local police. Other entrepreneurs in the informal sector provide water for domestic uses; garbage disposal services; electricity from generators; and, in some cases, cable television by means of a VCR that is linked to TV sets in several neighboring houses.

The informal sector system of waste disposal in large cities presents a remarkable contrast to the official system. The informal sector system appears to be more effective at waste disposal, more geared to sound environmental practice, and more equitable in terms of the employment and earnings provided. In essence, it works because the collection of garbage (which entails a high cost) is combined with the recovery of useful material²⁰ (which is profitable) under one management: it internalizes the costs and benefits of waste disposal. In contrast, the official system is only a system of garbage collection.²¹

¹⁹ Zaki, Javed. A. Housing Conditions in Pakistan: 1960-80: Pakistan development Review, Vol. XX, No. 2 (Summer 1981).

²⁰ such as paper, cardboard, tin, bottles and plastic bags; the waste that is left over after these materials have been extracted is sometimes used to fire furnaces for pottery-makers.

²¹ A World Bank mission recently visited Pakistan to obtain first-hand information on the role of the informal sector in sanitation and solid waste disposal. Similar missions have been undertaken to other countries (including Turkey and India).

Extent, Contribution to the Economy

Informal housing sector includes "the settlements developed by unregistered agencies, individuals or groups on illegally occupied land". These are unauthorized settlements with minimal planned structure developed for low socioeconomic groups largely built on government land. Although most of them have been legalized they are still classified as informal housing primarily due to lack of basic housing facilities and proper infrastructure.

About 20 per cent of Pakistan's urban population in 1985 lived in *katchi abadis* or squatter settlements. It is estimated that over 2 million people, i.e. 37 per cent of Karachi's population lived in *katchi abadis*. Karachi's squatter settlements are estimated to grow by 200,000 per person per year and represents a growth rate approximately twice that of Karachi's overall population. The *katchi abadi* population of other cities is estimated to be about 25 per cent of total population on average. A survey of 2,302 *katchi abadis* indicates that 87 per cent of these were on state owned land.²² It is estimated that about 70 per cent of the people in the urban areas belong to the low-income group, about 24 per cent belong to the middle-income group and only 6 per cent to the high-income group.

It is difficult for the public sector to supply all of the developed land needed for housing. Private developers in the sector are active mainly in Karachi and Lahore, and they deal mainly in upper and middle income land development and house construction. The squatter settlements are therefore, a market response to meet this shortage and to the high prices of developed land. An informal land market has developed in which land tenure is not formally registered but it is recognized de facto. A pattern of *katchi abadi* development has been organized which protects against eviction, oversees the development of basic street layouts and even the provision of basic services like water supply, sanitation, drainage, etc.

Relevance to de Soto's Theses

In its pattern of development and some of its main characteristics, the housing sector in Lima has a lot in common with the housing sector in Pakistan. The various stages of traditional urban development are reversed in squatter settlements

²² World Bank. Pakistan: Shelter Sector Review. Report No. 7214-PAK. June 1989.

in Pakistan just like they are in Lima and such settlements evolve differently from traditional urban areas.

Most of these settlements are established on the expectative property right, i.e. the idea of establishing a real right by one's own initiative and in contravention of established norms. The element of uncertainty prevails despite the expectation of future ownership and thus the incentive to invest properly on the houses is restricted. Apart from the limited level of investment in housing, residents only enjoy use rights and not property rights to the land. They cannot rent out or sell. Innovative arrangements are sought for transferring these use rights to others and to deny allegations of sale.²³ Tenancy is often disguised as lodging arrangement so that when and if the rights are given they are not given to the tenant but to the owner. Neighborhood sanction and approval become more significant when rights are uncertain.

9.3.1 Description and Analysis

It is true that the response of the authorities is essentially an improvised one. It is not in the state's interest to prescribe a well defined uniform policy but it is in the state's interest to make its land acquisition and housing policy an instrument of the extension of its power and to use these to dispense favors. As a result there is a distinct and different pattern of development in katchi abadis which have been granted legal status and title to land from the beginning and those which acquire this subsequently. There is a direct correlation between the limitation in the exercise of rights and the impact on development pattern.

The system of acquisition of land in Pakistan, particularly in the urban areas has a long history which is tied in with considerable confusion and corruption generated as a result of evacuee property, encirclement of agricultural villages by urban areas and the general lack of formal title to land. The acquisition of land has been undertaken by both gradual and violent invasion. Gradual invasions have occurred invariably on public land where the market price of land have not justified an immediate response by the government. Violent invasions have occurred where competing interests and high land prices have made the violation very attractive. There is also considerable illegal purchase of agricultural land through associations and cooperatives. The peripheral land outside the capital territory of Islamabad and Rawalpindi is currently being disposed through the formation of

²³ The Hyderabad Development Authority's housing scheme for low income households illustrate some of these patterns.

housing cooperatives. The establishment of housing cooperatives also offers potential customers a modicum of security because of the collective nature of the arrangement.

As soon as it becomes clear that the state will not remove the settlement, the invaders begin to build with proper material. Is it politically unacceptable to demolish buildings with proper construction material. The level of investment in housing is thus determined by the measure of legal security which the state confers on the settlement. The greater the security the greater the investment.

The informal pattern of development of the squatter settlements leads to the concentration of particular ethnic groups in some localities. The pattern of rural-urban migration in Pakistan is such that people from the same village are likely to go to the same city to minimize adjustment and search costs. This pattern not only exacerbates tension in the city at times of conflict but in fact, potential conflict is built into this pattern of informal settlement. Particular communities are easily made the target of violence. The current violence in Karachi and Hyderabad provides ample illustration of this aspect of informal development.

Just as in Lima, the costs of informal settlement include organizing the illegal invasion of land, running the risk of eviction or relocation, putting up with a long period of insecure occupation and living without the benefit of basic services or infrastructure. The settlers are also forced to immobilize or waste a sizeable proportion of their resources because they have to be physically present on the land to ensure their rights. The nature of their property rights are also minimal. The informal sector thus pay a very high price for the land that they occupy.

The *dallal* is the most powerful of all involved in the informal housing sector in organizing invasions and dealing with all concerned parties. Land is supplied for immediate possession in the informal sector at the price the poor can afford. Once land is acquired, informal arrangements are made for the provision of building materials on credit along with technical advice through the *thallas* (building material yard) and informal arrangements are also made for the supply of water, electricity, transport.

Developed and serviced land is the principal constraint in the sector and it is precisely around this resource that the government has made very restrictive and complex arrangements for rationing and allocation. For example in Karachi, of all the public agencies, only the Karachi Development Authority (KDA) in Karachi directly provides land to the general public for housing. Other agencies eg. the Defence Housing Authority initially gives land only to armed forces personnel which through resale reaches the general public, while the Cooperative Housing Societies reserve

their plots for members. KDA provides plots by ballot, allocation and auction. Over the latter part of the 1980's, 5,000 plots per year were developed by KDA of which only 2,000 are estimated to have reached the urban poor each year. Other agencies have developed approximately 10,000 plots annually almost exclusively for upper income households. The informal sector has been developing 20,000 plots annually. The single most extensive informal sector housing activity is the illegal subdivision on state land.

The construction material used in houses in the informal sector is very basic and depends on the security of tenure. Where tenure is uncertain, houses are made of baked and unbaked bricks and mud. Roofs of houses are not much high and made of wooden beams and girders supported by wooden pillars. Presently, the least expensive formally produced one room housing unit on 80 square yards in Surjani Town is priced at Rs 42,000.²⁴ The alternative then for the 50 per cent population earning below this level is to seek illegal or extra-legal solutions to their housing needs. There is no proper arrangement for drinking water, electricity, sanitation or drainage. In certain colonies, community taps have been installed and illegal supply of electricity through uncovered cables have also been secured.

The growth of *katchi abadis* in Islamabad and Rawalpindi is linked to the development and expansion of the Federal Capital. It is estimated that the population of *katchi abadis* has increased three times. There are about 27 *katchi abadis* in Rawalpindi and Islamabad. The *katchi abadis* in Islamabad are very strategically placed on marginal public land which is either uneven, on the banks of a nala or on land with unusual terrain. These are situated either along the railway track or on the banks of streams which are used as drains for rainwater and sometimes sewerage waste.

There are three main categories of inhabitants in the *katchi abadis* of Islamabad and Rawalpindi. The first are the members of the Christian community who work as sanitary workers in Rawalpindi and Islamabad. The second type are migrants and non Christians mostly Afghans and Kashmiris who provide skilled and unskilled labor to the twin cities and collect and sort garbage for resale. The third type of dweller is the petty grade officer of the government. The government servants have constructed mud houses near model villages of Islamabad.

Government policy on *katchi abadis* in Islamabad was very strict. Initially, the Capital Development Authority (CDA) did not

²⁴ Jan van der Linden in Karachi Land and Housing Study by Dowal, Dr. D., for the KDA MP & EC Department, 1989, p. 140.

allow any settlement which was not included in the master plan. However, it later relented to political pressure particularly during the tenure of the Junejo government in 1985. In 1986 inhabitants of *katchi abadis* were allowed proprietary rights. Generally, such settlements extended with the help of illegal subdividers and government officials.

With the announcement of CDA's plan to acquire and develop more land, the local inhabitants of Islamabad who were allowed to sell their land but were not allowed to build up the land, started to construction of *katcha*, *semi pucca* and *pucca* houses in defiance of the state laws. According to the government rehabilitation policy of 1984 the affectees would qualify for allotment of residential plot in a sub-urban centre. As a result plots are being sold with fictitious names under back dated transactions. To establish title, *semi-pucca* buildings are being constructed over night and bribes are being paid to CDA officials. Agents supply construction material in lieu of advance payment, and construction facilities are also provided by *dalals* or intermediaries.

During the field survey some colonies like the Zia-ul-Haq colony was surveyed. This colony is established on land belonging to the Railway Department which has refused to issue the No Objection Certificate (NOC), a necessary requirement for further development. Other land comes under the Evacuee Property Trust, and the executive of the Trust proclaims that the Junejo Government regularization is inapplicable as it applies only to *katchi abadis* on public land.

9.3.2 Policy Implication and Reflections

Rapid urbanization, increasing per capita income and poor housing conditions imply a large demand for housing and potential high rates of return in housing investment. The government controls the allocation of credit and it has rationed credit away from housing investment. The existence of a large heavily subsidized housing programme financed at negative real rates of return makes it difficult to encourage private sources of investment in the housing sector. Formal sector housing finance is at a great cost to the government. It is estimated that this cost is equivalent to about 3.5 per cent of the budget deficit.²⁵

Low cost housing credit is rationed to a privileged few and the vast majority of housing is financed through higher cost

²⁵ Pakistan Shelter Sector Review: June 23, 1989. Report No. 7214-PAK.

informal credit. The subsidized housing finance and subsidized developed land also imply a wasteful use of the resources. Since these are available only to the formal sector it means that the productivity in the informal sector is likely to be at a higher level than in the formal sector.

A greater market orientation to housing finance and responsiveness to low income groups, modification of collateral arrangements is likely to increase investments in the sector. A greater role for the private sector in mobilizing resources and housing finance would increase productivity.

9.4 Requirements for Registration

All *katchi abadis* established before March 23, 1985 and constituting more than forty houses (Prime Minister's announcement in 1986) are to be regularized and upgraded. This enhances the de facto security of tenure and in many cases the announcement itself offers ample safeguard.

The process of acquiring lease after the grant of legal status to a *katchi abadi* is lengthy and tiresome. The applicant must fill the prescribed proforma and enclose supporting documents, which are (i) Area Councillor's certificate on occupation (ii) verification from neighbors (iii) Indemnity bond (iv) affidavit (v) copy of national ID card (vi) an undertaking. These are scrutinised by the Assistant Director of the Land Department. The plot's size and land use are surveyed as well as the site plan which is prepared with prescribed calculations.

This is followed by issuance of deposit *challan* to the applicant noting the approved lease rates. The lease charges are then to be deposited along with arrears of taxes in a scheduled bank. Excess occupation or encroachment has to be removed by the applicant and paid copy of the *challan* produced at the lease office on which lease deed is issued for affixing a legal stamp. The lease is then to be registered by the registrar.

These procedures loaded with bureaucratic impositions, red tapism and intense amount of corruption at every step make the informal sector habitant weary and uninterested. There is a certain amount of distrust in what the state does or attempts to do. In following the above system they waste time and end up paying more than twice the official cost.²⁶

²⁶ Urban Land Management Study (ULMS), Document 2, Kinhill Engineers pty ltd. & NESPAK pvt. ltd. Karachi, 1990, p.97.

In Islamabad public property or land cannot be acquired easily. There are several ways of acquiring land; one may apply to CDA for land in planned residential sectors, through the quota allotted to professional groups and other special categories; or, land may be acquired through rehabilitation policy for the person whose land has been acquired by CDA.

The establishment of Cooperative Housing Societies is a new way of acquiring land. Members give an initial deposit and the society purchases a large tract of land which is then distributed to the members. In each case, the procedure is complicated and it can take up to two years before the land is developed and placed in the possession of the owner. In some cases, the average time from application to possession can take even longer.

To obtain legal title to land through legal means is beyond the reach of the slum dweller. Those seeking ownership of land in *katchi abadis* such as those which currently exist will need anywhere between Rs 200,000 to Rs 500,000 for a 5 *marla* plot.

For construction one has to apply to the Municipal Corporation on Form "A" along with (i) complete building plan with a careful review of the 40 points provided in the building by-laws (ii) a copy of the title deed (iii) an undertaking that the applicant will not claim basic services like street access, drains and water supply until these facilities are provided by the Municipal Corporation and (iv) an application for the construction of the building with (v) a description of the covered area, number of stories and (vi) payment of the fee.

Form "B" is about the details of the proposed building and form "C" entails the entry of building application by the building clerk signed by the building superintendent. Finally, the 'reports' of concerned officers including the building inspectors/overseers, encroachment *patwari*, superintendent, municipal engineer are required and the final orders are issued with the signature of the Chairman. After completing these formalities one can start the construction of the building.

9.5 Requirements for Conducting Business

Private developers face a number of hurdles in getting the various permits required to conduct business. First, they must demonstrate clear title to land, they must get approval from the development authorities that proposals conform to standards which can take up to 18 months, they must advertize to invite public objections, and they must get no objection certificates from a number of government agencies. Constrained by the expensive standards and the bureaucratic procedures, it is the informal

sector which caters to the needs of the low income market.

In most schemes, plots are allocated by "ballot" or random selection of beneficiaries, and very little differential pricing is allowed under existing regulations. KDA and CDA both sell land at substantially below the market rates. There is a large difference between market price and sales price of such land. Consequently, there is a large potential gain to be made from the sale of this land and a large number of applicants enter the balloting process. Although applicants maybe screened to verify that they are ineligible, those who are allotted the plots have an incentive to sell to speculators and realize immediate capital gains. Although, there are sometimes covenants requiring owners to occupy plots within a given period, these are rarely enforced.

Plots are held vacant for long periods. One of the principal reasons for this is that in Pakistan serviced land is preferable to many other alternative investments. There is no property tax levied on vacant land; capital gains on the sales of vacant land are not taxable. In addition, because financial markets are underdeveloped, there are limited investment opportunities. These factors are critical in making land investment a haven for illegal or "black" money, much of which is said to be invested in vacant land.

Under the existing Land Acquisition Act, public agencies must reimburse landowners on the basis of market value. In order to make land more affordable, there have been attempts to limit the amount that could be paid to landowners. Punjab experimented with a model where original landowners were given plots of developed land as part of their compensation. This experiment was not successful and Punjab reverted to the Land Acquisition Act of 1894.

In Islamabad, land is acquired and developed by the Capital Development Authority, sub-divided into sectors and then allotted. Up till the early 1970s, the allotment of land in Islamabad was not difficult as land prices were still low. By the late 1970s and 1980s there was a phenomenal appreciation in the price of land, and the allotment procedures became difficult and lengthy. Land values have seen another significant increase due to the recent political problems in Sindh and the increased incentive to establish industries in the NWFP. Speculative investment has probably been the most significant element in the increase in land values.

The procedure of land purchase/allotment and development in Islamabad and Rawalpindi is not uniform. In Islamabad, land is allotted by CDA through secret ballot or on the basis of a quota system. Housing societies and cooperatives are not allowed to purchase and develop land in the Federal Capital. In Rawalpindi, land is owned by the private owners. Societies and cooperative are intensively involved in development of land and provide the land

to the public even through easy installments.

The allotment of illegal subdivided plots is made to the squatter with the help of certain influential and inspecting staff of the CDA. A bribe of between Rs 2,000 to 5,000 is generally paid to the illegal sub-divider. In some *katchi abadis*, electricity and water supply connections are obtained by either bribing the authority or playing on their sympathy.

Even where land is available for development at affordable prices, there are often long delays in the provision of the trunk infrastructure and thus large areas are left unserved. The present system of master plan preparation takes a long time and is difficult to implement.

Settlers in *katchi abadis* have recourse to informal arrangements for the delivery of some basic services. This pattern of acquisition and development leads to politicization of the urban poor. The dwellers obtain basic services initially with the help of the *dallal* and later through enterprising individuals with political ambitions or through community organizations. It is probably, as a result of this, that the large majority of the registered NGOs in Pakistan are at the neighborhood level.

In Karachi, for instance, the *dallal* arranges for water to be supplied by KMC tankers for which the people pay through him. Some bright entrepreneurs start carting and selling water from nearby stand posts. In the later stages, through the welfare association or community organization fierce lobbying is done to acquire piped water. The same process is followed for getting electricity. An entrepreneur from the area rents out a connection for a limited number of hours from a private generator. Gradually, meanwhile the neighborhood community or a community leader lobbies for electric poles in the area. Many councilors too use their grants for environmental improvement of the settlements through the construction of open drains, underground sewerage and paving of streets. Again the work done is not part of a larger plan creating problems for the future. Where NGOs such as BUSTI and OPP have provided assistance with the provision of some of these basic services the dwellers have a better technical quality of service and a viable institutional arrangement for the implementation and management of the service.

As communities get organized, lanes and neighborhoods hire scavengers to pick their garbage and sweep the lanes. The scavengers in turn pick up the entire garbage and dump it on the main roads for KMC trucks to pick up, if and when it pleases. Thus the inner lanes are fairly clean. It is the entrance area which usually houses the garbage.

For a modicum of security, it is necessary that *katchi*

abadis dwellers develop a united front in case of eviction. A politically strong community with a certain number of registered votes for municipal and national elections has an intrinsic appeal. This leads to the politicization of the urban poor. It is generally seen that dwellers of the *katchi abadis* support the political party in power. That is why the squatter colonies of Islamabad fly the PPP flags and the squatter colonies in the Punjab fly the IJI flag. Urban communities located on political boundaries find a way to divide their support between the ruling parties.

9.6 Taxes, Duties, Audits and Government Inspections

Rent control was established by the Rent Control Ordinance of 1959. The ordinance places limits on the amounts of rent a landlord can charge. more seriously, however, it constrains the landlord's ability to repossess or evict a tenant. Even where the landlord is justified in wanting to evict the tenant it can take years and at very high legal costs. In Islamabad, there is no rent control ordinance in force and rents in recent years have grown astronomically. There is a very great incentive for landlords to avoid tax on rents and most of them have some arrangement to avoid paying the full amount of the tax. The problems of eviction of the tenant are just as severe. The biggest problem that landlords face in Islamabad is the requisitioning of private homes for use by senior government officers. The rent that is established for these houses is not the prevailing market rate but the Estate Department assesses the amount of the rent which is invariably much below the market rate.

Property tax revaluations have not been revised since 1968 and only 25 per cent of potential properties are included in the existing property tax base. In Islamabad there was no property tax on the residential building before 1988-89. In the budget of 1990, property tax was also enforced in Islamabad. In Rawalpindi there is property tax on almost all residential buildings and a gain tax upon the sale of a house.

In spite of Junejo Government's policy to regularize the residents of *katchi abadis* no concrete steps have been taken towards regularization and these settlements are placed in the ubiquitous category of "semi-regularized". Potential for revenue generation in *katchi abadis* through lease payments and user charges are vital to the upgrading process. Many communities feel the cost of obtaining a lease are too high.

9.7 Organizations and Trade Associations

A *katchi abadi* Cell was created in Environment & Urban Affairs Division in 1986 for policy formulation and coordination with Provincial agencies including monitoring of activities of up-gradation, regularization of *katchi abadis* and also for distribution of 7 Marla plots to rural shelterless poor. The Cell has estimated that there are about 2,000 *katchi abadis* which need up-gradation in the country. 93 of these *katchi abadis* were regularized and developed in the Punjab and 14 such *katchi abadis* in Sindh during 1988. The Cell is also trying to develop a few selected slum areas to serve as models. Proprietary rights to 10,559 residents of *katchi abadis* were conferred in the Punjab and leases were issued to 2,508 and entitlement certificates were awarded to 992 residents in Sindh during 1988.

In the informal sector, the organizations and associations begin to grow with the increase in the size of the *katchi abadi*. The *dallal* forms a social welfare association constituting the residents of the *katchi abadi* and gets it registered with the concerned authorities. It is estimated that a majority of the NGOs associated in the urban areas are at the neighborhood level. The *dallal* emerges as the leader and appoints his trusted people as office bearers. He creates a lobby to pressurize the concerned agencies to provide services.

These associations, with political overtones play a very important role in the settlements. Social ties are very important in these informal organizations. Divergent groups often emerge, each trying to affiliate with a powerful godfather to acquire social legitimacy and patronage. Acquiring proprietary rights is the first objective of these organizations. In pursuance of this objective, they affiliate themselves with workers union and welfare organizations. For example, in Islamabad, some of the members of one of the *katchi abadi* are employed by CDA and work as domestic sweepers part time and they have influence with the CDA unions and try to obtain basic services through this means. The inhabitants of the *katchi abadis* are well organized and in some cases they have collected money and are seeking legal recourse for ownership of land.

9.8 Relationship to the Formal Sector

There are several areas in which there is a direct and complicated relationship between the formal and informal sector. There is antagonism and dependence in this relationship. The dependence runs both ways, the antagonism, only one way. The

antagonism is due to the fact that the *katchi abadis* are located on state land with the power to evict a constant threat. There is dependence because the formal sector is the source of the essential services and employment. The informal sector is a source of cheap labor.

The informal settlements have come up in strategic areas in the heart of urban centres. Some of the settlements have come up in areas close to the location of industries while the others are strategically placed all over the urban cities of Pakistan. These *abadis* are an important source of cheap unskilled labor in urban areas. Without the creation of the slum dwellings which are placed in strategic locations in Islamabad it would not have been possible for the low income staff of the government or those employed privately to find any other source of accommodation. It would have been equally difficult for government and business activity to develop in Islamabad without this support staff. Most of the workers in industries also come from these areas contributing to the formal sector economy. In some cases, as in textiles, looms are housed in these settlements and they yield important products for the formal sector.

The dwellers of Rawalpindi are mostly involved in labor in informal sub-sectors such as street vending, hawking and garbage collection. They depend upon the formal sectors for their business. Most of the *katchi abadis* do not have social services, health or educational services, for which they depend upon the formal sector.

In terms of housing loans little assistance is available to the low income households in the formal set up. The House Building Finance Corporation mainly provides service to the middle and upper income groups. Whereas in the informal sector there is considerable reliance on local credits from local (community) *thallawalla*, for materials, advice and in rare cases cash. These informal housing mechanisms are very important to house construction in low income settlements.

9.9 Potential for gains from legalization

While the general conclusion of this preliminary research is biased in favor of advocating deregulation, the suggestions for the housing sector are towards the exercise of greater state authority in assisting to establish legal title to land. Ironically, this step is to protect the informal sector from the bureaucratic hegemony of the state. Local governments have lacked the resources to upgrade *katchi-abadis*, and the fragmentation of responsibility among sector institutions has impeded the implementation of upgrading programmes. The lack of legal title

impedes household's willingness to improve housing and their ability to use houses as collateral to borrow for improvements. The establishment of legal title to land will improve the quality of housing and the investment by the private sector in the housing sector.

More accurate pricing of plots would reduce the incentive of windfall capital gains to potential land speculators. Although more effective covenants could be enforced requiring plot occupation and house construction, the low income housing scheme of the Hyderabad Development Authority illustrates how difficult it is to enforce these regulations. Ingenious means are found to go around the system. Rent control legislation, and particularly the eviction process should be reviewed to minimize the restrictions which are a dis-incentive to investment in rental housing.

The provision of basic services to the *katchi abadis* will not be improved by legalization per se. Even where governments in the past have deemed it politically expedient to confer legal title to land, the provision of ancillary services has neither been immediate nor automatic. Legal status is essential but not sufficient. It is the urban planning process which has to be re-oriented to service these communities with not only basic services but with primary health and educational facilities. If an increasing number of our urban population is going to be living in these settlements in the future than it is these communities that must be one of the central focuses of the planning machinery. The politics of poverty are not only persuasive but fatal in a country where the pattern of urban development has concentrated volatile ethnic groups in strategic areas of our cities.

10. THE INFORMAL FINANCIAL MARKET

10.1 Overview

Historically, informal financial arrangements have been dominant in rural areas. With industrialization and rapid urbanization, particularly since Independence, large volumes and growth rates appear to have emerged in the cities. Its extent is indicated by evidence that it finances substantial parts of the informal transport, housing and trade sectors in urban areas. Today, the informal financial sector represents perhaps the largest, most fascinating and least studied sub-sectors of informal sector activity in Pakistan.²⁷

Provision of credit is the dominant activity in the informal sector, but savings and investments are also significant. Commodity trading was outside the scope of this review as it is primarily a formal sector activity. The main elements of informal financial activity covered in this section are credit, savings, investments and foreign exchange transactions. Under credit, the *parchi* (or *chit*) system, merchant credit operations, suppliers credit, and the money lenders were studied. The committee system was studied as an example of the link between informal savings and credit for small savers. The *hundi* system was studied for an assessment of informal foreign exchange transactions.

The dynamic factor behind informal financial markets appears to be what bankers call product development - the development of new products with characteristics²⁸ that meet the requirements of an ever changing economic environment. A study of informal credit arrangements by DRMS (1989), undertaken for the World Bank, showed a large variety of lending arrangements, collateral requirements and interest charges that had emerged in response to the needs of manufacturers and traders.

In the formal sector, the supply side comprises nationalized commercial banks and insurance companies, state-owned development financial institutions (DFIs) and specialized banks for agriculture, industry, housing, etc., and a handful of foreign banks (with restricted number of branches and limited operations). This sector is characterized by mandatory credit quotas, controls on profit margins, high transactions costs and, in the nationalized organizations, bureaucratic management, political intervention and

²⁷A brief historical perspective on informal financial activities is given in Annex 10.

²⁸In terms of liquidity, security, returns, etc.

corruption. There is general agreement in Pakistan that overall efficiency and responsiveness to clients (particularly small customers) has declined dramatically since the nationalization of banks and insurance companies in 1973.

Most formal sector institutions are slow in responding to the needs of the marketplace. Although innovative product development does take place at the multinational banks at a very limited scale, even they are handicapped by government regulation and can profitably deal only with large clients from the formal sector. And all formal financial institutions seem to be unable to make much progress in lending for working capital, which is perhaps the major requirement of the expanding service sector.

On the demand side, there is suggestive evidence of a growth in demand for an increasingly diversified set of financial instruments in recent years. Small savers, large investors, house builders, transport operators, farmers, manufacturers, importers and exporters, traders and ordinary citizens engaged in work or leisure have doubtless been influenced by rising incomes and market demand, high taxes and duties, discretionary enforcement of regulations, inflationary expectations, and growing contact between ordinary Pakistanis and the rest of the world (particularly since the mid-1970s). The growth of the service sector (both formal and informal) has added to the demand for working capital.

Given the inability of the formal sector to respond to such forces on the demand side, people from all walks of life have been depending for their financial transactions on the informal sector (and on institutions outside Pakistan).²⁹ Within Pakistan, only the informal sector is free to respond on a large scale with new products to meet the emerging needs of the population. It is not surprising, then, that informal credit and foreign exchange arrangements play a pivotal role in Pakistan's private sector.

10.2 Extent, Contribution to the Economy

10.2.1 Informal Credit

Informal credit is the most widespread informal financial activity in Pakistan, with major lending activity in Karachi, Faisalabad, Lahore, Peshawar and Multan. It is used mainly for

²⁹Increasingly, Pakistani businessmen these days seek to have offshore offices in Dubai, presumably for arranging imports and exports unencumbered by Government of Pakistan regulations; it is not clear, however, whether such decisions are influenced by constraints in Pakistani financial markets.

personal finances, working capital, and even project financing (though businessmen generally feel that the availability of long term finance is not as serious a constraint in the formal sector as that of working capital).

The loan ranges from a short term small loan (as low as Rs 1,000) for personal needs to a long term loan (in tens of millions) for project financing. The rates of interest vary according to the needs of the borrower, his credit worthiness, maturity period of the loan, and the nature of security provided by the borrower, and typically range between 20 per cent and 48 per cent per annum. The mechanism is quite similar (with minor variations) across the three cities visited for this study (Peshawar, Faisalabad and Karachi).

The informal credit market is widely used because of its accessibility and convenience; no fixed schedules; (generally) no collateral; lower transaction costs; no appraisal, documentation, and administrative fees; minimum collection charges; and, speed of credit delivery. The profits earned from this business are reinvested in this sector to avoid detection by the taxation department.

The informal credit is virtually the backbone of the transport sector of Pakistan and provides it most of its financing. The transporters also form one of the largest money lender groups in Pakistan, and also charge interest rates as high as 10 per cent per month or 120 per cent annually.

Money lenders provide informal credit to relatively big businessmen. This source of credit is not very popular among micro enterprises. The major borrowers from money lenders are transporters, textile mill owners, property dealers and stockists. In some cases people get loans from money lenders for their household needs. Money lenders give loans to those people whom they trust, or those who provide a guarantor. The rate of interest varies from 2-4 per cent per month. The amount of interest is paid to the money lender every month. The maturity period of the loan is decided at the time of agreement; however, the lender can take his money back from the borrower with prior notice.

In the NWFP a slightly different mechanism was witnessed. In a system called *Ijara*, the lender acquires all rights to the assets and properties of the borrower, and is entitled to all the profits that accrue from such properties as long as the loan is not repaid. In case of a default, the borrower forfeits his rights over that property, and the lender acquires it. In this province, the lenders are from the Tribal Areas and a default on a loan payment has severe consequences, and a very persuasive repayment mechanism including kidnapping and torture of the defaulter.

Supplier's credit is one of the most important source of credit upon which microenterprises rely in Pakistan. This informal source of credit has got such strong roots in the business community that despite the significant difference in raw material prices for payment in cash or credit, they still prefer this source because there is no other source.

Most of the microenterprises (MEs) purchase raw material on credit and make the payment within two to six weeks. In this arrangement the borrowers often have to pay an implicit rate of interest of 10-15 per cent per month, although interest rates of 2-3 per cent per month are also observed. These estimates are derived from the difference in prices paid for cash purchases as opposed to purchases on credit. For instance, in the textile industry in Faisalabad, the suppliers charge a higher price based on the number of days the payment is made. They would charge Rs 0.50 to Rs 0.75 more per pound if the buyer made a promise to pay the loan amount within 20-30 days. Similarly, an extra Rs 0.75 to Rs 1.5 per pound is charged if the buyer agrees to pay his dues within 30-45 days, and an extra Rs 2 per pound for payment made after 60 days. The very low transactions cost explain why entrepreneurs prefer these loans. These are the only loans available to them!

Buyer's advance is also a source of working capital for some of the smallest MEs. In this arrangement, buyers make some of the payment in advance and the enterprises use this advance to purchase raw material. This type of credit is generally free of interest and the amount of credit is deducted from the price of the final good at the time of payment.

In some of the cases observed, intermediaries (buyers) provide capital to MEs for working capital. They make sub-contracts with MEs, i.e., they buy the products of MEs, deduct the amount of credit advanced from the total value, and make the remaining payment. In this arrangement the buyers charge an implicit interest from MEs which varies from 6-8 per cent per fifteen days by paying, say, Rs 15 per kilogram for products which the MEs can sell for Rs 16-16.5 per kilogram if they were not borrowing from the buyer. Thus, the rate of interest charged by the buyer who provides an advance to the producer is reflected in the form of a discounted price in this arrangement.

The *parchi* system is a very common source of credit in Faisalabad. The system operates on goodwill. The *parchi* is usually a delivery receipt, signed by the recipient of goods shipped by a manufacturer. The recipient verifies the amount billed, and indicates when payment is to be made. The manufacturer signs over the *parchi* to his suppliers in lieu of cash payment. The suppliers will often put it into a local capital market, where it will circulate freely as an IOU. *Parchis* with different payment dates

will bear different discount rates. A detailed account of the *parchi* mechanism is given in section 17.

10.2.2 Informal Savings

In terms of its contribution to the economy, the large scale schemes described below in the business community do generate capital for business needs.

The committee system is popular with the business class as well as the households. There are minor variations in the different forms of committees, but essentially it is a pooling of money from the members and the amount collected is given to each member in rotation. The committees even go up to Rs 1.0 million, especially the ones organized by the business community. The Committee system is very popular among women of the low income and middle income level. In Faisalabad and Lahore, women have begun to participate in the committees organized by traders and businessmen. The current system of informal savings does not generate any return on the principal amount but is a convenient way of getting a reasonable lump sum amount by way of forced savings.

In the committee system, a number of people collect a fixed amount of money by pre-determined (equal) contributions, at specified dates. One person is awarded the committee after each collection; this is generally done by lottery. A variant of this system allows anyone with a desperate need to buy the collection on demand, but at a premium.

There are three types of committees in practice currently: Ordinary Committee, Auction Committee and Lucky Committee. The details of each form of committee are presented in section 17.

10.2.3 Informal Investments

The incidence of such investments is mainly restricted to big industrial cities. On one hand it generates capital for the business concern, and on the other it provides an extra income to the investor. In Peshawar, it was noted that most of the investor's funds are funnelled into illegal or smuggling activities, thus promising very high returns to the investors. By and large, the informal investments are made both in the legitimate and illegal businesses, and the overall effect on the economy seemingly is negative since it mainly provides capital for illegal business activities - illegal because the high rates of profit promised to the investors cannot be earned through a legitimate

business activity.

These investments do not require huge investments, and people usually borrow from the informal markets to meet their working capital requirements. A typical venture would require as low as Rs 50,000 to start with at a small scale. The big players in this field have no cash flow problems because of their very free cash reserves. A transaction of up to a million rupees can usually be handled by them without prior notice. In addition, they also maintain a line of credit with the commercial banks, with typical ceilings of 4 to 5 million rupees.

The trend of informal investments gained significant proportions in the late seventies in Pakistan. In the last twelve years investment companies have grown (and vanished!) twice, robbing people of their lifetime savings. The companies promise a very high rate of return on the capital invested; pay the 'profit' as long as they are receiving new investments; and close shop and disappear when their inflows (new investments) become less than the outflows (payment of profits). This clandestine operation is taking place all over the world, and yet unsuspecting people are lured in because of the general shortage of investment opportunities and the extremely high rates on profits and the absence of good savings schemes in the formal sector.

Despite the recent setbacks in Pakistan, informal investments have not ceased to exist. People invest when they have a personal relationship with the company's management, or in case of a highly reputed company (like the Taj Company). The usual rate of return on such investment ranges from 20 per cent to 36 per cent per annum. In case of large sums invested for a long term, (two to three years) the rates are as high as 60 per cent per annum.

Funds for informal sector lending are mobilized from a variety of large and small savers. A saver may decide to invest a given amount at a pre-arranged monthly interest rate with somebody who acts as an informal bank. Each month, the saver could, if he wishes, be paid the interest charges, and the full amount would be returned at the end of the agreed period. This system is attractive for both small and large savers. It is particularly attractive in the context of Pakistan, where the returns to saving in the formal sector have been historically below or very near the rate of inflation: the real rate of return has been generally negative. In contrast, the informal sector has been paying 2-3 per cent per month as interest on savings deposited with it.

Despite the two recent setbacks of frauds by the finance companies in the last decade, people still continue to invest in such ventures. The companies merely give a receipt for the amount deposited, and mention a stipulated rate of return. However, this piece of paper does not have any legal value, and in case of

default there is no legal recourse available to the investors. In some cases, the companies also mention that in case of bankruptcy or default, the investor has a lien over the company's stock lying at a specified warehouse; but the details and value of the stock is not mentioned, and nobody knows if the warehouse actually has anything in it or not.

10.2.4 Informal Foreign Exchange Transactions

The traditional *hundi* practice, over or under invoicing, and malpractice in the trading of foreign exchange bearer certificates (FEBCs) are some of the major activities in the informal foreign exchange markets. Increased foreign exchange remittances by Pakistanis working abroad, uncertain political environment, deteriorating dollar rupee parity, and the current trend of obtaining loan from the formal banking structure, transferring the amount abroad, and having it written off at a later stage are some of the major factors that have made it a very booming market.

While most of the informal sector activities have a close and complimentary relationship with the formal economy, the informal foreign exchange transactions, by and large, result in a drain on the foreign exchange reserves of the country. The system operates in a manner that the foreign exchange intended for home remittance remains in the foreign countries, and is used for the illegal outward remittances. Thus, from the viewpoint of outward remittances, the entire transactions result in the flight of capital from Pakistan. Similarly, the inward remittances do improve the quality of life of the migrant's family, but the economy is deprived of valuable foreign exchange reserves. The most notable advantage of this system is that it provides a convenient and fast service to the people remitting money from abroad. They do not have to go through tedious paper work or wait for long delays, and also get a better rate, which is usually up to a Rupee more than the official rate. The various informal foreign exchange dealings are summarized in section 17.

10.3 Relevance to de Soto's Theses

The main issues which surfaced during the study can be broadly stated in terms of: high degree of state control over the financial institutions are the main cause of illegality in this sector. Other notable factors are strict regulations and procedures leading to lower efficiency; political favors or concessions especially in terms of credit sanctions; very stringent regulations of the government; and, the prevalent

corruption, tax evasion and smuggling in Pakistan.

In terms of the relevance to de Soto's main theses, it can be said that the financial informal sub-sector has some similarities with the conditions in Peru. For instance, one of de Soto's theses, ".... redistribution of national wealth as more important than the production of wealth. And "redistribution," as used here, means the concession of monopolies or favored status to a small elite that depends on the state, and on which the state itself is dependent", directly aims at the issues identified in the preceding paragraph. Presently, the situation is such that even a legitimate financial need cannot be serviced by our formal financial setup without the 'sanction' of the highest political authorities.

Similarly, the deduction of *Zakat* by the banks and other financial organizations (National Savings etc.) has a very negative impact on the overall savings in the formal sector. People do not trust the State system, and generally allege that the funds are misappropriated. As a result, they prefer to put their savings in informal schemes. In addition, the State's inability to meet the requirements of the masses is a major factor that has led to the boom in the informal financial sector. As such, in this particular sector, there is some relevance to what has been pointed out by de Soto, as a parallel (or black) economy is running in the country.

10.4 Requirements for Registration

All the activities in the informal financial sector fall under the jurisdiction of the State Bank of Pakistan (SBP). The operation and authority of the State Bank is based upon the State Bank of Pakistan Act, 1956, according to which the Bank is charged with regulating the monetary and credit systems of Pakistan.

Thus, setting up of a Bank, Investment Firm and related activity requires the State Bank's permission and these activities are not currently allowed in the private sector and only the existing five nationalized commercial banks are permitted to operate. Even if a nationalized bank wants to open an additional branch, prior approval of the State Bank is required. In addition, a few foreign banks, with limited operations in a few selected cities are operating in Pakistan.

The foreign exchange control in Pakistan is exercised under the Foreign Exchange Regulation Act, 1947; and the authority to control has been vested with the State Bank under the State Bank Act, 1956. As such, the bank exercises full control on the foreign exchange flow to and from the country, and ensures that all the foreign exchange receipts are surrendered to the Government. The

foreign exchange dealers, which are the scheduled banks of the country, are also appointed by the State Bank.

In other words, existing Government policies stipulate that (barring the scheduled banks and financial institutions), no other individual can enter the segments of the formal financial markets included in this study.

10.5 Requirements for Conducting Business

The State Bank is primarily responsible for ensuring proper operations in the financial sector. There are many restrictions that govern the formal channels of credit. These include the required equity base and SBPs reserve or liquidity requirements. Similarly, the State Bank of Pakistan has a credit ceiling fixed for the scheduled banks. This ceiling is approximately 35 per cent of the deposit generated by the respective Bank, and is reviewed on an annual basis. Thus, irrespective of the volume of deposit generated by the Bank, the credit ceiling is not changed until the annual review.

The commercial banks have their own cumbersome procedures regarding the approval of credit. The banks and the financial institutions have their own financing procedures highlighting the collateral requirements, terms, and list of approved projects etc. Except for the Agriculture Development Bank of Pakistan, no other bank has developed a credit manual so far. Usually, they update the rules periodically in form of 'bank circular' and use these circulars as guidelines for credit and investment schemes. The notable features of these regulations are: strict collateral and security requirements; fixed repayment schedules; high appraisal, documentation, administrative costs; high collection charges; and, above all, a very slow and tedious process for the final delivery of credit.

10.6 Taxes, Duties, Audits, and Government Inspections

As mentioned earlier, the State Bank of Pakistan is the ultimate authority that governs the formal financial sector in terms of credit, investments, and foreign exchange. The entire operations of the formal institutions are subject to State Bank's periodic audits, and thus, follow the prescribed regulations. Any irregularities detected by the State Bank are considered to be serious offenses, and remedial measures have to be taken immediately. In case of serious violations, the State Bank is even empowered to revoke the banking license of the violating concern.

10.7 Organizations and Trade Associations

The informal financial sector also operates with the help of certain informal organizations and associations. For instance, in the Faisalabad *Sootar Mandi*, a body of traders exists which is empowered to settle all disputes in case of a default by a borrower. Similarly, in Karachi, all such matters are settled in a mosque in case of the *Memon* community, whose involvement in the informal financial activity is the most.

Such organizations are not registered, and their only purpose is to monitor the compliance of rules and ethics in the market. They also pool in resources to pay adequate remuneration to the 'recovery agents', (usually gangsters) who can harass and physically hurt defaulters.

The informal foreign exchange 'dealers' also have a representative body drawn from Karachi, Lahore, and Peshawar that decides on the foreign exchange rate (in the black market) on a daily basis, and the major determining factors are the official rate, the demand/supply situation and the current political environment or stability. In all, no similarity to the Institute of Liberty and Democracy in Peru is seen in the financial sub-sector in Pakistan.

10.8 Relationship to the Formal Sector

The informal and formal sectors have a complex relationship, primarily because of the tax evasion in the formal sector. The informal sector presents an alternative investment opportunity for illegal money. A growing trend in the recent past has been to obtain a loan from a nationalized bank or other financial institution, and pump it into the informal or illegal channels. This is usually done by influential people who are capable of either getting the loan written off, or repaying it after earning high returns through 'investments' in the informal channels. Similarly, all organizations, who are otherwise classified as formal (barring the tax evasion issue) pump the funds that are not accounted for in their books in various informal investments, speculative ventures, and foreign exchange dealings.

Apart from the 'black' or undeclared money, 'white' money is also being channeled towards the informal sector. For instance, the salaried class (despite the set backs of the recent frauds by investment companies) regularly deposit their savings with the informal concerns in order to earn a higher return than obtained through the government savings schemes. Although these investments are relatively small in volume, yet the investor earns a rate

between 2 per cent to 4 per cent per month.

The formal institutions are instrumental in facilitating the informal transactions. For instance, most of the *hundi* transactions take place through the banking channels, where the dealers (through a bona fide foreign exchange account holder) remit and receive foreign exchange on a daily basis. The banks are aware of this practice, but technically and legally the procedure is within the prescribed system. Similarly, it was observed that in Peshawar, a branch of a nationalized bank honors the chits of a dealer, and make regular payments to the relatives of a worker who remits money through this agent. The *hundi* dealer writes only one check (equivalent to the total amount disbursed by the bank) at the close of the day. Although this is a violation of the State Bank Regulations, the manager obliges him because of the average balance of Rs 15 million in his account!

10.9 Potential for Gains from Legalization

As mentioned earlier, the main source of illegality (informality) is that the existing formal setup is not adequate to meet the growing demand for the financial instruments for credit, savings, investments and foreign exchange and the high cost of transactions with the formal sector. Entry into this sector is virtually impossible because of government policies. Legalization will result (initially) in lower cost of capital but higher transaction costs.

The overall effect of this shall be that availability of capital shall be for all and not for a select few with political influence. This would have a positive effect towards the overall economic growth in terms of increased industrial and business activity. As far as the foreign exchange component is concerned, legalization will also be productive since the inflows and outflows shall be cancelling out, and the current trend shall also diminish once the foreign exchange regulations are relaxed.

11. MANUFACTURING

11.1 Overview

Informal sector manufacturing is typically characterized by small size and household-based units which: use of indigenous technology; are labor intensive; produce both intermediate and final goods; have little direct contact with marketing (factor or product); and, have principal working arrangement through sub-contracting.

Smallness of size is a determining characteristic of informal sector manufacturing because of two major institutional factors. The first is that regulation requires that firms with ten or more employees be registered with the government. Smaller firms are beyond the scope of labor laws and other regulation, and find it easy to avoid paying income tax. Secondly, it is reported that industrial units that operate without electricity are considered cottage industry and they are not required to pay excise duties, and sales and income taxes - this is a major cost advantage for small firms.

The informal manufacturing is developing into one of the important sub-sectors of Pakistan's economy. This is because, as stated earlier, the sector is generally labor intensive and is based on domestic raw materials and traditional equipment. The informal sector in Pakistan tends to absorb substantial increment in the labor force, therefore, it has assumed significant importance from the policy makers in the recent years [Burki, 1990]. The informal sector not only serves the important function of absorbing the surplus labor unable to find jobs in the modern organized sector but it is also the training ground for workers in the economy [Kazi, 1987].

Despite the importance of the informal sector in Pakistan it continues to be a neglected area for research [Kazi, 1987]. In Pakistan very little research has been carried out in the past, on the informal sector. There is no consensus about the dividing line between the formal and informal sector enterprise [Burki, 1990]. The informal sector is generally defined by its organization characteristics and establishment size - small family based enterprise covering a wide range of activities [World Bank Paper]. Enterprise were classified as belonging to the urban informal sector if they employed less than 10 workers [Kazi, 1987]. The informal sector includes skilled workers (plumbers, drivers etc.) petty businessmen, private employees, artisans, mechanics, technicians, sales worker, domestic servants, casual laborers and unclassified workers [Khan, 1984]. In the light of these definitions used by different researchers for their studies we can say that only the unregulated sector, consisting overwhelmingly of

establishments employing fewer than ten workers and are not registered under the government's Factories Act 1934, have been included for the purposes of this study. It was noted during the study that the Factories Act of 1934³⁰ is the major determinant of an organization being in the informal sector.

For both the World Bank and the National Manpower Commission (NMC)³¹ the need to address employment issues through a better economic environment was motivated (in varying degrees) by the analysis of small scale industry and the informal sector. As the NMC's Interim Report (GOP, 1988:18) explains it, "... the sizeable devaluation in 1972 reduced the unfair advantage to large scale industries and consequently the small scale industries, led by export demand, have grown more rapidly than the large scale manufacturing industries." The dynamism of the small scale sector is also reflected in employment figures: almost the entire increase in employment in manufacturing between 1971-72 and 1985-86 can be attributed to the small scale sub-sector, while the large scale sub-sector has stagnated at around 0.5 million employed since 1971-72. Not surprisingly, small scale industry and the unregulated informal sector obtain special mention in proposals made during the 1980s for a more effective approach to employment issues. For example, (GOP, 1988:18) lays particular emphasis on small scale industry on account of its high employment elasticity and linkages to other sectors, while World Bank (1989: Chapters III and IV) devotes one-half of the employment issues report to the small scale and unregulated sectors in industry and agriculture.

The major disadvantage to small firms is that they are generally short of working capital, as well as capital for purchase of new machinery, and these needs cannot be met from the regulated financial sector. The official financial sector, with its cheap capital, clearly favors the large, regulated firms.

It is conceivable (albeit speculative) that there is a steady shift from formal to informal sector manufacturing in

³⁰According to this Act, "Factory means any premises, including the precinct thereof, whereon ten or more workers are working or were working on any day in the preceding twelve months, and in any part of which manufacturing process is being carried on (or is ordinarily carried on) with or without the aid of power but does not include a mine, subject to the operation of Mines Act, 1923". Section 5(i) of this Act also provides for registration of factories employing 5-9 workers but no registration under this section was reported up to June 30, 1982.....June 18, 1990 (A.D. Labor Welfare, Sialkot). This act requires that all enterprises having 10 or more employees (with some caveats depending on the industry) be registered with the government.

³¹ Government of Pakistan, 1988.

several industrial activities. This shift may be due to profitability changes (at the margin) that are being caused by the effect of inflation on income tax. Inflation pushes people into higher income tax brackets even if there is no change in real income; this could be driving (marginally profitable) formal sector firms out of business. If the demand for a product is still there, those formal sector firms that go out of business are replaced increasingly by informal sector units.

11.2 Extent, Contribution to the Economy

Between the Small and Household-Based Manufacturing Industries (SSHMI) Surveys of 1976-77 and 1983-84, employment in small household based industries grew by 80 per cent and value-added by 100 per cent. Major activities in the urban informal sector included food processing, textile and metal working. These three alone accounted for 75 per cent of value added in this sector.

With an estimated 3 million workers, the small scale sector includes for 85 per cent of the total employment in manufacturing, but produce less than 30 per cent of sector's output. It consisted of both small business and household units employing an average 2.3 workers and possessing fixed assets of under Rs 30,000 per unit in 1983-84 [World Bank Paper].

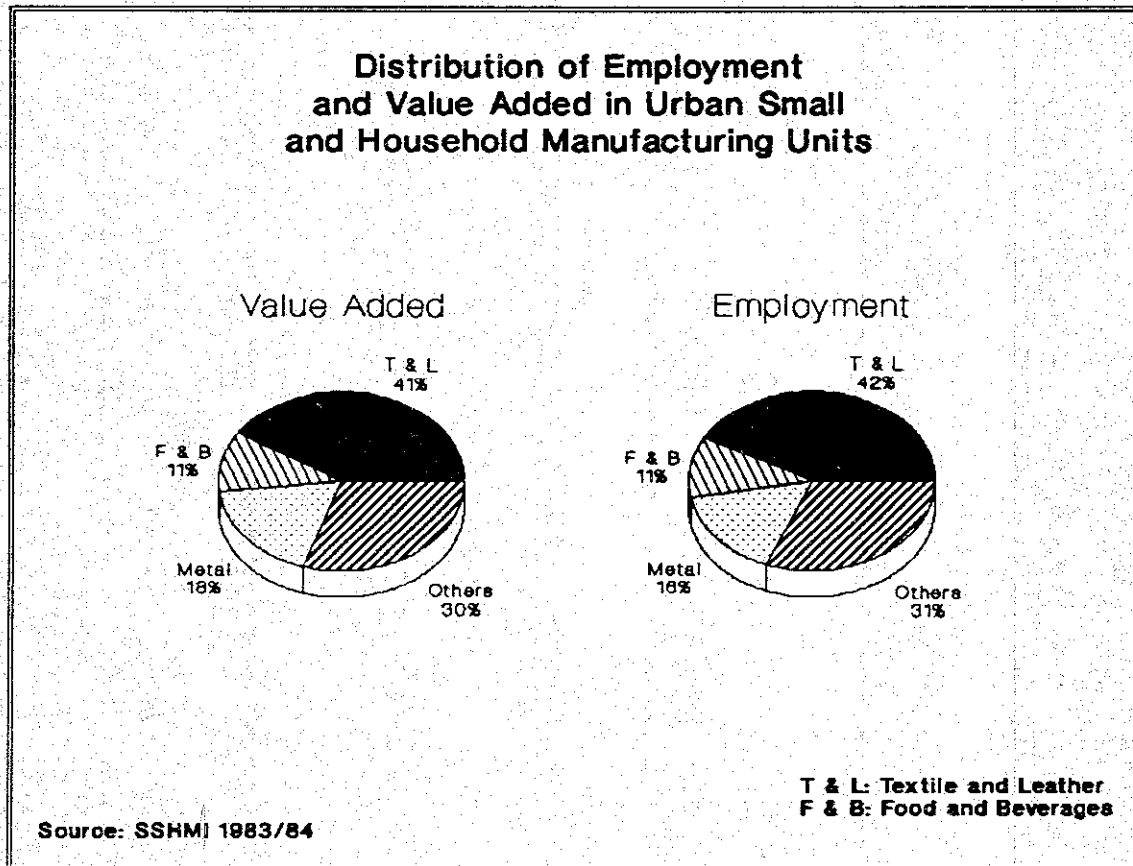
According to official statistics, urban informal manufacturing establishments account for 57 per cent of the total number of informal manufacturing unit, 76 per cent of value added and about 59 per cent of the work force of the informal sector (SSHMI, 1983-84). This contrasts with the observation of Liedholm and Mead (1982) that most of such firms are located in rural areas.

Three categories dominate the informal sector in Pakistan. These are: Food and Beverages (ISIC Code 31), Textile and Leather (32), and Metal Products (33). Together, they account for 69 per cent of the total number of firms in urban areas, 75 per cent of fixed assets, 69 per cent of employment, and 70 per cent of value added. Two of these, food processing and textile involves a substantial contribution of women. In the food sector, growth in employment between these two surveys was 196 per cent and growth in value added was 544 per cent. In the textile and leather sector the growth in employment and value added was 42 per cent and 147 per cent respectively.

In the manufacturing sector women are mainly engaged in the production of hosiery goods, tailoring, packing of medicine, stitching of leather, paper, sports goods and the processing of dry fruits. Women's participation in the sector is the highest as compared to the other sectors studied; but their productivity in

this sector is the lowest. The reasons for this are that the women prefer to work from their homes on piece-rate wages, which is suitable to them. The informal sector allows them entry and access into enterprises which would otherwise be denied to them. The informal sector offers flexible work hours and lets the women work/operate from their homes.

Figure 1



11.2.1 Employment

Share of manufacturing in urban employment has increased significantly and has grown from only 35 per cent in 1972-73 to 71 per cent in 1985-86.³² The informal sector accounts for some 75

³² Burki, 1990, states that share of informal sector in the urban labor force employment is estimated by subtracting formal sector employment estimated by the Federal Bureau of Statistics

per cent of total employment in the urban Sindh and Punjab. The majority are concentrated in manufacturing (65.8 per cent of sectoral employment in Sindh, 73.8 per cent in Punjab), in 1984-85. Irfan and Guisinger found some 34.6 per cent of manufacturing employment in the informal sector in 1972-73, in contrast to the former estimates of 1984-85. The structure of the manufacturing has changed dramatically since the early seventies with major expansion in the unregulated sector and rather limited employment growth in the large-scale regulated sector [World Bank Paper]. The manufacturing sector on the whole was employing 26 per cent of the total urban industrial labor force in 1985-86 and 71 per cent of these for employed in the informal sector [Burki 1990].

Table 4.
Formal and Informal Manufacturing Sector
Employment in Urban Punjab^a, Sindh^a and Pakistan^b

Province/ Pakistan	Employment ('000 Persons)			% Employ- ment in Informal Sector
	Formal Sector	Informal Sector	Total	
Punjab	263.5	743.5	1007.0	73.8
Sindh	201.6	388.0	589.6	65.8
Pakistan	513.7	1265.0	1778.7	71.1

Sources: ^aWorld Bank, December 1988. Report on Employment Issues in Pakistan; Figures for 1984/85.

^bAbid Aman Burki, 1990, Quaid-i-Azam University Islamabad. Urban Informal Sector in Pakistan: Some Selected Issues; Figures for 1985/86.

According to World Bank estimates "Evidence from micro-level surveys combined with deduction from official statistics and more informal research and analysis suggest a conservative estimate of about 20 - 30 per cent of the female urban population working in the formal and informal sectors combined".

The World Bank estimates that there are about 2 million women in the urban informal sector in Pakistan and they represent a significant growing sector of the working population.

from the total employment recorded in the Pakistan Economic Survey for the corresponding period.

The present study reveals that on average 1 - 30 workers were employed per establishment in the informal manufacturing sector of Faisalabad, Gujranwala, Sialkot and Karachi [see annexes].

11.2.2 Income

There is no uniform pattern of income levels in the informal sector. Burki reports in his paper that average earnings of *Shagirds* (apprentices) were highest (Rs 855) in the informal manufacturing. The description of the informal sector as comprising dead-end-jobs (i.e. jobs with flat experience-earnings profile) that result in urban poverty is apparently not the case for respondents in Burki's survey (1990). A large proportion of self employed made a better living than they would in the lower rungs of the formal sector where educational requirements are more stringent [Kazi, 1987]. The evidence in Burki's survey does not seem to support the commonly held view that the earnings of the informals are significantly lower than the formal sector earnings. It has been observed that once the full range of informal activities are included, the income distribution of formal and informal sectors overlap [Richardson 1984].

The average earnings of self employed appears to be substantially high if compared with the formal sector earnings. For example salaries in government jobs are estimated to be Rs 950 for grade 1, Rs 1110 for grade 5, Rs 1410 for grade 11, Rs 1987 for grade 16 (at the time of entry including normal benefits). The results of DRMS survey indicate that the informal manufacturing units were earning an average income ranging from Rs 500 to 40,000 per month [see annexes].

11.2.3 Investment

The findings of the study conducted by Kazi, 1987 indicate that the initial capital requirements for setting up business are low in the informal manufacturing sub-sector. Initial investment varied from a minimum of Rs 200 to a maximum of Rs 150,000. The financing of initial investment was predominantly from the entrepreneurs own earning and occasionally by loans from the family. None of the respondents mentioned bank credit as a source of funds but most of them cited lack of finance as the most important constraint to expansion.

The financial requirement for conducting business varies from Rs 2,000 to 1,000,000 [DRMS Survey 1990]. Investment at the

upper limit was observed by a manufacturing unit of Sweets and Toffees in Gujranwala, where the entrepreneur had manufacturing facilities at two different places. At one place the business was formal and at the other place, where the daily output was worth 80,000 rupees, the facility was manufacturing good informally.

11.3 Relevance to de Soto's Theses

De Soto's research reveal that informal manufacturing firms are those which use illegal means to achieve legal objectives as opposed to those firms who use illegal means to achieve criminal objectives such as drug traders in Peru. The manufacturing establishments surveyed during the field work were performing a well defined manufacturing activity. They were not committing any illegal act, and strictly speaking one could consider them 'extralegal'.

The main source of illegality observed in the manufacturing sub-sector was a successful attempt to avoid the very high costs of formality. The restrictive laws and regulations and procedures required by the state to conduct 'legitimate' business of manufacturing such as No Objection Certificate from different Departments also contributes to the informal activity in this sub-sector. Most of these restrictive regulations do not emanate from the legislature but are the product of a vast and rigid bureaucracy and legal experts. These rules are not designed to make life easier or the economy function better.

Informal manufacturers cater to the needs of this rapidly growing population and the legal economy is not equipped to fulfil the increased demand. The effort and time involved in doing things legally is not worth it and the immediacy of the demand is too compelling. Furthermore, there is no way to effectively prevent anyone from participating in this sector. The trends are the same as in housing. First, the activity and its continued success, and then the legal recognition, if at all considered necessary.

11.4 Requirements for Registration

11.4.1 Registration of Establishment under Shops and Establishments Ordinance 1969:

The Ordinance states that "every establishment, other than a one man shop, as hereinafter defined, and factories employing clerical staff within the factory premises, shall be registered with the Deputy Chief Inspector for the area within

which establishment is situated".³³

According to the entrepreneurs in Faisalabad there were no legal requirements for registration except the payment of professional tax. Most of the persons met during the field work were not aware of the requirement of registration under Shops and Establishment Ordinance 1969. It is suspected that they were confusing the registration fee with the professional tax. The entrepreneurs of power-loom and hosiery products do register themselves with the Department of Labor. In order to avoid any problems and disputes which may occur either with their employees or with the labor department they employ workers on contracts since contract employees do not have enough rights per the labor law.

11.5 Requirements for Conducting Business

Firms registered with the government agencies under Factories Act 1934 and Shops and Establishments Ordinance 1969 are supposed to abide by the regulations of above mentioned Factories Act and Shops & Establishment Ordinance, whichever is applicable to them. See Annex 11.1 for excerpts from the Ordinance.

The entrepreneurs are generally reluctant to get the business registered since they have to abide by all relevant regulations, whether applicable or not. On the contrary, they get away with the government inspections etc. by paying meager sums in terms of bribe to the field inspectors. In addition, once they are registered with government agencies (e.g. social security) they are bound to pay the prescribed dues whether they fall in that category or not. Secondly, they have to follow all the government regulations (given in Annex 11.2) which increases their cost of production by 12.5 per cent in the shape of excise duty or sales tax. In fact, the evasion of these levies is one of the main reasons of the existence of the informal sector. If someone wants to conduct a formal business, the concerned departments create unnecessary hurdles (e.g. clearance from fire brigade, from department of health, lease documents or ownership documents etc). It is not an easy matter to fulfill all these requirements. The documentation is costly in terms of time and money.

The government agencies generally involved in registering a legal business are the Directorate of Industries, Excise Department, Department of Health, Central Excise and Land Customs, and the municipal corporations.

³³Manual of Labor Laws--Labor Code 1988.

11.6 Taxes, Duties, Audits and Government Inspections

The entrepreneurs in the informal manufacturing sector have worked things out in such a manner that the Departments of Social Security, Employees Old-age Benefit Insurance (EOBI) and Excise and Taxation (also collecting Professional tax) become ineffective. Income tax is paid on self-assessment basis.

Another department supposed to conduct periodic inspections is the Department of Standards and Weights. However, inspectors from this Department seldom conduct the inspections, and receive their monthly fees (bribes) sitting in their offices. The owners complain that they have to pay more than the actual fee fixed by the government for this purpose, and also the prevailing Standards and Weights do not coincide with their requirements (e.g. raw material is weighted in pounds and our output is measured in meters). During the field work it was observed that the manufacturers in the informal sector do not generally pay taxes.

11.7 Organizations and Trade Associations

Trade associations exist in the informal manufacturing sub-sector as in other informal sub-sectors. These organizations provide legal shelter to their members. Besides, settlement of disputes among members and with government agencies is also handled by such organizations. Most of these organizations are registered and their members come from both formal and informal sectors.

11.8 Relationship to the Formal Sector

The informal sector has a dependent relationship with the formal manufacturing set up. The workers are frequently paid sub-minimum wages by their employers who are usually small producers. However, these small producers are themselves exploited by the formal sector in different forms of trade relations [Burki, 1990]. Firms in the regulated sector have made increasing use of the "putting out" system and labor sub-contracting in recent years, partly to save capital and labor, but also to avoid the high costs associated with labor regulations. A direct indication of its magnitude is provided by SSHMI data. In 1976-77, some 61 per cent of value added in household-based textiles manufacture was derived from "receipts from others", essentially payments for sub-contracting. For both household and small manufacturing textile units taken together, the proportion was 37 per cent of value added. By 1983-84, the share of sub-contracting receipts in unregulated sector textiles value added has increased to 46 per cent of the total. Small scale fabricated metals industries were

also frequent sub-contractors; some 44 per cent of value added was derived from receipts from others in 1976-77; this increased to 49 per cent of the total by 1983-84. Parent firms are also an important source of credit for vender firms.

It has been estimated on the basis of field work that approximately 60 per cent of the informal manufacturing in textile and metal products sub-sectors is being done for the formal sector. As with large scale manufacturing, textiles is a major source of employment for the small scale/unregulated sector; 31 per cent workers in small manufacturing establishments and 42 per cent of those in household units were employed in textile industry in 1983-84 [World Bank Paper]. The Entrepreneurs of the informal sector make certain contracts with the formal sector (i.e formal sector provides them raw material, makes them weekly payments for their running expenses and also pays them a fixed amount on the quantity produced).

Manufacturing of sports goods and surgical instruments is being undertaken by the informal sector mainly for the formal sector (i.e. for exporters) through middleman. In some cases, as witnessed in Karachi, fixed capital requirements of informal enterprises are also financed by the formal sector.

11.9 Potential for Gains from Legalization

Tracing out the inter and intra-sectoral movement of workers in formal and informal sectors it was found that movements within and towards the informal sector are greater than the ones inside and towards the formal sector. Additionally, it was noticed that the percentage of workers who moved from formal to the informal sector is significantly higher than the movement in the other direction. This is illustrative of the ease of entry into the informal sector and the more attractive occupations as compared with border line jobs in the formal sector [Khan, 1984]. The informal sector in Pakistan represents small scale efficient entrepreneurs who have a great potential to earn their living in unfavorable market conditions. The evidence in this survey does not seem to support the commonly held view that earnings of the informal are significantly lower than the formal sector earnings; most of the respondent were found highly motivated towards their present occupation and there appeared to be a greater potential for upward mobility within the informal sector.

As mentioned earlier, the firms presently engaged in informal activity are reluctant to become part of the formal sector, since entry into the formal sector will increase the cost of production and would result in difficulties in meeting various government regulations. Entry into the formal sector would not entail any significant benefits and, on the contrary, would reduce

the margin of profits.

The major constraints faced by the informal sector such as scarcity of capital, lack of training, no direct access to markets, etc. will not be removed by legalization. These constraints require a restructuring of the existing credit institutions and a more deregulated economic environment. The extension of state laws where the enforcing agencies use state authority for their own purposes will not only divert public funds, but will also irreparably erode the economic environment.

12. TRADE AND COMMERCE

12.1 Overview

The purpose of this study on trade³⁴ was to get an idea of the extent to which a dual economy in trade persists in Pakistan. A broad task in this regard was to highlight the particular circumstances in which the informal trade sector operates.³⁵ Specifically the study aimed to examine how government and any other agencies or factors have affected informal trade, and to acquire a sense of the network which governs economic activity in this sector.

Historically trade has been pursued in the region of the Indian sub-continent as a livelihood because opportunities in the agricultural sector were either limited or not possible.³⁶ Opportunities to engage in non-agricultural work were greater in the more economically developed areas where agriculture had a lesser economic significance. An additional feature of the more developed areas was the opportunities they afforded to market goods; typically the only organized channels to market goods were located in such developed areas.

With economic development the dependence on agriculture whittled and opportunities for pursuing other vocations increased. Increases in demand for both agricultural as well as non-agricultural related goods and services complemented the trend of increased and diversified occupations. Technological change facilitated production of goods and services for both domestic and foreign consumption. Trade began to develop, and commercial activity expanded beyond simple transactions.

Specialization and an ever expanding base of goods and services further fuelled the growth of trade. Both foreign and domestic trade were recognized as viable means to achieve economic progress, and both were encouraged. Following the annexure of Pakistan into the world map in 1947, trade and commerce gained further impetus from the high priority given to its development by

³⁴Annex 12.1 contains an outline of the areas studied.

³⁵A working definition of the informal trade sector follows later in this section.

³⁶According to the gazetteer of Peshawar district, some areas were unsuitable for agricultural work due to the infertility of the land; as a consequence people resorted to trading activities. (Gazetteer of the Peshawar District, 1897-98. pp. 219-220. Sang-e-Meel Publications, Lahore. 1989.

successive regimes. Its nature, contribution and importance to the country became subject to the vagaries of economic, political, social and cultural forces.

In Pakistan, the pressures of a burgeoning population (107 million in 1989-90), growing at an average rate of 3.1 per cent per annum, has generated demand for a large volume of goods and services. In spite of the formidable growth in the volume of trade, (295 per cent between 1977-88), trade in the formal sector has not been able to meet this growing demand due to the external orientation of the formal markets. The unfulfilled demand for goods and services from this sector has been provided by the informal sector in trade.

One other point which makes the above observations interesting and possibly stronger is related to the nature of the source for demand for goods and services. Since it is the poor who constitute the majority of the population,³⁷ it is logical to expect that the bulk of the demand would be generated from this source. What makes the informal sector a credible as well as the main source of supply for this demand, is possibly related to the nature and the prices of the goods and services it supplies.

The nature of the goods and services provided by the informal trade sector is very 'basic'; it caters to essential items like food and drinks, apparel, textile, footwear, etc.³⁸ The nature of supply from the informal trade sector seems to 'fit' with the nature of consumption (demand) of the average household. For example, a family with a household size of 6.5 persons (the average household size in 1986-87), with an average monthly income of Rs 2,062, spends 46 per cent of this income on food and drinks, 7 per cent on apparel, textiles and footwear, 12 per cent on rent, and the remaining on transportation and other miscellaneous goods and services.

The match between the supply and demand of goods and services from the informal trade sector also seems to be borne out by the prices of these goods and services which are within the reach of the population that belongs to the poor or low-income category. Though this phenomenon stems purely from logic - and is probably a reasonable claim in light of the arguments preceding it

³⁷In 1972, the percentage population falling under the poverty line (those who command less than Rs 375 per month) was 74. Moreover, in the same year, the lowest 20 per cent of the population received only 7.9 per cent of national income whereas the highest 20 per cent received 43 per cent of the national income. This ratio remained unchanged up to 1987.

³⁸The supply of goods and services from the informal trade sector is, however, not confined to basic goods alone.

- any conclusive observations from it should be approached with caution.³⁹

One of the more interesting observations that emerged from our survey and from research of secondary sources is that informal trade is characterized by degrees and levels of informality or illegality. Enterprises and activities in the informal trade sector do not indicate the character of being "purely" legal or illegal. In almost all cases some legal requirements (such as those for registration) were met, while others (such as those for conducting business), were ignored. For the purposes of this study, an activity was deemed to fall within the informal trade sector if it failed to meet the fundamental requirement(s) for registration and conducting business. For example, in the case of a vendor, the fundamental requirement for registration is a valid license to vend. All those vendors who were found to violate this fundamental requirement for being legal or formal were considered to be part of the informal sector.⁴⁰

12.2 Extent, Contribution to the Economy

Analysis of the extent and contribution of informal trade to the economy is marred by the lack of published data and references on this sector. Where statistics do exist, these are of a fragmentary and micro nature. An additional limitation of the study on informal trade is related to the scope of the survey. Due to the limited time to conduct research, the survey concentrated on all those trade and commercial activities which were most visible.

Based on a study of the informal sector in Pakistan it was estimated that 98.8 per cent of the labor force in Pakistan is

³⁹This idea acquires more credibility in reference to a study conducted in Colombia by ILO on the informal sector. The study indicates that the informal sector in Colombia not only caters to the lower income population but also produces these goods at a price which matches the incomes of the lower income population. (in Burki, 1989, p. 5.). The observation is reinforced by Burki for the case of Pakistan (Burki, 1989, p. 5).

⁴⁰Categorization of formal and informal trade sectors is not quite as simplistic as this methodology suggests. The definitional issues are compounded when the nature of the dual economies is considered in their entirety, an observation which will become apparent from the remaining part of the discussion in this chapter, and from the annexures that follow it.

in the informal sector (Burki, 1990).⁴¹ This implies that out of a total of 3.46m employed in trade and commerce in Pakistan, 3.42 m are in the informal trade sector.⁴² On the basis of the same criterion, employment in the informal trade sectors in the districts of Lahore and Peshawar are also calculated. In Lahore district, out of a total of 172,744 employed in trade and commerce, 170,700 are in the informal trade sector. For Peshawar district the total employment in trade is 69,537, out of which 68,524 are in the informal trade sector.

Based on the survey the most substantive informal trading was in ready-made garments, fruits and vegetables.⁴³ In addition, informal trading in soft drinks, toys, trinkets, bangles, ice cream, and certain native foodstuffs was also prominent.⁴⁴ The elements in which trade was substantive and common to the surveyed cities were fruits and vegetables. The initial investments in this category vary from Rs 5,000 to Rs 10,000 for itinerant vendors and Rs 8,000 to Rs 15,000 for shopkeepers. The working capital requirements for elements traded in this category were cited to be low, ranging from Rs 3,000 to Rs 5,000 for shopkeepers, and Rs 1,500 to Rs 3,000 for itinerant vendors. These figures are highlighted in table 5.

Table 5
Trade in Fruits and Vegetables
(Rs)

Initial Investments	5,000 - 10,000	Itinerant Vendors
	8,000 - 15,000	Shopkeepers
Working Capital	1,500 - 3,000	Itinerant Vendors
	3,000 - 5,000	Shopkeepers

Source: DRMS Survey, June 1990.

⁴¹This study defines the informal sector as all those enterprises which employ less than 10 employees.

⁴²Data pertains to the year 1987-88.

⁴³This observation is biased by the fact that the survey concentrated on those activities which were most visible; the logical outcome is the failure to account for other, possibly more substantive activities, within the dual economy of trade.

⁴⁴Native foodstuffs included elements like *goal gunda* (ice candy), *dhai chanay*, *goal guppa*, etc.

Figures for trade in ready-made garments are given in table 6. Trade in ready-made garments involved initial investments ranging from Rs 10,000 to Rs 15,00 for semi-fixed vendors, and Rs 10,000 to Rs 25,000 for shopkeepers. Working capital requirements were between Rs 2,000 to Rs 5,000 for semi-fixed vendors, and Rs 4,000 to pak Rs 7,000 for shopkeepers.

Table 6
Trade in Ready-made Garments
(Rs)

Initial Investments	10,000 - 15,000	Semi-fixed Vendors
	10,000 - 25,000	Shopkeepers
Working Capital	2,000 - 5,000	Semi-fixed Vendors
	4,000 - 7,000	Shopkeepers

Source: DRMS Survey, June 1990.

Typically, 3-4 people were employed in the trade of ready-made garments. In Lahore, trade in ready-made garments was largely owned by "contractors" who would sublease their business to traders. The contractors had extralegal rights to certain cherished locations for trading, such as the area around the railway station. This was a situation analogous to what one finds in Peru, where pitches are actually bought and sold by traders.⁴⁵

Traders would typically make Rs 40 per day; if sales exceeded a specified target set by the contractor, the trader would make a small percentage of the profit. The converse situation, where a trader is not able to sell anything at all in a day is not met with any kind of sanctions by the contractor. In such a situation the trader would still qualify for his daily rate of Rs 40. In effect, the daily rate for traders is akin to a minimum wage set by the contractor.

The contractor plays a central role in conducting trade in ready-made garments. A trader who works for a contractor does not need any initial investments or working capital; these are provided by the contractor. The basic qualification to trade for a contractor is some years of experience in trading. There are, however, exceptions to this qualification. As in the case of Peru

⁴⁵Unfortunately no indication of the price of such a plot was given during the interview.

where a new informal is introduced into a locality by a cousin or relative to minimize resistance from other traders in the locality, in Pakistan also consanguinal ties with a contractor act as an acceptable substitute for experience, or for that matter an added asset for a new trader to market himself to the area as well as to the contractor for a job. In such a case, a contractor himself provides on-the-job training to the trader. During the training period the daily rate of a trader ranges from Rs 20 to Rs 30.

Table 7
Trade in Toys, Trinkets, Jewellery, etc.
(Rs)

Initial Investments	Working Capital
2,000 - 3,500	500 - 1,000

Source: DRMS Survey, June 1990.

Toys, trinkets, jewellery and bangles were elements generally traded by women, who mostly operated as semi-fixed vendors. New entrants (both male and female) into the informal trade sector were found to initially engage in selling these elements. This was an attractive trade because the initial investments and working capital requirements were low: Rs 2,000-3,000 and Rs 500-1,000 respectively for initial investments and working capital (see table 7). In Peshawar, trade in these elements by women was facilitated by the availability of credit from retailers and wholesalers. These agents usually provided most of the initial investments.⁴⁶

12.3 Relevance to de Soto's Theses

That the state has lost its social relevance and impeded economic growth is an observation not confined to Peru. The same phenomenon is reflected in Pakistan. In both Pakistan and in Peru the informal trade sector is primarily a result of the highly restrictive administrative requirements that must be satisfied in order to operate legally.

In Peru the formal and informal sectors in trade compete with each other; in Pakistan there are examples of both

⁴⁶A description and analysis of the activities of women in the informal trade sector is given in Annex 12.3.

complementarity as well as competition between the formal and informal trade sectors. Although the informal trade sector in Peru is decidedly more productive than the formal trade sector (as de Soto pin-points), it is not necessarily the case in Pakistan.⁴⁷

An important thesis of the de Soto study is that the informal sector in Peru is largely made up of migrants who leave their rural homes for urban localities in the expectation of better incomes. The cities of Lahore and Peshawar do not seem to indicate the same phenomenon.⁴⁸ Qadeer (1983), in his study on Lahore demonstrates that migration to Lahore from peripheral areas has not been substantial or serious enough to constitute a problem for urban planning. A brief analysis of migration patterns in the districts of Lahore and Peshawar further reinforces Qadeer's observations.

In 1981 migrants made up 19.4 per cent and 9.3 per cent respectively of the total populations of Lahore and Peshawar districts.⁴⁹ Of these, in-migration to urban areas was approximately 89 per cent and 69 per cent respectively for Lahore and Peshawar districts. On the surface these figures seem to confirm de Soto's thesis for Pakistan, that is, in-migration to urban localities is high leading to a series of complex problems for urban planners.

The dis-aggregated picture, however, indicates that this is not the case. At least four observations from these data serve to demonstrate that migration is not a major problem in the surveyed cities in Pakistan:

- (i) These figures pertain to districts and not to specific urban localities or to cities. As such, the actual number of migrants to the two 'cities' is probably much less;

⁴⁷A more thorough study is needed before one can establish whether trade in Pakistan is more productive in the informal sector or in the formal sector.

⁴⁸In the city of Karachi, however, migration and its implications for the informal sector are perhaps worth comparing with the case in Peru. Although Karachi was outside the scope of our study, it is worth noting here that migration to Karachi from rural areas of the province of Sindh and from the province of NWFP have been substantial; it has been the major force in generating the demand for informal housing and informal services. (Selier, 1988).

⁴⁹All figures have been obtained from the District Census Reports of Peshawar (1983) and Lahore (1984), Government of Pakistan.

(ii) A number of these migrants may be seasonal migrants, and consequently cannot be thought of as permanent migrants;

(iii) Third, there is no evidence which shows that these migrants actually land up in the informal sector. However, whether migration is substantial or not, any number of migrants would have implications for the growth of the informal sector, in that the migrants would represent additional demand for goods and services from the informal sector; and,

(iv) Evidence from secondary sources shows that most migration in Pakistan has been from rural to rural areas, and not from rural to urban areas.

In Peru the informal vendors appear to be more organized than the vendors in the informal sector in Pakistan. The level of organization and cooperation among such groups is probably a function of the enormity of the threat such groups face from the opposing groups: the greater the threat (victimization) from legal agencies, the greater the proclivity towards group formation. The superior organization of informal vendors in Peru is reflected by the existence of informal organizations which protect their rights vis-a-vis conflicting groups; in Pakistan no such organization of vendors in the surveyed cities was evident.

12.4 Requirements for Registration

In most cases the requirements for registration were not fulfilled.⁵⁰ The reasons for this were similar to the case in Peru, where the requirements for registration were not met because they were restrictive, time consuming and costly. Another, more interesting reason had to do with the fact that in some cases (vendors and *mandis*) registration was not even possible. The essential requirement to conduct trade as a vendor requires the vendor to obtain a license from the municipal corporation of his zone, a procedure which has reportedly been abolished. *Mandis* (specialized commodity markets) face the same dilemma. Both examples offer similarities with the situation in Peru, where informal vendors and informal markets have grown in spite of being denied the right to legally earn a livelihood. The example of Akbari *mandi* in Lahore illustrates this point.

⁵⁰A more detailed description of the requirements for registration and for conducting business are a part of Annex 12.2.

According to an *arhi* in *Akbari mandi* in Lahore, *mandis* were not always illegal. Most *mandis* in Lahore were initiated by the Lahore Development Authority and the Lahore Municipal Corporation. All traders associated with the *mandi* had to register with these regulating agencies. The purpose of setting up the *mandi* was to facilitate trade by providing the space and the necessary channels through which traders could market their goods. Many traders took advantage of this opportunity.

Over time, demand for goods and services increased faster than the growth in the *mandis* organized by municipal agencies. As a consequence of the regulating agencies not being able to meet the demand for *mandis*, illegal *mandis* began to flourish. These illegal *mandis*, being prime centres of economic activity, attracted other traders. The consequence of this entire development was that new entrants into and around the *mandi* created serious environmental and traffic problems.

The municipal agencies responded to this problem by removing their legal coverage to *mandis*. Rights of access to the *mandis* could only be obtained from the municipal corporation. In essence, however, permission could not possibly be given to trade in that area for that would have meant a self-defeating task for the regulating agencies. This, in turn, increased the incentive among traders to evade registration.

12.5 Requirements for Conducting Business

The requirements for conducting business were not met by the majority of traders. This was mainly due to the fact that the requirements were not imposed by regulating agencies. Various reasons explain the inability of regulating agencies to enforce the requirements to conduct business. These had just as much to do with genuine constraints of regulating agencies (such as insufficient staff) as it did with some incentives (such as bribes from informals). Annex 12.2 illustrates these aspects more lucidly.

12.6 Taxes, Duties, Audits and Government Inspections

All types of activities represented in the informal trade sector are subject to various taxes, audits and government inspections with relevant agencies and departments. The actual mechanisms of how taxes are imposed and inspections conducted are lengthy; for convenience they have been put in Annex 12.4. There are two important points to be made in this section. First, taxes

were imposed not just by official or government agencies; a system of informal taxation, similar to that in Peru, was also prevalent in the surveyed areas. The informal tax was usually in the form of an extralegal tax which one informal paid to another for use of a certain area on which the other informal trader had an extralegal right.

The second point is related to official or formal taxes. For various reasons these were not efficaciously implemented. One important reason was the resistance from informal organizations. Some of these organizations had strong connections with influential politicians and officials at municipalities, who provided informals immunity from paying taxes. The fact that officials accepted bribes was another reason which prevented them from imposing taxes on informals. The diversity of incomes and activities within the informal trade sector represented yet another constraint on the ability of officials to tax the informal sector. No clear sense of the mechanisms of tax liability and collection was evident among officials.

12.7 Organizations and Trade Associations

In the absence of an organized institutional structure, informal organizations and arrangements have germinated which govern economic activity in the informal trade sector, and lobby their interests vis-a-vis government and other regulating agencies. The purposes of such organizations vary and seek to address a multitude of issues germane to the smooth functioning of economic activity in the sector. These operate in a very complex yet manageable and efficient way. Some have acquired legal recognition after operating informally for several years and have emerged as powerful groups. A detailed account is presented in Annex. 12.5.

Unlike the case of Peru, in the surveyed cities in Pakistan there were no organization of vendors. The only mechanism to defend rights to trading illegally and to lobbying interests were done in a highly informal manner. There were no written documents specifying rules of conduct or rights to trading in a certain place. These were all based on informal arrangements, the characteristic feature of which was a tacit understanding among traders to defend each others rights in the event that these got challenged by groups with divergent or opposing interests.

The informal trade sector offers numerous examples of organizations and associations, with purposes ranging from lobbying high prices to defending rights to conducting business in public places, and to eking favors from influential politicians. As in the case of Peru, these organizations have acquired considerable power; some have even managed to get recognized by government agencies. In the surveyed cities in Pakistan some such

organizations were the Azam Cloth Market Association in Lahore, and the Committee of Commission Agents in Peshawar.

No formal organizations promoting the interests of traders in the informal sector were found in the surveyed areas. The National Manpower Commission, however, in a recent report recognized the importance of the informal sector in generating employment. In its strategy paper, it recommended credit availability and training facilities for the informal sector. The effect of such a recommendation on informal trade is difficult to gauge because the recommendations are not specifically targeted to the informal trade sector.

In light of the particularly difficult circumstances of women in the informal sector one would expect an organization of women that would serve the purpose of defending their rights in the informal sector. No such organization was, however, evident from the surveyed areas, nor is there a convincing explanation for their absence.

12.8 Relationship to the Formal Sector

The informal trade sector has strong links with the formal sector. Depending on the type of activity, it is either complementary or competitive. Trade in the informal sector has been an outcome of the formal sector not being able to meet all of the demand. In particular the greater part of the demand from low income households seems to have been met largely by the informal sector in trade. Moreover, the informal sector in trade has acted as a buffer for a large part of the labor force.

Most of the supply, raw materials and inputs, in the informal trade sector originate from the formal sector. In essence, the informal sector in trade acts as a important channel through which the output from formal sector reaches consumers. The potential of the informal sector in trade to process goods is constrained by lack of skills and capital, a constraint more pressing for women than for men.

In some cases trade in the informal sector has been the engine of growth for other activities in both the formal and the informal sectors. For example, it has given impetus to the informal manufacturing of bottles which are sold as soft-drinks by the informal sector.⁵¹

⁵¹Annex 12.6 contains a more detailed account of the relationship between the formal and informal sectors of trade.

In the surveyed cities it was observed that one important reason why informal trade has flourished is because regulating agencies have actually been conducive to its growth. Examples of regulating agencies attempting (pretending) to curb the growth of informal trade through inspections and raids are actually examples which reflect how these agencies inadvertently and indirectly create conditions that promote informal trade. As mentioned in section 12.5 this phenomenon is partly attributable to abuse of their powers and partly to genuine constraints such as lack of sufficient staff. If the nature of a legal entity is presently such that it promotes trade in the informal sector, as is the case in the cities of Lahore and Peshawar, then it appears that legalization is a pointless issue.

A more careful analysis, however, reveals that the problem in this context is not legalization but the removal of administrative mechanisms that are aimed at resolving the scarcity that arises from the limitation on the number of vendors and *mandis*, and where they can be located. As suggested in Part A, an economic instrument (such as an auction of vending rights) would remove much of the incentive for illegal trade in the cities. In essence, this would be a more logical way to resolve the problem of congestion than by simply reducing the number of vendors.

Informal trade provides informals with the opportunity to develop entrepreneurial skills, a healthy and organized setting to market or channel their goods (a particularly important issue), easy access to credit for capital investments as well as working capital. The potential of such existing facilities ought to be thoroughly examined. The considerable delays in payments by the retailers is a major obstacle to trading activity. The informal sector is quick to respond to these business opportunities.

There is an obvious need for further research in the informal sector in trade. Any comprehensive study will have to begin by including the myriad of activities and goods and services that are a part of the informal trade sector. Analysis of the interaction between the formal sector and the informal trade sectors cannot be stressed adequately. The contribution of women in all aspects of the informal trade sector also deserves attention. Credit availability to the informal trade sector should be enhanced for those activities where investment, employment and value added is deemed substantial. There is also a role for training programmes in the informal trade sector, a role which the formal sector can be instrumental in performing. Such training programmes would aim to develop entrepreneurship and specific skills in the informal trade sector. An additional task in this regard would be to incorporate the principles of the participatory

approach to development, which primarily seeks to integrate the ordinary person or the target group into the mainstream of decision-making and implementation of targets.

13. HEALTH

13.1 Overview

Health is one of the most neglected sectors in Pakistan. There has been very little public investment in this sector and, traditionally it has received only a nominal share from the Annual Development Budget of the Government. The rapid population growth has further stretched the existing health facilities. The health facilities available are inadequate in terms of infrastructure and trained manpower, resulting in an overall decline in the quality of health care delivery system. As a result, the health indicators (for instance the infant mortality rate of 80 per 1000) give a very dismal view of the overall situation in this sub-sector.

The existing medical facilities are mostly concentrated in and around large cities so that availability of adequate health services in far flung areas is negligible. Even in the cities, the facilities are not sufficient and do not cater to the needs of the urban population. As a result, the informal health sector has grown at a rate proportional to the population growth rate. A summary of the major health indicators of Pakistan are provided in the following table:

Table 8
Major Health Indicators of Pakistan

<u>Indicator</u>	<u>Availability/Ratio</u>
Infant Mortality	80 per thousand
Life Expectancy	61 years
Population/Hospital Bed	1,650
Population per Doctor	2,920
Immunization of Children	85 per cent (below 2 years)
Immunization of Expectant Mothers (against Tetanus)	50 per cent
Primary Health Care in Each Union Council	85 per cent

Source: Seventh Perspective Plan

As stated above, the main reason for the low health status and the poor quality of health care is the lack of facilities and personnel. For instance, in Pakistan (including urban and rural population) there is only one hospital bed for 1650 persons, one doctor to care for 2,920 persons, and one dentist for 1,760 persons.

The primary health care facilities are available at 492 Rural Health Centres, 3,496 Basic Health Units, and 6,050 other health outlets i.e., Maternity and Child Health Centres, Dispensaries, and Sub-centres. In addition to these, a large number of private hospitals and clinics are operating and providing health care, but their number is not known.

A general idea of the development in this field can be had from an analysis of the situation a decade ago, when the government started promoting the informal health care delivery system in the rural areas. Since then, the infant mortality rate has dropped from 98.5, and the life expectancy increased from 58 years to the levels shown in the above table. During this period, the number of doctors also increased. In urban areas, the increase was 50 per cent, while in rural areas it was about five times. Similarly, the number of para medics and auxiliaries added was 22,770, and intensive training of Traditional Birth Attendants (TBAs) added 30,000 trained TBAs. The availability of health care facilities is not keeping pace with the rapid increase in population, and thus, there is an ever increasing demand for medical care. Moreover, the general illiteracy levels and lack of education (especially among mothers) lead to ignorance about the importance of having the children treated by doctors (and not unqualified people posing as doctors), disease prevention, and therefore, perpetuates illness among young children.

A large number of health-related services are known to be delivered through the informal sector. These include: traditional birth attendant services; some homeopathic practices; and, most recently, nursing care. The TBAs have traditionally been an essential part of the health care system primarily because of the limited access to the formal sector by the majority of the population. Similarly, homeopathy has a special place because of the traditional resistance to the allopathic treatment by the larger segment of the population.

As in the case of the Housing and Human Settlement sub-sector, the growth of informal nursing care is driven by inadequate formal sector provisions in the face of growing demand. Demand has grown rapidly because of rapid urbanization and growing incomes, both of which have been instrumental in encouraging the growth of private hospitals and clinics. The supply of nurses, however, appears to have stagnated in recent years, thereby raising the potential income of those who were already trained as nurses. This has probably led to two trends: (a) nurses who could have worked in government hospitals felt it more lucrative to move to private hospitals or informal arrangements, since government salaries move slowly; and, (b) women nurses who value flexibility in working hours would prefer to work in the informal sector rather than in private or government hospitals.

While doctors and private clinics appear to be in abundance in Pakistan's urban areas, nursing care continues to be in short supply. As a result, groups of nurses have organized, at least in Karachi, to provide nursing care through informal arrangements. Most patients and hospitals appear to be supportive of this, although a few frown upon nurses brought in from outside the hospital. The best known private nurse system is that managed by Sister Alimo out of the Mesquita Gardens (housing complex) in Karachi.

Of the informal health sector, the main elements that have a significant effect in extending health care services along with having a direct impact on the common man appear to be hospital care, availability of paramedics, and the availability of drugs. The informal health sector study concentrates on two main areas namely private hospitals, and paramedics.

13.2 Extent, Contribution to the Economy

13.2.1 Private Hospitals/Clinics

Within the last 10-15 years, rapid urbanization and an increase in the per capita income have given rise to an increase in the demand for private and expensive medical care. The government run hospitals and clinics, although providing subsidized services, seem to have lost the faith and confidence of both the rich and the poor, because of poor quality of the services. Private owned hospitals and clinics have, thus, sprung up and flourished rapidly. Since there is no specific law governing the operations of these hospitals and clinics, the owners take full advantage of the situation, and indulge in all sorts of corrupt and unethical practices. Hiring of untrained staff (doctors and paramedics), inadequate facilities, unreasonable fees, forgery in medical reimbursement claims (generally involving public sector organizations), and unnecessary and prolonged treatment of the patients are some of the major activities noted during the study in the hospitals and clinics.

Such facilities are found scattered all over the country in terms of geographical concentration. However, the urban component is more established and flourishing because of the higher income trends in the urban areas. In case of reputed private hospitals, the quality of services (health care) is indeed better than that of the government run facilities, but it is far more expensive and everyone cannot afford to go to such places. However, the fact that the informal facilities, operating below the desired standards, offer basic health care needs to the general population, highlights the significance of this sector.

A clinic usually does not require a substantial initial investment, and some of the places visited became operational with as little as Rs 50,000. Similarly, the investment in a private hospital depends upon the nature of facilities and equipment it plans to use. Some facilities have very sophisticated equipment (like X-Ray, E.C.G., Ultrasonography etc.) and may require up to Rs 10 million. There is no provision for formal credit by the government for such facilities, and usually personal resources or informal credit channels are used to meet the capital requirements. It was also noted that the nationalized banks provide credit, but only if the applicant has an influential contact.

13.2.2 Paramedics

The four main categories of paramedics are Nurses, Lady Health Visitors (LHVs), Dispensers and Traditional Birth Attendants (TBAs). These paramedics undergo a training oriented towards assisting the qualified medical persons and providing public health services such as health education, family planning services and maternal and child care and working at the community level in extending the primary health care services. It has been seen that the paramedics who are licenced to a restricted practice limited to providing first aid and treatment of minor illnesses are engaged in all sorts of illegal activities ranging from carrying out minor surgical operations such as treating cuts and wounds to dangerous procedures such as illegal abortions. It is common for the LHVs to call themselves doctors, have their own clinics, and perform all procedures which a gynecologist would undertake under normal circumstances. Similarly, the dispensers, after receiving adequate training open up their own 'clinics', and do a flourishing business. Surprisingly, this practice is even carried out in large cities like Rawalpindi and Lahore, where the people are generally more aware and educated.

As mentioned earlier, the government facilities are inadequate to meet the growing needs of the population. Thus, the people are generally faced with the option of either going to a private facility run by a doctor (which is generally expensive), or to visit a paramedic for necessary treatment. Given the overall low income structure of the society, majority of the people visit the paramedics because of cost considerations. The paramedics are more successful in the rural areas where they are identified as 'doctors' and earn a very decent living. In urban areas, the availability of doctors and private hospitals limit the practices of paramedics. Still, it was interesting to note that in places like the Saddar Bazar of Rawalpindi, some clinics run by paramedics and dispensers are doing well.

13.3 Relevance to de Soto's Theses

The main issues surfaced during the course of this study are predominantly in terms of the absence of any appropriate law to govern the formal health sector activities. The ambiguous, or more appropriately silent law, has provided a good opportunity for the informal sector to prosper. The hospitals and clinics in the informal sector are run in a very unscrupulous manner, but there is no law to check the irregularities. Sub-standard equipment, exorbitant fees, and untrained staff are some of the main issues that need to be addressed.

Similarly, the paramedics issue deserves special attention. Once it has been determined that the doctors cannot cater to the demand (even if there are plenty, they would not serve in the rural areas), some thought is needed perhaps to improve the training of the paramedics. Rather than promoting 'quackery', this would improve the overall health standards. Thus, in terms of de Soto, absence of a good law is the main factor behind the flourishing informal health sub-sector.

13.4 Requirements for Registration

13.4.1 Private Hospitals

The private hospitals and clinics are not controlled or regulated by any law either by the Ministry of Health or by the Pakistan Medical and Dental Council (PMDC).⁵² Any person possessing an M.B.B.S. degree can open a hospital or clinic without seeking any permission from the PMDC or the Ministry of Health.

13.4.2 Paramedics

The paramedics are required to register with various institutions and bodies, but there is no specific law to govern or restrict their activities after completion of the requisite training. For instance, the nurses and LHVs are registered with the Pakistan Nursing Council after completing a three year course from a recognized school of Public Health. The dispensers are registered with the State Medical Faculty of the respective Provincial Governments, while the Traditional Birth Attendants (TBAs) are not registered.

⁵² The Pakistan Medical and Dental Council is a statutory autonomous body of the Federal Government.

13.5 Requirements for Conducting Business

13.5.1 Private Hospitals

As stated, there are no requirements since the law is quite vague in this respect. The district health officer's staff (drug inspectors) are supposed to make periodic inspections, but the usual bribery process is used to get away with this. The shops and establishments ordinance is applicable on these facilities, but this does not pose a major problem for the owner.

Similarly, there is no regulation regarding standardization of equipment or consultation fee, and of other services such as laboratory fee etc. Moreover, in order to save money and because of non availability of trained medical personal, un-trained paramedics are employed in the private hospitals, but there is no government department to check these violations.

13.5.2 Paramedics

Once the paramedics get their respective diplomas, they are virtually free to do anything they feel like. Those opting for the private sector, can do clinical practice without any government department agency checking them. It was noted that some of these practitioners do not even have a formal training in any of the paramedic fields, yet, by virtue of experience or self study, they operate such facilities quite successfully.

13.6 Taxes, Duties, Audits, and Government Inspections

Absence of a good law and practically no monitoring by the government departments are the two main causes for the informal health sector to grow and flourish in Pakistan. A draft legislation was prepared in NWFP to regulate the activity of the hospitals and clinics, but lobbyists with vested interests prevented it from being presented in the Assembly. Apart from the income tax department, there is no other department to conduct periodic inspections of these facilities.

The drug inspectors from the district health offices are supposed to conduct inspections, but they are quite content with receiving illegal gratifications. The informal facilities, however, pay income taxes although tax evasion is a common practice.

13.7 Organizations and Trade Associations

The most renowned organization is the Pakistan Medical Association which is a representative body of the M.B.B.S. doctors in Pakistan. It is a registered organization and is essentially a pressure group actively involved in defending/demanding due rights for the doctors; the association also advocates the abolishment of quackery and practice by the paramedics. Similarly, the different groups of paramedics have their own associations (e.g., the Punjab Nursing Association etc.). These associations have been established primarily to fight for the basic "rights" of their members such as job security, salary structure etc. The membership of such associations is open to all the registered paramedics, and as such, represents the paramedics working in the formal as well as the informal sectors.

13.8 Relationship to the Formal Sector

As far as the private hospitals and clinics are concerned, senior doctors of the teaching and other government hospitals form part of the core medical team of these facilities, and they have a very established practice at these hospitals. In some cases, the patients admitted to the government hospitals are transferred to the private hospitals and are kept in the hospital for extended periods of time, for financial or commercial reasons. Similarly, most of the formal sector paramedics are also doing private practice (there is no law barring them from doing so) at evenings, or they work part-time in the informal hospitals and clinics.

13.9 Potential for Gains from Legalization

As far as the hospitals and clinics are concerned, the legalization of the existing informal setup would not bring the desired results, and will result in further deterioration of the health sector, with gains only to the informals. Instead, a legislation is needed to check this illegality, and an effective enforcement in terms of strict monitoring of such facilities is direly needed. Periodic government checks will result in reduction of unethical practices such as employment of un-trained staff, exorbitant consultant fees, etc.

The Pakistan Medical Association has very strong views on this aspect and they maintain that legalization of paramedic's practice shall result in overall deterioration of the health care delivery system. The P.M.A. and the doctors argue that illegal

"practice" of the paramedics should be checked and controlled for the benefit of the common man, who suffers because of mishandling and wrong treatment and medication.

On the other hand, a two-step approach to legalizing the para medics can be beneficial if their current training is updated first, and later, they are legally allowed to perform certain basic duties like patient referrals and treatment of minor ailments. It is not possible to substantially improve the doctor/patient ratio because of the rural concentration of Pakistan's population, and the reluctance of doctors to serve in the rural areas; thus, legalization after better education and training can be used to the benefit of the society. Similarly, the TBA's role in the informal sector cannot be ignored in this country. The formal structure cannot cater to the growing needs of the population, and a majority of the population (even in urban areas) has to resort to the TBAs. Better training and increase in their number (currently at 30,000) can also be useful to the masses.

14. Education

14.1 Overview

Pakistan has one of the lowest literacy rates in the world with an overall literacy rate of 26.2 per cent (35.1 per cent for men and 16.0 per cent for women). Female illiteracy in Pakistan is extremely high, especially in rural areas. There is an excessive drop-out problem between class 1-5. In Sindh, only 33 children out of 100 complete the first five years of schooling. In Baluchistan, there is a variation between districts but the rate is as high as 86 per cent in some areas. In NWFP it is 60 per cent for males and 75 per cent for females. Generally, the more backward the area the higher the rate of attrition.

The government's annual allocation for education is, on average, a mere 3.5 per cent of the total budget. This figure is illustrative of the priority the government has assigned to this sector. The main emphasis of government planning for this sector has been in the provision of physical infrastructure and in trying to adhere to the exact specifications laid down by itself e.g. space per square foot per child, structure of building, etc. The area of teacher training, curriculum development and the child are not the focus of this system. More than three decades after independence, the policy makers of Pakistan are still undecided about the nature of its educational system and the objectives of its education policy. Education has been treated more as an industry rather than as a special sector with special needs. As such, the institutions in the school system have been victims to both nationalization and de-nationalization policies of the government.

The state system has not only been unable to meet the growing need for primary and secondary education in the country but it has also been unable to meet the special educational needs in the country. For example, there is little provision in the formal sector for adult education, special needs of female education, vocational training, etc. From time to time, the government has initiated special programmes for these groups e.g. *Nai Roshni*, poly techniques and programmes for female but these have been largely unsuccessful for a host of reasons.

In Pakistan, despite high economic growth over the past decade, the educational status of women is amongst the lowest in the world. This is partly because education has suffered as a whole from the neglect of successive governments, and partly because within education, girls are far more deprived than boys. The result is that women's access to education is extremely limited. A heavy price is paid in terms of economic and social

development. The longer the action is delayed, the more entrenched the problem becomes.

By 1985, it was clear that the educational targets laid down in the Sixth Plan could not be achieved. A three year priority investment programme for 1985-88 was developed and largely superseded by the Prime Minister's Five Point Programme (PMP) for economic and social development, 1986-90. The Seventh Plan had a target to increase the number of *mohallah* schools by 20,000, primary schools by 30,000 and enrollment to 13.9 per cent. The budget allocation to achieve these targets was Rs 10 billion. However, the increase in the budget still remains inadequate and the projection for both primary and secondary schooling are over optimistic in view of past performance, implementing capacity, the availability of teachers and financial constraints.

The inadequate provision for universal compulsory primary education or the special education needs in the country have led to a proliferation of informal methods and arrangements to meet this growing demand. The mushrooming of private schools, coaching centres, home schools, mosque schools and the informal on-the-job vocational training system have fulfilled a crucial need. Most of the private schools in the country are unregistered, the coaching centres operate at a level outside the formal system and on-the-job training is completely in the informal sector.

14.2 Extent, Contribution to the Economy

It is difficult to estimate the contribution of the informal sector in quantitative terms, but the contribution of the informal sector in increasing the capacity and the standard of education in the country is indisputable. Those within the formal system admit that the education in the informal sector, "forms the only backbone we might have." In recognition of the contribution of the informal sector, the government has turned a blind eye to the proliferation of unregistered schools, most of which are unregistered and by pass the public school system. The extension of state patronage to *mohallah* and mosque schools is a recognition of the informal sector's response to the growing needs of education.

The proliferation of private schools, home schools, coaching and tuition centres, mosque and *mohallah* schools have contributed to substantial employment and income generation. These informal institutions help supplement the household incomes besides providing women with the opportunity to work especially when they have economic and social problems. The profits generated from establishing a school are competitive with any private business enterprise. It is estimated that the coaching centres can make up

to Rs 25,000 to Rs 40,000 per month, especially for tuition in science subjects.

According to a survey in 1988, 26,690 mosque schools have been opened. They are usually well provided for, and have normal facilities required for a village primary school; covered space, floor mats, and arrangements for drinking water. Mosque schools are sometimes utilized for starting complementary programmes of adult education, for out of school adolescents and adults.

Another component of informal education in Pakistan is the *Mohallah* school. This is another institution in our community, which in spite of neglect, continues to survive. *Purdah* observing women who can read and write but do not go out, teach the Holy Quran, Islamiat, and selected skills of home management such as embroidery etc. to young girls of the *mohallah*. A *mohallah* school concerned with the function of teaching the Holy Quran is particularly common in the rural areas of Pakistan. The problem with such schools is the lack of interest generated by the teacher. Co-education is not encouraged and separate arrangements are costly in terms of physical facilities and teacher's time.

Slum schools sprung up in urban *katchi abadis* are also informal in nature. Usually someone from within the *katchi abadi* holds evening classes and educates these children. These *katchi abadi* schools are popular with the residents in areas having transport problems, and where no one at home has the time to take them to a school in another locality. These schools are even more important considering that the government planning process does not orient itself to the needs of the urban population living in *katchi abadis*.

The literate women of low income neighborhoods often run classes in reading, arithmetic, and drawing, and other creative subjects, charging Rs 10 to 30 per month. As a group they organize summer activities, adult literacy classes, and in some cases, growth monitoring and immunization activities for small children. Such schools are rapidly spreading to other neighborhoods. The teachers of some of these schools have formed a Home-Teacher Association to support their network. Social resistance from families on sending their children to these schools is considerably lower than the regular schools.

Vocational education (functional literacy) in the formal sector is not job-orientated and there is no arrangement for identifying the training needs of different sectors. In this area too the informal sector has taken the lead in establishing a very well defined system of *ustad-shagird* relationship for different sectors. Not only is vocational training in the informal sector responsive to the needs of the different enterprises but it provides an immediate source of income and employment to the

shagird. Several studies [Burki] have demonstrated that there is upward mobility for the apprentice and that income earned after the training period is comparable if not higher than those prevailing in the formal sector.

Women benefit very little from apprenticeship opportunities. Young girls are preferred for weaving in the home based carpet industry and in the manufacture of sports goods, etc. but it does not offer the same opportunities of skill acquisition and income earning as those offered to the men. Occupational institutes for girls have been established by the government. There are five vocational institutes and two technical training institutes for girls in urban areas of Pakistan. Most of these are not geared to the demands of the labor market, as they teach only traditional skills such as embroidery and sewing. A survey of government and NGO vocational institutes in Lahore indicated that most of the skills taught did not lead to income generation, nor did it prepare women for the diverse job opportunities available in the country.

14.3 Relevance to de Soto's Theses

The main source of illegality observed in the education sub-sector was the legal requirement that every school be registered with the Provincial Education Departments. The requirements of registration are very strict and most of the school owners prefer to stay informal primarily because of cost considerations. The overall feeling that costs of remaining (or becoming) formal far exceed the costs of informality, and absence of a good law are two factors which have a relevance in terms of de Soto's findings in Peru.

Some of the main issues that came to surface during the course of this study revolve around the colonial rules governing private educational institutions, and the general inability of the concerned government departments to enforce the existing regulations. The state's incapacity to meet the educational requirements of the growing population calls for a dire need for deregulation of the education sub-sector. This needs to be done after the existing legislation is made more realistic and at the same time provides for effective enforcement in order to check the illegal activities. This is important especially when a majority of the informal educational institutions (private schools) have turned into commercial enterprises employing unqualified teachers (in some cases not even matriculates), and enrolling maximum possible children (in some cases up to 50 per class) in makeshift class rooms.

Requirements for Registration

All educational institutions require registration under the West Pakistan Registration of Unrecognized Educational Institutions Ordinance of 1962. This Ordinance categorically states that, " No unrecognized private educational institution shall be maintained or run unless it is registered in accordance with the provisions of this Ordinance." The educational institutions need to be registered with different authorities depending on whether it is a primary, secondary or higher level institute. Colleges have to be registered with the Registrar of the University. Higher secondary institutions have to be registered with the Divisional Inspector of Schools and primary and elementary schools have to be registered with the District Inspector of schools.

The requirements include: standard number and qualifications of teachers; their salary and allowances; complete information on the finances of the school with bankers; and, financial liquidity equivalent to six months of the teachers salary. The schools are also required to provide the site plan, and seating capacity, since there are strict regulations regarding the maximum limit of children in proportion to the class room space. Similarly a school offering science subjects has to have a science laboratory and apparatus before it can be registered. The school is also required to have a playground with specified location and dimension of playground, library and museum.

There are a few schools which are registered under the Societies Act of 1961, and one or two as private limited companies.

Requirements for Conducting Business

The requirements for conducting business for schools are stated in the Application for Recognition/Renewal of Recognition of Secondary Schools. This is probably one of the most closely and jealously guarded secrets in the entire educational system in the country. Five attempts to secure a copy of this document failed. Finally, one of the researchers in this study, through her connections was allowed a quick peak into the document. Most of the schools prefer not to register because they feel that these conditions are impossible to meet.

As part of these conditions the schools are subject to inspection by a host of agencies including the health department, municipal corporations, and inspectors from the Directorate of Schools. The schools are required to renew their recognition on an annual basis.

Private schools are subdivided into institutions which follow the formal public school curriculum and those which follow the British system. The institutions which follow the Pakistani system are expected to go through the formal channels, e.g. registration, inspection of premises, etc. However, private schools affiliated with the British system completely bypass the public system, and are subject to scrutiny by the respective British agencies from Oxford or London Universities.

Unlike the government schools, the tuition fees charged by the private (unregistered) schools are not regulated. Coaching centre fees are charged on the basis of number of hours taught, number of children, etc.

14.6 Taxes, Duties, Audits and Government Inspections

Private institutions whether they are affiliated or not with the government system have to pay taxes. These institutions have to pay a tax on income and a tax on sales. A sales tax is a tax on the sale of goods such as, library books, laboratory equipment, furniture, etc. They are supposed to pay sales tax but as there is no inspection of their stock register, and they are able to evade taxes. Coaching centres are also liable to income tax. They all pay taxes under the self-assessment scheme.

The registration fees for primary schools is Rs 100, for secondary schools Rs 200, and for higher schools Rs 500.

14.7 Organizations and Trade Associations

Education is a provincial subject and the provincial departments are supposed to take the lead in determining education policy and implementation of the education targets. The Directorate of Schools is a very important institution because of its wide ranging powers of school inspection. Enforcement is weak and there is great potential for corruption and bribery in the system. The secrecy which is evident in all education departments is illustrative of the nuisance value that the Inspector can have in enforcing the impossible conditions stipulated by the government.

There are several institutions which act as a lobby group for the private schools and the teachers of both government and private schools. These include the All Pakistan Private Schools Association and the All Pakistan Teachers Association. Their principal objectives are to create a more liberal education environment and to fight for special matters like salaries, terms and conditions of employment, school fees, etc.

The Teachers Resource Centre was established a few years ago to help provide support to the schools for teacher training, curriculum development and to provide a broad range of support services to schools in both the sectors. Although, it has helped several schools in the slum areas its performance is uncertain. This is the closest institution to the Lima Institute of Liberty and Democracy in the education sector.

14.8 Relationship to the Formal Sector

There is a direct relationship between the formal and informal education systems. The informal education system fulfills a very important gap in the formal education system. The informal education system is tied to the formal system because of several factors which include entrance expectations in government schools, low standard of teaching in public schools, the exam-oriented nature of tutorials and the administrative requirement that all those wanting to enter the matriculation system must pass through the formal school system.

The government schools expect some literacy at entrance level and this has led to a proliferation of nursery schools. The low quality of teaching and the exam-oriented nature of the education system require special coaching just prior to exams. As a result, there is a proliferation of coaching centres in the country. These are mostly run by paper setters who have to give an undertaking to the Board of Education that they do not know anyone taking the exam or that they do not own a coaching centre. It is estimated that 90 per cent of Intermediate science teachers run coaching centres. The demand for coaching centre services are seasonal and the peaks and troughs coincide with exam time.

The requirement that all those wanting to enter the matriculation system must go through the formal school system has created a one way dependency of the informal schools on the formal system. Principals of small private schools have to satisfy parents that their children will be eventually admitted to a public school and in most cases the teacher has to ensure that they get admission to a public school or at least one which allows the student to register for matriculation. One person from the informal system said, "we do not want association with the government except for the matric certificate". Non-registered schools pay the registered schools to take their candidates as regulars to appear for the Board exams. Enrollments in Public schools are given at a premium.

A registered school has two principal advantages; it can receive grants from the government and its students are eligible to sit for Board exams. Existing-government institutions receive grants for land, building and get concessions on laboratory equipment, library books and other expenditures. They also receive funds for scholarships. The formal schools also have the security of being sanctioned by the law. The matric certificate which only the formal system is allowed to confer is the first requirement for a white collar job in Pakistan. This certificate has acquired an intrinsic value of its own and it is not required or necessary in the formal job market to explore the quality of the education the candidate has received.

The conditions that schools should conform to under the existing regulation are rarely enforced. As such, private schools have a free hand in their administration, curriculum development, teacher qualifications, enrollment, fees; etc. There is an incentive to register with the government but this erodes very rapidly because of the impossible conditions laid down by the Department. Those within the informal system say that any link with the formal system exposes them to bribery and corruption. Besides, the arbitrary ordinances and inconsistency in government policy, unresponsiveness of the syllabi to the real education needs are strong deterrents to remain outside the purview of the law.

The principal of a prestigious Karachi school maintains that " The cost of being in the informal sector is that you are always illegitimate." Even so it is not surprising that the private school system has chosen to keep itself outside the purview of the formal sector.

15. TRANSPORT

15.1 Overview

Urban Road Transportation is generally defined as " The movement of people and materials within any town or city but particularly within large metropolitan areas, i.e. intracity Transport." The two major forms of urban road transportation are mechanized and non-mechanized. The non-mechanized form of transport constitutes only a minuscule part of the road transport system, and therefore, only the mechanized form of transportation was covered in this survey. The main forms of passenger transport are bus, flying coach, 'Suzuki' wagon, taxicab and rickshaw and trucks are principally used for freight transport. Intercity transport, on the other hand, is movement (of passengers and freight) between two cities or Metropolitan areas.

The present rules and regulation in Pakistan regarding road transport go back to the British times of united India. The rules were made by the British parliament and enforced in India to protect the shareholders of the Indian Railways who were British nationals. This eventually led to rationing through the mechanism of 'Route Permits'. The historic evolution of road transport is given in Annex. 15.1.

15.2 Extent, Contribution to the Economy

Major routes are owned by a few transporters who have a very high degree of political clout and have complete control over the environment in which they conduct their business. They are involved in numerous informal activities. The prime example is that of plying four to five vehicles under one registration and route permit. In the first place, no law enforcing agency challenges them; and in case they are challenged they present a photocopy of the required documents; and if forced they bring the originals from their base office. The timings of these informal buses are such that they never cross each other on the road and so the question of apprehending them does not arise. This does not mean that the regulatory bodies are not aware of their conduct. A Mobile Motor Police Inspector (MMPI) assigned to check such irregularities on a particular section of the highway is on the take to the tune of Rs 40,000 per month, and an MMPI is the highest authority on a highway. If by chance, a higher officer of the traffic police conducts a 'surprise raid' -accompanied by the MMPI - then the gratifications go to the higher official and the MMPI reimburses the transporter at a later date.

Transporters in the informal sector also ply their

vehicles on routes other than the ones they hold the permit for. For instance, a bus having a permit to ply between to small towns may be actually operating on a more lucrative major route connecting to major cities.

The road transport sector in Pakistan remains in a state of transition from the informal to the formal. Initially they start without fulfilling the requirements of the law but with the passage of time they complete the requirements and fall into the folds of the law and become formal. Presently the 'Suzuki' wagon is in this state of transition, and this will remain till such time that there are no new kind of vehicles introduced in the transport market in Pakistan.

The informal sector's contribution is significant in terms of meeting the transportation needs of the urban masses. The informal transport sub-sector provides employment directly or indirectly (auxiliary services like workshops, spare parts manufacturers etc.) to a large number of people. It also contributes to the training of drivers. Basically the conductors of the respective vehicles learn how to drive at the expense of public safety and graduate as functional drivers. The informal sectors' contribution in terms of overall investment in each element of the sub-sector is not possible to estimate. Only of a particular mode in a specific city may be estimated, e.g. the 'Suzuki' wagon operators investment in Peshawar may be estimated at approximately Rs 200 million (2000 vehicles @ Rs 100,000 each).

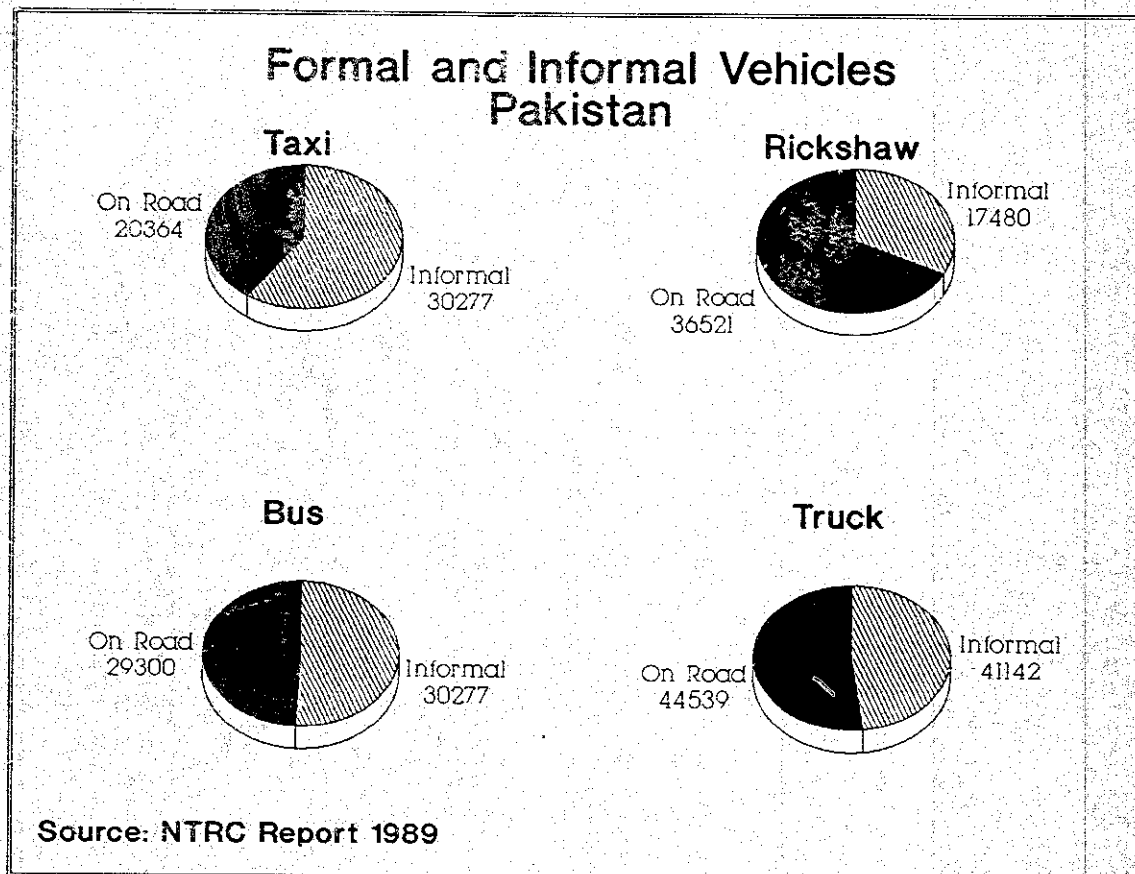
Table 9
Motor Vehicles Status in Pakistan

	<u>REGISTERED</u>	<u>ON ROAD</u>	<u>INFORMAL !*</u>
1 Bus	59,577	29,300	30,277
2 Taxi	26,913	20,364	6,549
3 Rickshaw	54,001	36,521	17,480
4 Truck	85,681	44,539	41,142
	226,172	130,724	95,448

* Per NTRC these vehicles are off road; information gathered during the field work indicates that 95 per cent of these vehicles

are plying informally.

Figure 2



15.3 Relevance to de Soto's Theses

Like in the case of Lima, the transport sector in Pakistan is characterized with excessive regulation, lack of coordination among the several departments involved in it, a high degree of corruption at all levels, and a shortage of easily accessible and low cost credit.

A high degree of informal activity is witnessed in the infancy stage of any type of road transport. As the particular type enters a stage of maturity the degree of informal activity starts decreasing, as permits and licence are initiated by the government. For example, the 'Suzuki' wagon is growing out of the stage of infancy and moving into the stage of maturity. In most cases, a 'Suzuki' has obtained a 'permit' to ply as a 'loader' but instead carries passengers as well as freight.

The intercity bus transport in Punjab in particular and the whole country in general is highly politicized and all the major routes are in the form of monopolies. They are owned and operated by members of the Senate and the National and Provincial Assemblies. No new permit is issued for a particular route without the consent of the respective monopolist. Those who are able to obtain a permit without the blessings of the route monopolist is driven out of business. These transporters are so well connected that they get the railways (which is under state control and their major competitor) to change the timings of the trains to odd hours that are not suitable to the travellers, and thus the poor travellers have to travel by road transport.

In view of the constrained financial situation facing the country, the amount of funds available by the exchequer for public transport is limited, therefore, it would be desirable to induct as many private transporters in urban areas as possible. This would, on one hand provide necessary alternative to various income groups in the choice of their transport mode, and on the other hand, eliminate un-necessary and dangerous competition between public, formal and informal transport.

The restriction on import of 'Suzuki Wagon' is not appreciated by the operators and owners in the informal sector. They feel that in order to protect its industry the government is offering them the second best. The locally assembled and manufactured vehicles lack quality control and their average life has decreased as compared to the ones which were imported. The cost of maintenance has gone up and so have other operating costs, not to mention the extralegal costs which average Rs 1,600 to Rs 2,000 per month.⁵³

The control price of a 'Suzuki' is Rs 98,000, where as it can be bought from the market by paying a premium of Rs 30,000. As in most cases, the vehicle is bought on credit, and the price tag goes up to between Rs 160,000 to Rs 190,000, as opposed to the control and market cash prices of Rs 98,000 and Rs 128,000 respectively.

Any cab desirous of picking up a passenger from the airport or the railway station has to pay Rs 10 and Rs 5 respectively to the traffic police on duty at these points. The gratification has to be paid irrespective of whether the operator is successful in getting a passenger or not. This is one of the reasons of the higher fares on these routes. If one were to get a cab from outside the boundaries of an airport or a railway station then the fare is almost halved and in some cases even less than half.

⁵³ Detailed figures are in table 10, section 15.5.

It is a generally held opinion that the private sector's entry in the transport sector is because of the gap between demand and supply; to supplement the basic service which the state has failed to fulfill or provide. The formal private sector enters the market to fill the gap between the supply and demand. The informal transport develops as a result of the stringent and outdated rules and regulations governing the formal private transport sector.

15.4 Requirements for Registration

The registration of Motor Vehicles, including public service vehicles, is the responsibility of the Excise and Taxation Department. Inspection of vehicles for the purpose of issuing the certificate of fitness and determining the number of seats on the basis of which the vehicular tax is assessed is done by Motor Vehicle Examiner (MVE) along with a Deputy Superintendent of Police (DSP). Similarly, driving licenses are issued by the Licencing Authorities who are DSPs of the Traffic Police. In the case of Driving Tests for public service vehicles, the Secretary RTA and a representative of the RTC associated with the MVE are the authorities. "Conductors" licenses are also issued by DSP's in their capacity as Licencing Authorities.

Appeals against the orders of Licencing Authorities go to the Superintendent of Police (SP). Appeals against the decision of MVE's concerning certificate of fitness go to the Deputy Inspector General of Police (DIG). The appellant nominates an Automobile Engineer for a second inspection and if the appellate authority approves of him, the case is referred to him for technical advice and the appeal is disposed off by the Appellate Authority.

Excise and Taxation Officers (ETOs) constitute the Taxation Authority. They are also designated as Registering Authorities for the purpose of registration of motor vehicles. "Stands" are under the control of Divisional Commissioners and Regional Transport Authorities (RTAs) depending on the class and law under which they are established. The Police Department and the RTAs have the power to check vehicles and initiate proceedings, each department acting independently. Offices of various departments which deal with matters concerning public service vehicles are housed in different buildings and at different locations.

15.5 Requirements for Conducting Business

The start up costs of an informal are high in comparison

to that of a formal. However, the operating costs are the same for both sectors. It is the system of gratifications paid out to various departments which is the culprit in Pakistan. Essentially, the dividing line between the formal and informal is the route permit; however, as mentioned earlier, even a permit holder may be informal if he is using his permit on unauthorized routes, or plying several vehicles on one permit.

To operate a public service vehicle the first step is to acquire a drivers license followed by a series of documents listed in Table 1 below. There are legal and extralegal costs that have to be incurred. The extralegal costs run parallel to the legal costs. The following are the various costs incurred by a rickshaw operator.

Table 10
Legal and Extralegal Costs of a Rickshaw Operator

	Legal (Rs)	Extralegal ⁵⁴ (Rs)
1. Vehicle Registration	400	550
2. Fitness Test	50	400
3. Route Permit	600	7,500
4. Vehicle License (Token Tax)	360	400
5. Legal Expenses	500	3,000
6. Other Professional Fees	0	150
7. Fines	175	1,500
8. Compensation Payments	0	500
9. Gratification - Police	0	600
10. Gratification - Others	0	360
11. Union Fees	5	0
12. Others (Insurance)	25	45
Total (Rs)	2,110	15,005

Source: Data from field survey

It may be seen from the above that the extralegal costs in the transport sub-sector are approximately seven times more than what are the prescribed or legal costs. Similarly, the extralegal cost of obtaining a route permit is the highest, about 50 per cent of the total extralegal costs.

⁵⁴ Figures obtained from field survey

15.6 Taxes, Duties, Audits, and Government Inspections

Road transport administrations are responsible for vehicle registration, driving licenses, route permits, fare structures on the basis of Motor Vehicle Act of 1965 and the Motor Vehicle Ordinance, at both federal and provincial levels.

The Ministry of Communications is responsible for road transport at the federal level and the respective Provincial Governments are responsible at the provincial level. The Provincial Transport Authorities (PTAs) deal with the private sector and work out bilateral agreements with the other provinces for route permits of inter-provincial route. The PTA's also issue licenses of the general and company bus stands.

15.7 Organizations and Trade Associations

It was observed that for each of the different road transport categories in the informal sector, there is a (registered) union. The main objective of setting up such an organization is to form a pressure group to gain favors from the police and other government departments. For instance, unions help in getting the members' documents etc. 'retrieved' from the police in case of *challans*. They also establish channels (through police touts) in order to reduce the nuisance value of the police.

The informal sector unions are registered, but there is no similarity to the ILD of Peru in terms of the union's objectives. The unions also safeguard the interest of the drivers in case of accidents involving loss of human lives. The compensations are also made by the (West) Pakistan Transporter Mutual Assistance Co-Operative society Limited on behalf of its members.

Similar organizations in the formal sector comprise of the various unions (both for urban and intercity Government Transport Service) in each province. The purpose of these unions is primarily to act as a collective bargaining agent for the members and demand better pay and facilities for the members. In addition, they also support the members in case they are involved in some accidents or damage to the public property.

15.8 Relationship to the Formal Sector

The private sector is severely handicapped in securing capital easily for the purchase of vehicles. Almost 80 to 90 per

cent of the vehicles on the road are 'purchased' by owners on an instalment basis on interest rates that range from 8 per cent to 10 per cent per month. In certain cases, the total interest payments increase the cost of vehicles by as much as 100 per cent. The Commercial Banks in the country do not give any loans to the private transport operators.

In order to facilitate credit to small investors, 5th Five Year Plan recommended that transport should be declared as an industry and commercial banks should be asked to provide loans for investment in this sector on industrial credit terms. In pursuance of this recommendation, the Banking Council had issued instructions to the member banks to this effect. However, the terms on which the loan can be granted to transporters are very stiff and virtually no individual has been able to take advantage of it. The present terms stipulate that the investor's share be 50 per cent of the required outlay with the bank providing the remaining amount against personal guarantee and immovable security for the amount involved.

15.9 Potential for Gains from Legalization

Several operators and owners of road transport interviewed during the course of this study disclosed that it does not pay to become part of the legal or formal sector. Legalization does not ensure that the extralegal costs would not be borne by the transporters anymore. On the contrary, most of the transporters maintain the cost of remaining formal are very high since they would still be bearing the extralegal costs because of the flaws and red tapism in the current system, and the high handedness of the police and other concerned departments.

Part C

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16. HOUSING AND HUMAN SETTLEMENTS

16.1 Essa Nagri

Essa Nagri, one of the informal settlements of Punjabi Christian community began to be occupied in the early 1960s by means of squatting and unorganized invasion. Spread over an area of approximately twenty four acres, it contains a range of structures from mud to concrete block construction. The entire acreage is occupied and over the years people have improved upon their dwelling units and have managed to install an informal sewerage system. Water is available through community taps located in all the lanes. The situation of water improved as the area councillor also resides in *Essa Nagri*. Electricity was brought to the area about five years ago but less than 50 percent have legal connections. The area falls under the Karachi Special Development Package 1 for regularization for which the surveys were conducted in 1988 but the actual procedures are still pending.

16.2 Nabi Park

Two *katchi abadis* of Lahore were visited during the survey; Nabi Park and Saadi Park. In Nabi Park the inhabitants illegally occupied the land and in Saadi Park they purchased it. Nabi Park is situated close to Ravi Park which is a formal housing settlement. Unofficial estimates put the population of Nabi Park at 25,000. The settlement is on land which was originally reserved for a Park by the Lahore Improvement Trust (now LDA). Until 1973, the land was unoccupied and was adjacent to Ravi Park which had by this time been fully developed. The PPP Government placed this area under the Alaga chairman for development purposes who started settling migrant laborers on the land after extracting a bribe from them. People started settling on it and constructing *katcha* houses. The occupation was so rapid that the Municipal Corporation could not take any timely action to avert the situation. No basic services had been provided to the inhabitants.

By 1975 the first PPP Government had enforced an act which ensured that squatters could not be forcefully evicted. However, the 1975 act and other acts which granted proprietary rights did not do anything immediate for the provision of basic services to the *katchi abadis*. The Municipal Authorities constructed certain streets and provided limited water connections in Nabi Park. In 1979 electricity was also supplied to the area. There is still no school or hospital in the locality. Residents of the area operate small shops.

A majority of the people living in Nabi Park are from Shakargarh tehsil and they shifted to Lahore after the 1971 war with India (the area borders India) and the 1974 floods. A majority of the residents work as laborers in the truck station and the whole sale fruit market and are involved in small businesses in the fruit market.

16.3 Saadi Park

Saadi Park is situated in Shahdra between River Ravi and Jehangir's Mausoleum. It is a low lying area and before 1969 it used to get flooded during the rainy season. Until 1969, there was no housing settlement in the area and crops were grown on this land. The Irrigation and Highways Department built a flood protection dam on the left bank of the river to protect Shahdra from the floods.

After the completion of the dam, land prices increased three times from Rs 600 to Rs 1800 per kanal. The private owners of the land decided to sell it after further sub-divisions and plotting of the area. No elaborate master plan was made and government agencies were not involved. The area did not attract many buyers. The new settlement developed haphazardly without water, gas or sanitation. Part of the land was illegally occupied.

Due to the proximity of the area to the industrial area along the Lahore-Gujranwala road, industrial labor and lower clerical staff working in these industries started buying land in Saadi Park. Rough estimates put the population of Saadi Park at 25,000.

17. THE INFORMAL FINANCIAL MARKET

17.1 Various Forms of Committees

The 'committee system' is the main savings element of the informal financial markets. The three main forms of committees, Ordinary Committee, Auction Committee and the Lucky Committee are briefly described below:

The Ordinary Committee is the simplest form of the committees involving compulsory saving by the members, and is very popular with housewives. One of the selected persons, acts as an accountant and collects a fixed amount from the members every month. The collection proceeds of the first month (first Committee) are taken by the person who organizes it. For the remaining periods, a draw is held to determine the sequence of the

members who would collect the amount. The duration of the Committee depends on the number of members. This system only provides the element of forced savings by the members, and is not innovative from the financial standpoint since no return on savings is generated.

The Auction Committee is very popular among the business community, especially in the big cities of Pakistan. The group is organized in the same way as in the Ordinary Committee and the first Committee is given to the organizer. After this, the Committee is auctioned every month on a fixed date. The members bid for the Committee according to their need for funds. The committee is given to the member who is willing to pay the highest premium to the contributors, or in other words, to the member who gives the lowest bid.

The third form, the Lucky Committee is quite popular in the business community although it was banned by the regime of President Zia-ul-Haq because of several bloody incidents due to the member's suspicion of being defrauded. As such, the participation or organization of this Committee is illegal. In this Committee system the organizer tries his best to make as many members as possible and announces the Committee amounting to one-half to two-thirds of the total monthly collection. The names of the winning members are announced by a draw every month, but the number of Committee members is not disclosed by the organizer, and thus, the people are not aware of the total amount involved.

17.2 Mechanics of the Parchi System

The quantity of output received, the price per unit, the total payable amount, and the date on which payment is due are mentioned on this paper. The usual *parchis* observed in the market have three maturity periods: 20-30 days; 30-45 days; and 45-60 days.

When the MES take their product to the market they ask the intermediaries beforehand about the mode of payment. If the payment is to be made in cash, MES sell their product relatively cheap. If the intermediaries ask them to take a *parchi*, an IOU, MES charge a higher price from them according to the maturity period of the *parchi*. The *parchi* is acceptable in the market just like a check. If the bearer of the *parchi* wants to get it cashed he will have to pay a certain rate of discount which varies according to the maturity period. The *parchi* is also used by micro-enterprises to make payments to suppliers.

The interest rates implied by the various arrangements involving the *parchi* are given in the table below:

Table 11
Implicit Interest Rates of Parchis

<i>Parchi</i> Type	Maturity (days)	Implicit Interest Rate When ME is Selling Its Goods (%/month)	Implicit Rate When <i>Parchi</i> is Used to Pay Suppliers (%/month)	Discount Rate for Cashing The <i>Parchi</i> (%/month)
1.	20-30	2.0-2.5	1.7-2.3	2.5-5.0
2.	30-45	3.1-6.2	2.3-5.0	3.8-7.5
3.	45-60	4.4-7.0	6.0-7.0	5.0-10.0

There is a big risk in this arrangement for the whole sector. If the business of the borrower collapses, all the bearers of the *parchis* which he had issued would lose their money and they would have no legal way to get their money back from him. In such cases, an informal body of the *mandi* decides, based on the net worth of the borrower, the amount that should be paid to the creditors.

17.3 Hundi

The foreign exchange business is primarily concentrated in Karachi and to some extent in Lahore, Rawalpindi, and Peshawar but the level of business is more modest in these cities. The 'big' Karachi *hundi* dealers can handle bulk transactions of over a million dollars per day. Several small informal dealers are also found in areas from where the local population has migrated to foreign countries.

The *hundi* system caters for a traditional and booming market of transferring the foreign exchange in and out of the country through illegal channels. There are several ways through which these take place. For instance, a migrant worker abroad would contact an agent there in case he wishes to remit money to

Pakistan. He will hand over the amount (foreign currency) to the dealer, who informs his counterpart over here. The equivalent amount in Pak. Rupees is thus delivered (usually at homes) to the relatives of the worker. The system works on the basis of mutual trust and there have been no instances of default by the dealers, since that would render them out of the business. Fast and efficient ways of communication like Tele Fax or Telephone are used for such transactions. Similarly, for outward remittances, the same procedure is followed, and the foreign exchange is transferred in the concerned beneficiary's account in the specified country.

17.4 Over/under invoicing

The over/under invoicing practice is very common in Pakistan because of the stringent foreign exchange regulations, and almost all the exporters and importers indulge in this informal activity. Incidentally, the exporters/importers are all licensed, and as such, fall in the formal group. Generally, the importers under invoice the imported goods in order to reduce their port charges including custom duties, and other taxes etc. On the other hand, they over invoice the imported raw material/machinery etc. when these imports are financed through a loan, so that the balance amount remains in a safe haven, i.e., a foreign country. As a result, using all legal or formal channels, the foreign exchange is transferred abroad in the beneficiary's account. For instance, the foreign exchange component of a Textile Spinning Unit for the imported plant and machinery is over invoiced typically by Rs 10 million.⁵⁶ Thus, this amount is remitted abroad informally but using the official channels. This, off course, is done with the connivance of the supplier and his agents operating in Pakistan.

Similarly, the exporters under invoice the exports in order to achieve a dual objective. Firstly, this understates their income and hence lesser taxes, and secondly, they get the remaining amount in foreign currency. Some of the exporters buy FEBCs in lieu of this amount, and thus 'whiten' this money in Pakistan (on which no taxes were paid originally).

17.5 Foreign Exchange Bearer Certificates (FEBCs)

The FEBCs are being widely used to transfer money abroad and to legitimize the black money. Since the certificates have

⁵⁶ The machinery is obtained through the Supplier's Credit, which is repaid in foreign currency through the regular (State Bank) channels.

a special feature in the sense that they are bearer, an open trading of the FEBCs is taking place in the informal market. This 'facility' is used by people who want to transfer funds abroad or who want foreign exchange for their travel needs in excess of the allotted State Bank quota. Similarly, another significant feature of the FEBCs is that it helps people 'whiten' money obtained through illegal sources (bribery, tax evasion, smuggling etc.). The FEBCs are traded at the Karachi Stock Exchange, and anyone wishing to convert the black money approaches the broker who, after charging a premium (currently 7 percent) issues a certificate indicating that the person is holder of the specified number of FEBCs. In this manner, the money is brought in the books with no tax liabilities.

18. MANUFACTURING

18.1 Sialkot

The dominant activities in Sialkot are manufacturing of sports goods and surgical instruments. The manufacturing of sports goods and surgical instruments is not concentrated at any specific area of the city. Manufacturing of sports goods and surgical instruments is being done in every mohalla and street of Sialkot city as well as in every village of the District. According to the entrepreneurs interviewed during the field work in Sialkot, 90 percent of surgical instruments are being produced by the informal sector in Sialkot.

Approximately 70 percent of the labor force is employed in informal manufacturing sector in Sialkot. A larger proportion of labor employed in the informal sector is contract labor or piece rate workers. On average 15-25 persons per establishment are employed in manufacturing of surgical instruments, In the manufacturing of sports goods products 8-10 persons are employed but most of the work is done on contract to avoid the factory act and other government regulations.

Women have been involved in the surgical instruments industry from the outset. Their participation in this sector was encouraged by segregation in the work space. Women are required to clean the surgical instruments and pack them. Women are also engaged in football cleaning, screen printing, glove stitching and the making of leg guards and body pads.

In Sialkot the entrepreneurs of informal manufacturing units of surgical instruments (metal products) was earning an average of Rs 5,000-20,000 per month and the value of their output produced during the month varies from Rs 50,000 - 200,000. In case of sports goods sub-sector the person interviewed was engaged in

manufacturing of footballs. He was earning on average Rs 10,000 - 20,000 per month from this activity.

The required investment in the metal products sub-sector (surgical instruments) is estimated at an average of Rs 30,000 - 50,000. According to person interviewed in sports goods sub-sector the required investment varies from Rs 50,000-100,000

18.2 Faisalabad

The dominant activity in Faisalabad is the manufacturing of textile goods. According to the persons met during the survey approximately more than 60 percent of textile goods are produced in Faisalabad. One can find very easily the dominance of power looms in Faisalabad. This power loom business is concentrated in Ghulam Mohammadabad.

A substantial amount of the labor force is employed in informal manufacturing sector in Faisalabad. On average 8-10 persons per establishment are employed in power looms, 4-6 persons in the manufacturing of hosiery products and 3-5 persons (mostly women) per establishment were working in manufacturing of garments and stitching of hosiery products. In the food and beverages sub-sector most people were self-employed and in some cases 3-5 persons were employed during peak season.

In Faisalabad, with the increase in textile related cottage industry, women workers started entering this industry. The textile industry in Faisalabad mainly consists of small units of factories manufacturing cotton/drill gloves, children's garments, re-stitching imported secondhand clothing, processing of secondhand sweaters into wool balls for blankets on hand looms.

The required investment in the textile sector in Faisalabad is estimated at average of Rs 70,000⁵⁷ for a unit of power looms consisting of 4 machines and Rs 32,000 for a unit of hosiery products. According to the person interviewed, the required investment in food and beverages sector varies with the activity in this sector (e.g. to produce bottles such as pepsi or coca cola investment required is approximately Rs 40,000 but to produce squashes and other beverages like Rooh Afza etc., the need of investment is modest.

Insofar as the income generating potential of informal manufacturing of textile goods in Faisalabad is concerned, it has been estimated (on the basis of field work) that the entrepreneurs

⁵⁷The entrepreneurs usually buy second-hand machinery, the required investment for a brand new unit is much higher.

earn an average of Rs 200-300 per day from a unit of power-loom consisting of four machines. In food and beverages the interviewed person was earning Rs 1,500 per month in the peak season and Rs 500-1,000 in off season.

18.3 Gujranwala

Manufacturing of metal products is the dominant activity in Gujranwala. Manufacturing of aluminum utensils is concentrated at Muslim Road; washing machines, room coolers, fans and other electrical appliances like donkey pumps and electric motors at Hafizabad Road, Gondlanwala Road, Muslim Town, Nomina Road and Naz Cinema Area; Sui Gas burners and other related appliances at Garghak (around the Crown Cinema).

Manufacturing of textile goods is the second dominant activity among informal manufacturing in Gujranwala. It is concentrated at Abadi Mohammad Bakhsh, Hafizabad Road and Chamra Mandi. Manufacturing of food and beverages is also an important sub-sector in Gujranwala. Approximately 20 factories and countless small units are working informally. These units are scattered in Gujranwala. These units consist of manufacturers of sweets and toffees, soft drinks, biscuits and other local sweets.

A significant proportion of the labor force is employed in informal manufacturing sector in Gujranwala. On average 5-7 persons per establishment are employed in manufacturing of washing machines, 5-10 persons in the manufacturing of textile products and 20-30 persons per establishment were working in manufacturing of food and beverages sub-sector in case of factories and 2-4 persons in case of small units of sweets and toffees and soft drinks.

In Gujranwala, women are engaged in textile related activities. They usually work from their homes. The representatives of both formal and informal sector deliver the job at their homes and collect the finished goods. They are paid on piece rate basis.

The income generating potential of the entrepreneurs engaged in the informal manufacturing of metal products in Gujranwala has been estimated (on the basis of field work) at an average of Rs 200 per washing machine and they produce 2-10 units per day. In textile sector the person interviewed was engaged in manufacturing of bed-sets and sofa cloth and he was earning on average Rs 8,000 - 10,000 per month from his unit of three looms. In food and beverages the interviewed person was producing sweets and toffees worth 80,000 per day. Other small entrepreneurs involved in the same business earn an average of Rs 200 - 400 per day. The value of daily output produced by entrepreneurs producing soft drinks varies from 2,000-3,000 and they earn an average of Rs

100 - 200 daily.

The required investment in the metal products sub-sector in Gujranwala is estimated at an average of Rs 30,000. According to person interviewed in textile sub-sector the required investment per machine varies from Rs 50,000-100,000 in case of local machinery and if some one wants to install imported machinery this cost rises to Rs 200,000 per machine. According to the person interviewed, the required investment in food and beverages sector varies with the activity in this sector (e.g. to set up a factory like him the required investment varies from 500,000 to 1,000,000 rupees and Rs 15,000 is enough to produce sweets and toffees in traditional manner. And for bottling units Rs 25,000 - 30,000 is required.

18.4 Karachi

Manufacturing of plastic products, textile products (ready-made garments, hosiery products and silk weaving on hand-looms) and metal products were dominant activities among the informal manufacturing in Karachi. Manufacturing of plastic goods and ready-made garments are scattered throughout the city, silk hand-looms are concentrated at Orangi Town, hosiery at Firdous Colony and Nazimabad, steel furniture at Laloo Khet and some activity at Lawrence Road near Rasala Police Station, silencer making near Jubli cinema, tin container at Orangi Town, tubs and pales at Joona market.

Manufacturing of Banarsi cloth is the most important informal activity at Karachi. 95 percent of total production of Banarsi cloth is being produced by small informal manufacturing units at Orangi and Korangi.

Approximately 5,000 hand-looms are working in the informal manufacturing of *Banarsi cloth* at Orangi. A substantial amount of the labor force is employed in informal manufacturing sector in Karachi. On average two persons are employed on each hand-loom, one of these two is usually an apprentice. One man per machine in manufacturing of ready-made garments is employed and further one helper is also employed on every 5 employees. On average 4-12 workers are employed in hosiery manufacturing units. On average 2-5 persons per establishment are employed in manufacturing of steel furniture, and one man per machine for manufacturing of plastic toys.

A survey done of the informal sector in Karachi found that 53 percent of all the employed women in the sector were home based. Another study done in Rawalpindi showed 83 percent home-based workers. The World Bank estimates that 70 percent or 1.7

million women in the informal sector work from the home. Most home-based work is in manufacturing; hosiery goods, tailoring, packing medicines, stitching leather goods, making of paper copies and bags, processing of dried fruits and spices etc.

Insofar as the income generating potential of informal manufacturing in Karachi is concerned, it has been estimated (on the basis of field work) that the entrepreneurs engaged in the manufacturing of Banarsi cloth earn an average income of Rs 5,000 - 6,000 per month. In ready-made garments the entrepreneurs having a unit consisting of 4-8 machines were earning an average income of Rs 7,000 - 15,000 per month in peak season. While people engaged in manufacturing of hosiery products average monthly income for stitching units and knitting units were estimated in the range of Rs 3,000 - 8,000 respectively. The entrepreneurs engaged in the manufacturing of metal products were earning an average of Rs 10,000 per month. And the manufacturers of plastic toys were earning an average of Rs 5,000 per month.

The required investment in the metal products sub-sector is estimated at an average of Rs 25,000. According to persons interviewed in textile sub-sector the required investment varies from Rs 5,000 - 25,000 per machine (i.e. Rs 8,000 for ready-made garments, Rs 10,000 for silk hand-wrapping unit, Rs 8,000 per hand loom for Banarsi Cloth, Rs 25,000 for circular knitting, and Rs 20,000 for sewing of hosiery products); and an average investment of Rs 5,000 is required to set up a unit for the production of plastic toys.

19. TRADE AND COMMERCE

19.1 A Fruit Bazaar in Peshawar

The main fruit bazaar in Peshawar is located less than a kilometer ahead of the Frontier Corps Headquarters on GT road. A tall but narrow gate leads into what would roughly resemble a rectangular enclosure with an area estimated at about 15-20 *jareeb*s. Makeshift shops (retailers) rest along the boundaries of the enclosure. Each shop boasts a high⁵⁸ cemented ceiling. One shop can be delineated from the other by large pillars which serve the practical purpose of differentiating one shop from another. All shops are open-air built; there is no concrete entrance into a shop. The compound area is designated for trucks which bring in the supplies from the *arthis* (commission agents cum middlemen).

⁵⁸This allows stockpiling/inventory storage. Space outside the boundaries of a shop was also utilized as storage.

The area outside and along the periphery of the fruit bazaar is flocked by vendors. These include itinerant as well as semi-fixed vendors.⁵⁹ Along with these fruit vendors, goods such as *goal gunda* (ice candy/slosh), *goal guppa*, *kulfi* (ice cream), etc. are also sold by itinerant vendors during the trading hours. Economic activity in the fruit bazaar begins in the early hours of the morning before sunrise, and comes to a close in the later hours of the evening. The most robust activity, however, is between 5:00 a.m. and 7:00 p.m.

The supply of fruit to Peshawar comes from the provinces of Sindh (Hyderabad and Karachi), Balochistan, (Quetta) and Punjab (Multan). During the winter season, dried fruit is also supplied to Peshawar from local markets. The supplies arrive in bulk to the bazaar from where they are sorted, graded, and divided into batches to be sold to retailers and other bulk-buyers. The bazaar essentially acts as a wholesaling outlet but also contains retailers inside the compound.

The main distributor or person through whom the supplies get distributed is the *arthi*. The *arthi* is more than just a middleman; oftentimes he acts as a source of credit, a stockist and speculator. Most *arthi's* in the fruit bazaar belonged to the Hindko clan. The *arthi's* maintain contact with the suppliers throughout the year. Arrangements and volume of fruit to be obtained are settled well in advance, often a year before hand. The supplies are brought into the center of the compound area where the *arthi* or his broker is situated. From here it is distributed to retailers, bulk-buyers, vendors and hawkers.

The relationship between the *arthi's* and buyers is not confined to a mere cash transaction. Several other equations between *arthi's* and specific buyers make their relationship complex, yet manageable. For instance, the use of informal credit is pronounced in the bazaar. Credit is usually made available to the buyers by *arthi's*. Registers are maintained by both *arthi's* as well as buyers to record credits and payments. The *arthi's* develop personal contacts with the buyers and are aware of a buyers credibility in settling credit. Some *arthi's* actually live in concrete houses located inside the bazaar but a little away from the main area where distribution takes place. This allows them close contact with retailers who trade inside the bazaar.

According to an *arthi* the bazaar has registered remarkable

⁵⁹Semi-fixed vendors operate from fixed points but have the option to be mobile. Unlike itinerant traders they do not relocate at the end of a trading day.

growth since its inception about 20 years ago. At that time the bazaar was much smaller with only a few traders inside the bazaar. Trading was regulated by the municipal cooperation which also provided make shift shops inside the bazaar. Over time, however, increasing demand prompted the growth of the bazaar which manifested itself not only in the presence of more traders inside the bazaar but by attracting vendors and hawkers outside of it. These traders have not been able to conduct trade inside the bazaar because an informal organization has effectively barred them from entry.⁶⁰ Reportedly, the primary motivation for this informal organization has not been the fear of competition, but considerations of how a congested bazaar would affect business at large. A congested bazaar is also undesirable because of its greater susceptibility to raids and invasions by public officials.

The hawkers and vendors have situated themselves outside the bazaar. Some of them vend during the trading time and leave at the end of the day. Most vendors, however, have set up semi-permanent establishments and do not relocate at the end of the trading day. One feature which distinguishes these vendors from those who relocate at the end of the trading day is the longer time they have spent in this locality. According to some such vendors the longer association with the periphery of the fruit bazaar has given them something of an extralegal right to set up semi-permanent establishments.

The hawkers and vendors outside of the bazaar, both with semi-permanent establishments and the ones who relocate at the end of the trading day, have been particularly susceptible to raids and inspections by the PMC and the Peshawar police. Unlike the shopkeepers inside the bazaar the vendors and hawkers outside of the bazaar do not have anything of an informal organization which would shield them from such inspections and raids. This is partly because raids and government inspections are not frequent, and partly because these traders willingly acquiesce to paying bribes.

⁶⁰Shops inside the bazaar allow greater economies of scale than the *rehri's* which vendors use as a place for storing their goods. This is the basic reason why the area inside the bazaar was a more attractive place to conduct trade. The lesser susceptibility to raids and inspections inside the bazaar was another incentive to move there. Furthermore the opportunity to develop closer contacts with *arthi's* and the consequent advantages of such an association, was another reason to prefer trading inside the bazaar. Some of these advantages, such as the availability of credit, were discussed in the preceding paragraph.

The entry of new informals desirous of setting up semi-permanent establishments outside of the bazaar has not as yet been a major problem. There were only a few cases where such "invasions" were attempted. Such invasions occur over a period of time; the new entrant typically enters the locality as an itinerant vendor during which time he tries to get acquainted with the vendors already established in the area.⁶¹ Gradually he begins to tent overnight in the locality. If this is not met with resistance, he sets up a semi-permanent establishment.

Neither inside nor immediately outside of the bazaar were there any women engaged in trading. The venue for women was the sidewalk along GT road and the area directly opposite the Frontier Corps Headquarters. Women chose this location primarily because of its close proximity to a vegetable *mundi* on Shahi Bagh Road and to the street leading into Firdous Cinema, areas where trading was robust. Most of these women had husbands who also worked in this area; according to some women this was an important consideration. It allowed women to share the responsibility of looking after their children with their husbands, and reportedly, the immunity from possible harassment from male customers and traders. The close proximity to an area where trading was robust and where consumers abound allowed them an easy market to channel their goods.

Most traders (inside as well as outside) of the fruit bazaar are not migrants from distant areas. The typical trader is a commuter from nearby refugee camps, villages and towns, such as *Dir* and *Bajour*. In the characteristic case, a shop (inside the bazaar) is operated by three individuals. Two of these individuals work during the trading hours whereas the third acts as a watchman during the hours when trading does not take place. The semi-permanent establishments outside the bazaar are (on the average) operated by two individuals. One does the trading and the other acts as a watchman during the non-trading hours.

The greater percentage of the surveyed traders in this area were from the *Hindko* tribe. The most popular reason for selling fruit, or for that matter engaging in trade, was related to the profession of the traders' parents. In the typical case the reason for an individual to engage in trade was because he had learned the relevant skills from his father or an uncle involved in the same trade. Those who did not belong to the preceding

⁶¹The exception to this is in the case where a new entrant is introduced into the area by a cousin or an acquaintance who already holds a position in the area as a semi-permanent vendor. In this case, the entry into the cherished location is easier.

category were involved in trade because access in to it was easy.⁶²

19.2 Azam Cloth Market

Azam Cloth Market is the specialized wholesale and retail market for cloth, bed sheets, laces and other related items; it is one of the main distribution points for cloth in the province of Punjab. The market is situated in the narrow alleys of the old city of Lahore.

The market has registered remarkable growth since its inception in 1947. According to some estimates, there were 800 wholesale and 700 retail shops in the market in 1983; itinerant vendors, hawkers, stall owners are not included in this figure. Over a 25-year period the market is estimated to have expanded 50 times or more; the growth of the textile industry in Punjab has expanded at the same rate. Land in the market, according to real estate brokers, commands the highest prices in Lahore. The cost of buying a shop in the market ranges from Rs 200,000 to Rs 300,000.

The central actor in the operations of the market is the *arthi*. The *arthi's* typically contract the output from the big producers well in advance. Large sums are advanced to the mill owners in order to secure the output. Another type of transaction, prevalent in the market, is between small mills and hand loom producers and the *arthi*. These mills contact *arthi's* who purchase output from them and then sell it in the market. Since the *arthi's* secure the small mill owners a market for their goods, they charge a commission for the transaction. The *arthi's* are assisted by dyers, folders and loaders, who also act as sources of information on market demand.

Three major ethnic groups are represented among *arthi's* and traders in the market. These are (i) Narowali Sheikhs, (ii) Amritsari Kashmiris, and (iii) Memon. Consanguinal ties with a trader or *arthi* in the market determines the ease or difficulty of entry in the market. Typically, in more lucrative activities blood and family ties act as deciding factors for new entrants. At the lower scale, however, entry is easier, and the resistance from those already established in the market not a pressing obstacle. A formal association of traders exists which regulates internal competition and lobbies with public agencies for market interests.

⁶²At the level of a hawker or vendor access into trade was easy. Initial investments and working capital requirements were cited to be low. This observation was supported with figures in section 12.3.

A registered dentist decides to setup a dental clinic in Rawalpindi's busy area i.e., *saddar* bazaar. The WAPDA officials ask for unreasonable bribe in order to give him the electrical connection for the dental chair (requiring a high voltage line). Unable to do so, he decides to start a general medicine clinic. He recruits a young and newly graduated doctor (M.B., B.S.) who has not even done the house job at a very low salary of Rs 1,000 per month to work in the morning shift. He closely watches the days proceedings, in order to learn the basics of allopathic medicine. In the evening shift, he (dentist) starts treatment of the patients, without telling them that he is a dentist by profession.

Once the business starts picking up, he recruits an untrained person as his dispenser/compounder on the recommendation of his (dispenser's) uncle who promises to have the doctor registered with a large public sector organization. Once he is registered, he is contacted by a neighborhood drug store to refer his patients (from the public sector company) to his store and they agree on a fixed commission rate for the doctor. The drug store mainly sells inferior or spurious drugs, and the doctor knows about it. Later, he opens his own small pharmacy, and using the expertise of his 'dispenser' starts giving home made mixtures made from substandard ingredients.

Within two years, he loses most of his patients because of repeated complaints, but his business is still thriving because he is the registered doctor for a few public sector registrations, and he offers share to a select employees of these organizations on income earned through bogus medical claims.

A person, after returning from the Middle East decides to open a private school in a two bedroom house. In order to maximize space, he covers all open spaces in the front and back yard of the house with ply wood partitions and a rented *shamiana* (tent).

The school, named after a famous British Public School is advertised heavily in the newspapers as an 'English Medium' center of excellence in Nursery and Primary education. The teaching staff consists of girls who are mostly matriculates, while one has an M.A. who is also responsible for 'dealing' with the parents. The teachers are paid an average salary of Rs 300 to Rs

500 per month, while the maid servant or *aya* and the sweeper get Rs 600 each. Per the owner of the school, the teachers get a lower salary because of abundant supply, while the lower staff is paid more since it is hard to find a sweeper or maid in the locality.

The owner reaches an agreement with the *mohalla* book seller to split the sales commissions, and makes it mandatory for the students to buy text books and note books from the particular book shop. Similarly, he 'contracts out' the servant quarters to a person to run the school canteen on a stipulated monthly fee.

The owner tried is best to get the school registered in order to be eligible to receive the annual provincial government grant, but did not succeed because of sub-standard facilities. He pays a fixed amount every month to the education department people in order to avoid various inspections. He is very happy with the progress so far, and plans to open another (similar) branch in the adjoining locality soon.

22. TRANSPORT

22.1. A Case of Suzuki Wagons

Presently there are approximately 1,000 Suzuki wagons plying on the intracity roads of the urban area in Peshawar. According to the various groups of operators almost 60 percent of these are in the informal sector. The RTA does not have a separate classification of these vehicles therefore there is no information available regarding 'Suzuki Wagons' with the government departments.

There is a Token Tax charged @ Rs 200 per quarter. The permission to ply a 'Suzuki' is given to carry eight people including the driver. If there are three people sitting in the front - including the driver - then there is ground for a Challan (Ticket) or 'Gratification' to the Police Officer.

To break even, that is to earn Rs 100 per day after expenses excluding depreciation, the operators of 'Suzuki' carry twelve to sixteen passengers. There is always the chance of running into one of the traffic police who is not part of the regular 'beat' and this chance rendezvous costs the operator Rs 25 to Rs 30. On one particular route an operator has to pay Rs 10 per 'beat' and there are three such 'beats' along the route. This gratification needs to be paid because the municipal corporation has not provided any regular 'stands' or spots from where the passengers of the 'Suzuki' are able to embark or disembark at

designated places. Therefore, the drivers stop to pick up or drop passengers where they can get a 'fare'.

Route permits are not issued for the routes desired by the operators. The operators are there to make a profit and not to help the government to fulfill its obligation to provide transport facilities to its exploding population. Whereas, the cost of registering a vehicle is Rs 450, the registration authorities charge them Rs 2,000 for registering a 'Suzuki'. Even though a 'Suzuki' is registered with the ETO, the RTA does not give them the permit to ply as a public service vehicle. This is because of lack of co-ordination between the two departments. The 'Suzuki' has to follow all the other rules applicable to public service vehicles and the drivers have to conform to the regulations of a public service driver. This leaves the operators confused and skeptical about the policies of the government. It is indeed perplexing that on the one hand the government charges them all the fees and on the other does not issue them route permits !

For the lack of having a route permit they are often rendering personal services for the traffic police. The police either take them out of town to visit family or friends or just take the keys of the vehicle and return them whenever they are done. It could be for a few hours or for a week. This is commonly known as 'fatigue'.

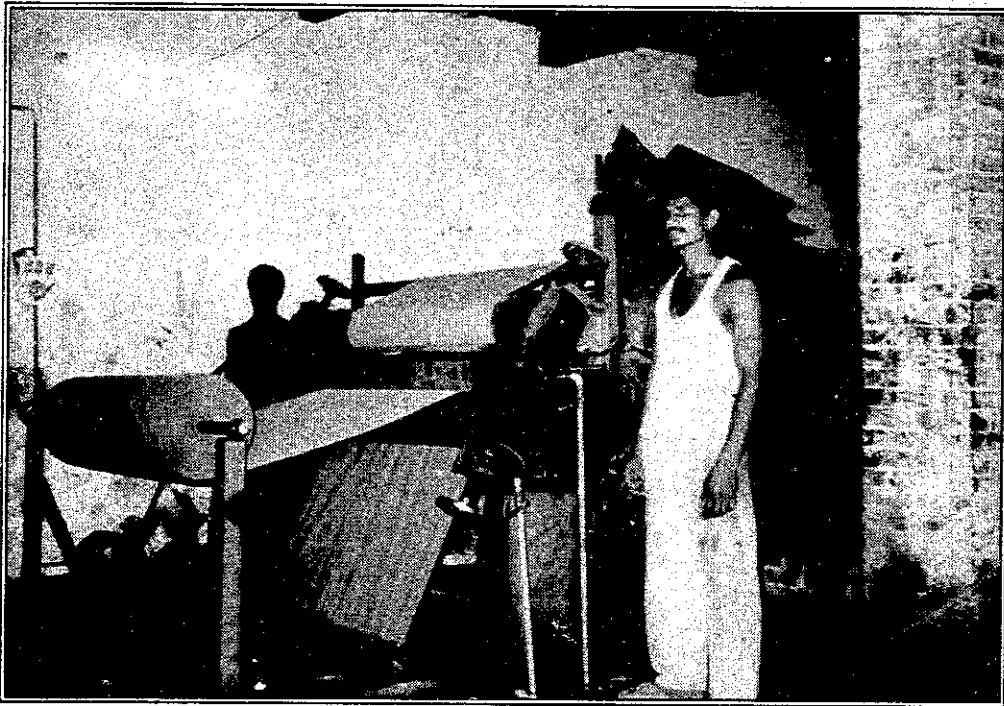
The police is not the only force busy extorting money from the 'Suzuki' operators. There is another class of thugs who charge them a fee of between Rs 2 and Rs 5 per trip. These thugs erect barriers at various points and collect their 'fee' when a 'Suzuki' passes these points. The thugs are indirectly protected by the police officers of the 'Thannas'.

Several drivers originate from a certain informal terminal, which becomes a place for their congregation. There are only five such spots in the city and the number of 'Suzukis' at these spots is between thirty and forty. They exchange their views on topics ranging from international politics to police corruption in the city. They have an uncrowned leader among them, yet they do not want to form any union or association. They know their 'enemy' (police), and they know the language understood and spoken by the police. They keep bickering about the atrocities of the 'Public Servants', and yet they have become immune to the extralegal costs in fact, the legal and extralegal costs have become indistinguishable.

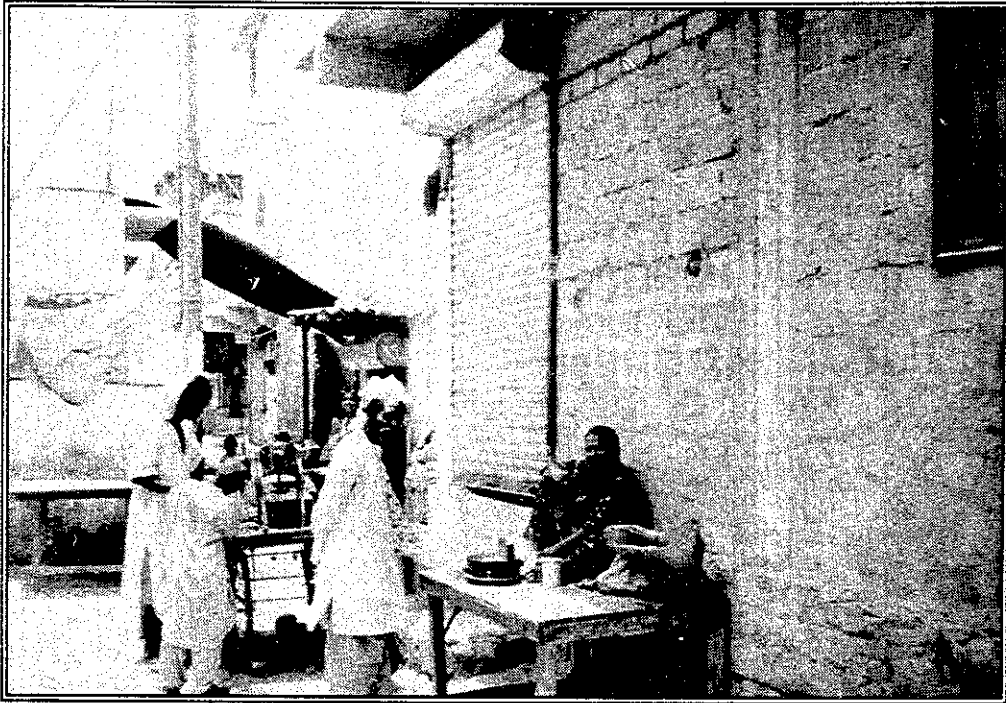
The police appear to confine their activities to issuing *challans* (traffic ticket) for overloading and occasionally for emitting smoke. This is however done on a sporadic basis. It was found that private operators (formal as well as informal) regard such *challans*, or the threat of them, as a form of harassment by

paying bribes to the police. It was also revealed that such immunization is 'systematized'. An operator makes regular monthly payments per vehicle (bus, suzuki wagon, flying coach, truck etc.) per month to each police station through whose territory the route passes. On average, the operators are paying an amount roughly equal to the earnings of a vehicle for one day (bus Rs 550; suzuki wagon Rs 125, flying coach Rs 275 and truck Rs 450).

PHOTOGRAPHS



Duplication of foreign technology; informal manufacturing of corrugated paper sheets
Photo: Salman M. Ilahi



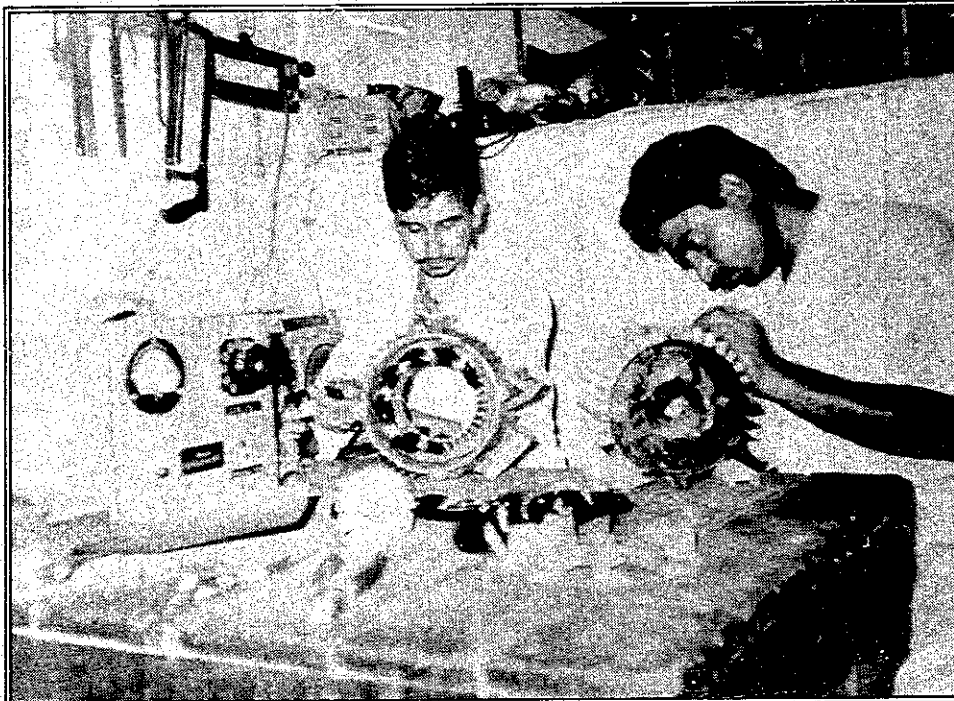
A bazaar in an informal settlement



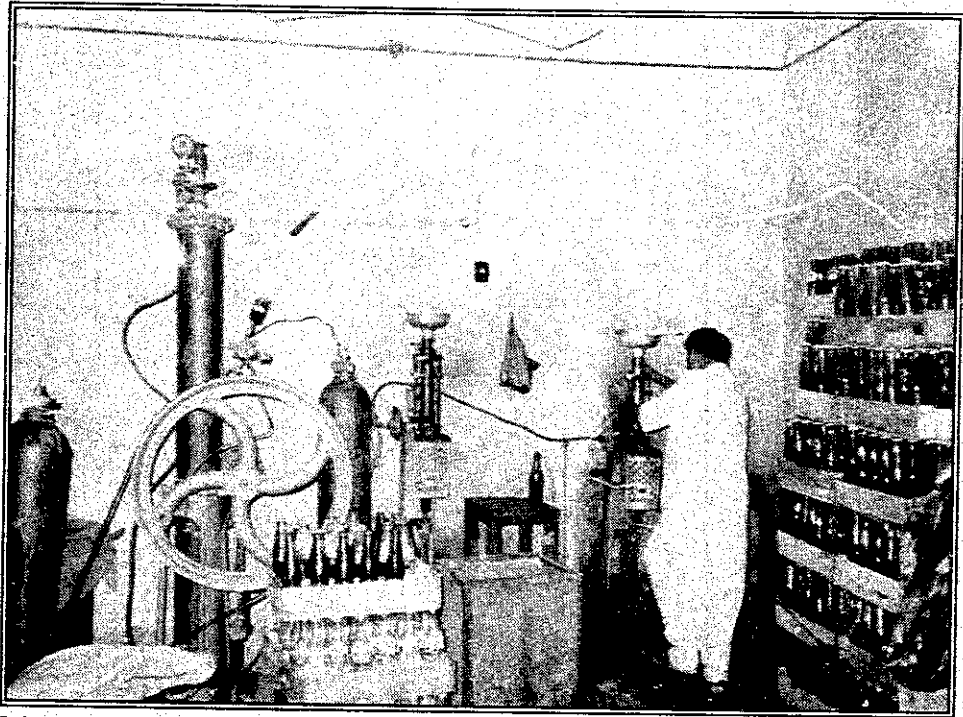
Scavenging in an informal settlement
Photos: Khadija Jamal



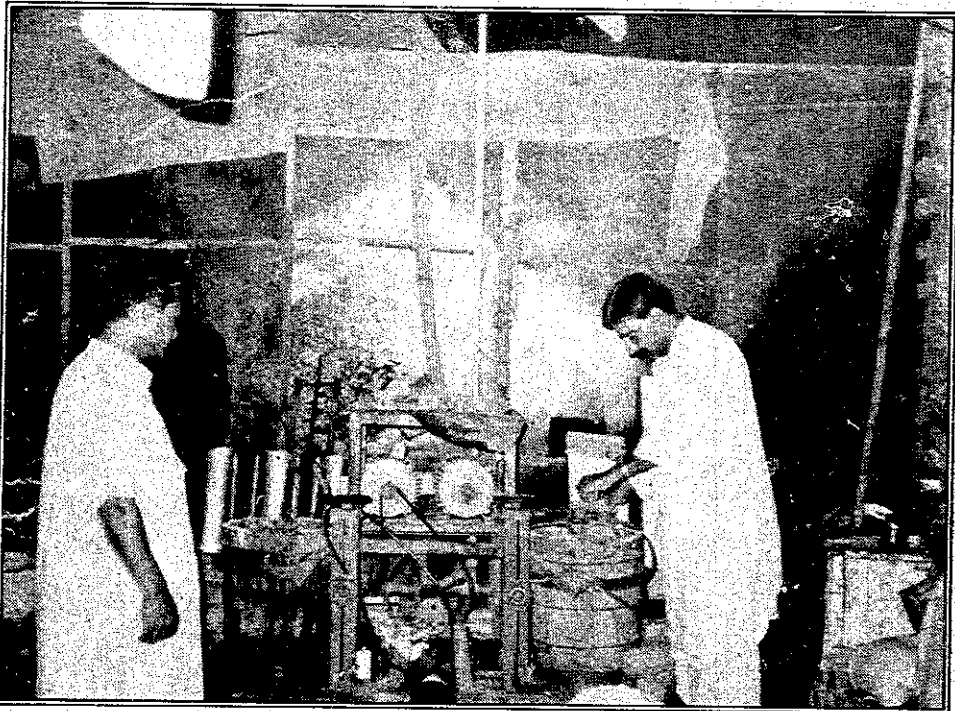
Street invasion by informal vendors



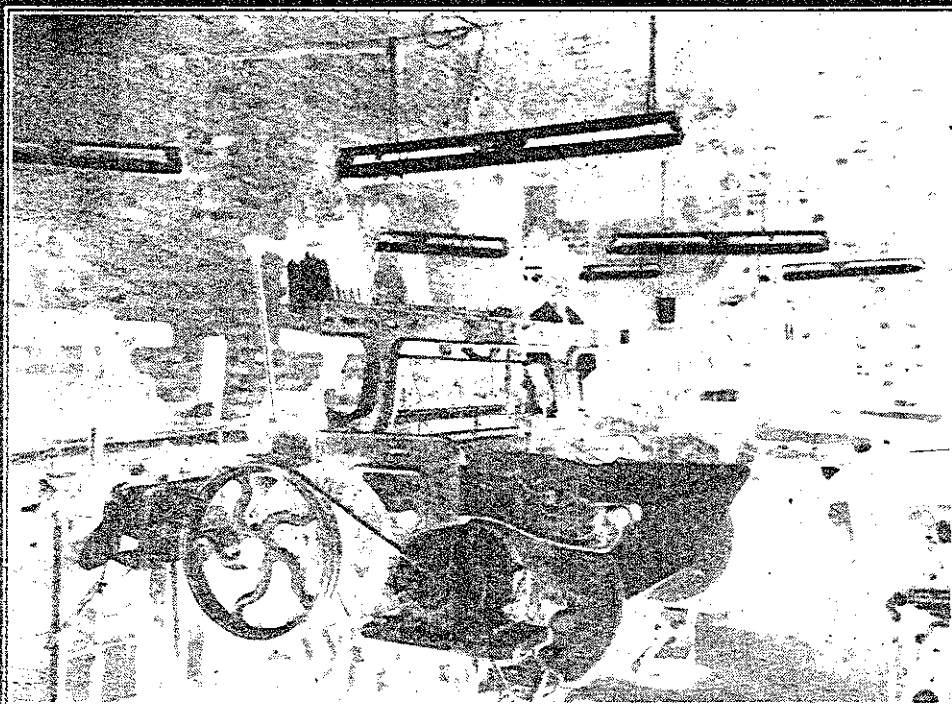
Ustad-Shagird system at work
Photos: Salman M. Ilahi



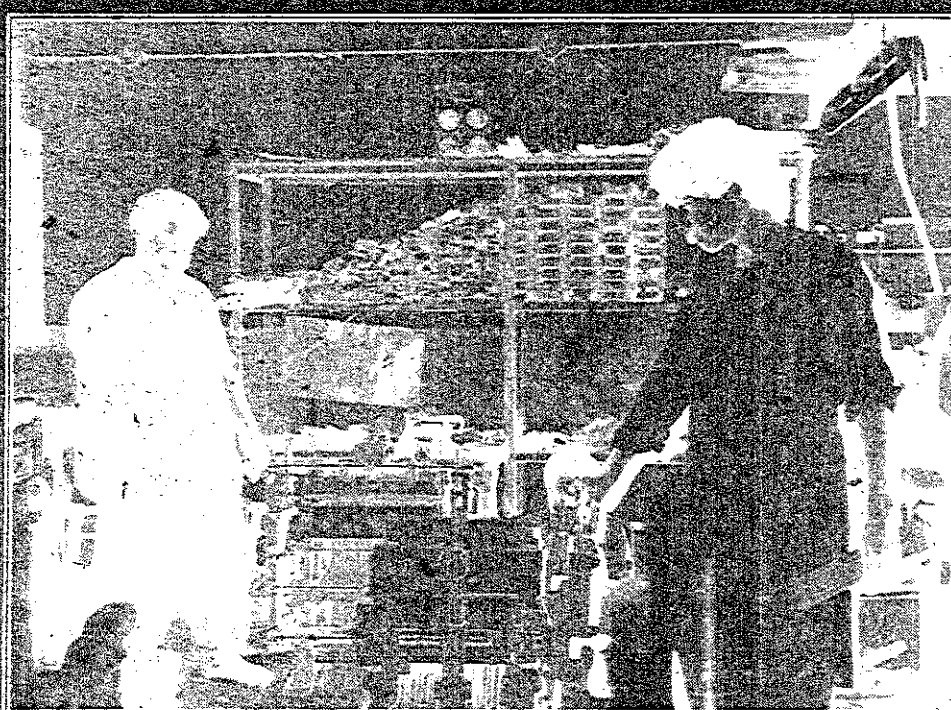
Informal manufacturing of carbonated beverages



Informal manufacturing of mango ice cream
Photos: Salman M. Ilahi



Informals working in hazardous conditions



Indigenous technology in the informal sector

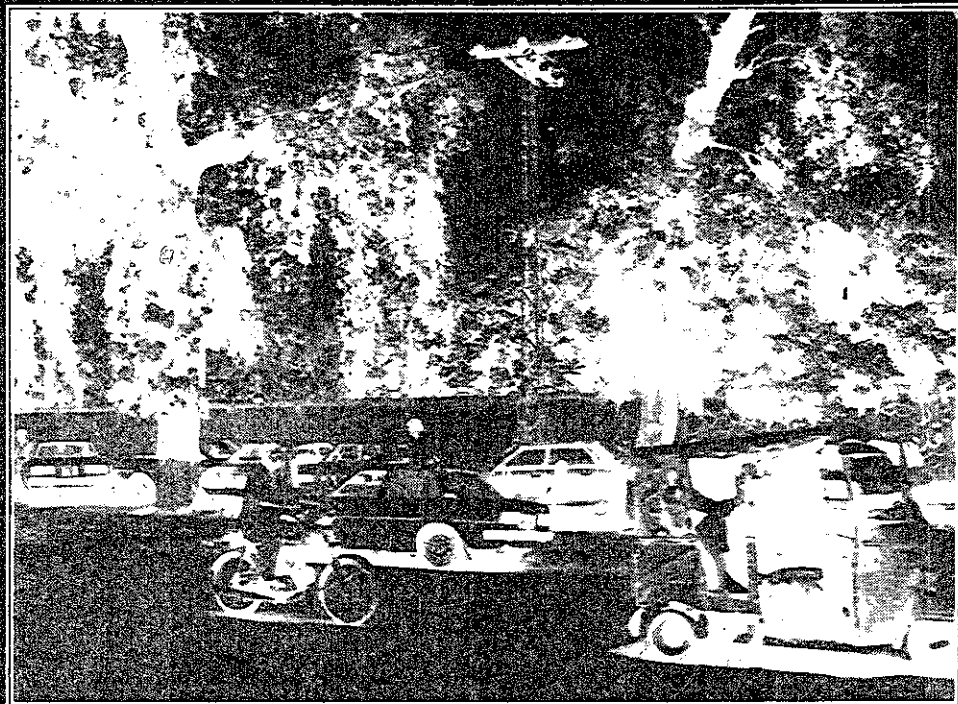
Photos: Salman M. Ilahi



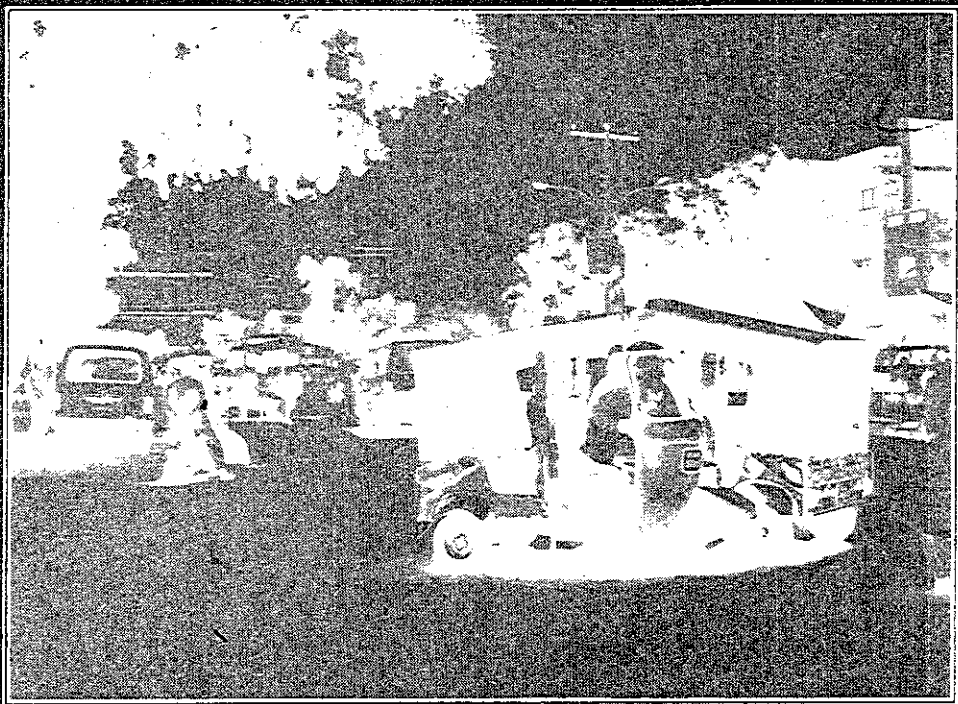
A fleet of Left Hand Drive Afghan mini buses with Temporary Registration Numbers



A regularized Afghan mini bus converted to Right Hand Drive
Photos: Salman M. Ilahi



An informal taxi stand of *Pirate* taxis



Encroachment of a sidewalk by Municipal tax collecting contractor
Photos: Salman M. Ilahi



The premises of the General Bus Stand have been allotted to the Afghan Refugee Assistance Officials ever since the building was completed



The General Bus Stand in Faisalabad; devoid of the promised facilities
Photos: Salman M. Ilahi



Front view of a Suzuki wagon; forced scarcity by rationing of route permits results in overloading by up to 300 per cent
Photo: Salman M. Iqbal



Rear view of the Suzuki wagon
Photo: Salman M. Ilahi

ANNEXURES

Statement of Work

The contractor will conduct a study of "Pakistan Informal Sector" to perform the following Scope of Work:

1. Review the main theses of a book by Hernando De Soto *The Other Path*, and:
2. Analyze its relevance to the Pakistan's political, economic and administrative environment,
3. Document specific examples in Pakistan where legalizing the informal sector would result in major improvements in economic efficiency, e.g. increases in income, employment and investment, and,
4. Determine if there exist any Pakistani organizations advocating pluralism and or the promotion of the informal sector, something akin to the Institute of Liberty and Democracy in Peru.
5. Discuss major, legal, administrative and bureaucratic impediments to economic activity in Pakistan.
6. In addition identify sectors in Pakistan in which investors or entrepreneurs with 0 to 5 employees predominate in terms of investment: e.g., private housing, urban retail services, urban transportation (taxis), automotive and bicycle repair, and so forth.
7. For sectors where major small enterprises are very important, determine the legal obligations required of a small enterprise which wants to offer goods or services for sale to the general public for profit.
 - i. Are new small entrepreneurs allowed to officially set up business in this sector? Or is it reserved for certain firms?
 - ii. Do new small enterprises have to register as a firm? Do they have to register separately with different authorities? Describe the steps in the overall process.
 - iii. Once properly registered, what kind of regulations does the small enterprise have to follow? e.g. labor regulations, price controls, time and place of business, quality controls.

- iv. In assembling the factors of production and inputs needed for the business, for example, in renting space, hiring labor, getting electrical connections, opening a bank account, buying or registering a business vehicle, and so forth, are there regulatory requirements the small entrepreneur must meet, beyond the usual financial cost of the inputs?
 - v. What business taxes are the small enterprises supposed to pay?
 - vi. Are small enterprises inspected to determine whether they are registered and conform to regulations and tax laws?
- 8. In general, are the small enterprises in this sector in conformance with most regulations, or do they generally operate with substantial legal problems?
 - 9. How are conflicts between the small entrepreneurs and the authorities worked out?
 - 10. What kind of organization, if any, is there between small entrepreneurs in a given sector? e.g. family relationships, an official or unofficial union or trade organization or chamber of commerce, connections with political parties.
 - 11. Do these major obstacles which prevent small (formal or informal) enterprises from expanding?

Reference Material:

The Other Path, by Hernando De Soto (not included)

"Internal Structural Reforms in Peru, a Promising Road Out of the Debt Crisis, Litan, Morales-Buyro and Fernandez-Baca, *Journal of Economic Growth*, Vol. 1, 2, second quarter 1986.

"The Informal Sector: Issues in Policy Reform and Programs", Conference Report, Lubat-Anderson, Inc., April 1989.

"How to Make Poor Countries Rich", Jeremy Main, *Fortune*, January 16, 1989.

"The Silent Revolution" Mario Vargas Llosa, *Journal of Economic Growth*, Vol. 2 #1, First Quarter, 1987.

"Readings on Informality in Argentina", Institute de Estudio Contemporaneos, Buenos Aires, Argentina, August, 1987.

The Role of the Informal Sector

From the World Bank's *World Development Report*, 1990.

In most developing countries the informal sector plays a prominent role in providing employment and incomes. It has been estimated to account for 75% of urban employment in many countries in Sub-Saharan Africa and 85% in Pakistan. It also accounts for most of the poverty in urban areas. In Cote d'Ivoire, for example, the incidence of urban poverty in the informal sector is more than three times that in the formal sector.

The informal sector is very diverse in its income structure and activities. It is dominated by one-person firms and small-scale entrepreneurs that employ a few apprentices (often relatives) and hired laborers. Firms are not covered by government labor regulations, and there are no restrictions on entry. But many in the informal sector pay indirect taxes and fees - licence fees for small repair shops and street vendors, for example. Wages are generally lower than in the formal sector, especially for apprentices. But there is also a high degree of inequality, and many entrepreneurs do much better in the informal sector than in the formal. Activities range from efficient manufacturing, transport, and trading enterprise, to marginal work such as collecting and recycling trash. Most of the sector's production is for consumption - especially by low-income households - and little is exported.

As in the rural non-farm sector, growth in the urban informal sector depends on the rest of the economy and, in particular, on the demand for non-traded goods and services. But preferential treatment of large firms has undermined the informal sector. Subsidized capital for one part of the economy implies fewer resources for the rest.

Some countries have tried to offset these biases. India for example has provided cheap credit for small enterprises and has restricted competition from larger firms. This kind of approach rarely works. Protection and constraints on the entry of large firms into labor-intensive activities, have tended to reduce any gains in employment, especially since credit subsidies have led many small firms to adopt relatively capital-intensive techniques. Distortions in the product markets, particularly biases in the structure of protection among industries, have probably been a more important influence on the demand for labor. Indeed, evidence suggests that small firms in the manufacturing sector are not

necessarily more labor-intensive than large firms in the same line of business. In Korea labor intensity within industries seldom varies by a factor of more than three, whereas across industries it varies by a factor of more than a hundred.

Most countries have further undermined informal employment through heavy regulation. In Indonesia, where most of the informal sector is thriving, restrictions on pedicabs have steadily increased, and pedicabs are now completely banned from Jakarta. In Zimbabwe street vendors and small-scale enterprises are excluded from many parts of the towns, and small businesses have to struggle to acquire land titles. A study of Peru found that a prospective entrepreneur who wanted to set up a small garment factory had to spend 289 working days dealing with regulations; in Lima it took more than two years to register a minibus route. In addition to removing biases that favor larger firms, light regulation together with the provision of appropriate urban infrastructure is the best way to facilitate growth in the informal sector.

Review of Literature from Pakistan

1. Employment in the Informal Sector

There is little published research on the informal sector in Pakistan. The field is new to researchers; most work that exists is of a tentative and exploratory kind, and much of it has been brought to the fore only since 1989.

Estimates of the size of the informal sector vary according to definition, size of sample, and activities. Despite these differences, there is general agreement on the fact that the informal sector provides employment to a large part of the labor force in Pakistan. The usual approach used in estimating the size of the informal labor force may be called a "residuality approach," that is, estimating the informal labor force as the difference between the total labor force and the formal labor force.

By following this kind of procedure, Guisinger and Irfan (1980) estimated that the informal sector absorbed 70 per cent of the total labor force of Pakistan. Following the same methodology, Burki (1990) estimated that the share of informal sector in urban employment increased from 69 per cent in 1972-73 to 73 per cent in 1985-86; the most recent estimate is 81 per cent. According to World Bank (1988), in 1985-86 about 75 per cent of the urban employment in Sindh and Punjab was accounted for by the informal sector. The majority of the urban informal labor force was concentrated in manufacturing (65.8 per cent of sectoral employment in Sindh, 73.8 per cent in Punjab), construction (84.4 per cent and 90.0 per cent respectively), commerce (97.8 per cent and 99.5 per cent respectively), and the transport and communication sectors (68.7 per cent and 77.41 per cent, respectively). Burki and the World Bank note that the share of informal employment in manufacturing, construction and transport increased over the 1970s and 1980s, while its share in finance, insurance and the service sectors decreased. Overall informal employment increased in this period.

The World Bank (1988) study takes an in-depth look at the manufacturing sub-sector of the urban informal sector, and also suggests measures for productivity changes. A study commissioned by the World Bank and undertaken by DRMS (1989) also provides an overview of the manufacturing sub-sector. One part of the study was based on the analysis of data from the 1978 and 1984 Survey of Small and Household Based Manufacturing Industries. Another part was based on a questionnaire administered to a small sample of microentrepreneurs in Rawalpindi, Lahore, Faisalabad, Karachi and

Hyderabad. Both the DRMS report and the World Bank study examine trends in employment, investment, value added, capital-labor ratios, etc. in each of the nine two-digit ISIC categories¹.

2. Skill Formation

Skill formation in the manufacturing sub-sector was the subject of a paper by Shahnaz Kazi (1987). This paper distinguished between skilled and unskilled self-employed individuals in the cities of Rawalpindi and Lahore. The sample survey used was very small and concentrated on areas where expected informal activity was most pronounced. A large proportion of the skilled self-employed (proprietors and independent workers) were found to make a better living than they would in the formal sector. The poorest in the informal community (the unskilled workers, such as hawkers, shoe shine boys, etc.) were excluded from the survey because acquisition of skills was considered to be beyond the reach of this low income group. The paper's major finding was that skill acquisition through the informal apprenticeship system is beneficial to the employer and to the employee; the alternative of acquiring skills through formal training was found to be a costly option. The major limitation of the study was the small size of the sample, providing, at best, only suggestive comments on policy-making.

The theme of skill formation is also pursued in a paper by Burki (1990). The objective of the study was to highlight the characteristics of the informal/formal sector relationship. The study was based on a 1989 survey which included the cities of Rawalpindi, Sialkot, Daska, Gujranwala, Lahore, Mian Channu, and Karachi and included activities as diverse as repairing services, manufacturing/crafts, construction and personal services. An important conclusion is the refutation of the exploitation thesis. Contrary to the expectations of this thesis, the finding was that the *ustad-shagird* (master-apprentice) system is a mutually advantageous one. Lower initial wages or subsistence wages paid to the shagird are justified in light of his inexperience, lack of skills, and the necessary training costs which the ustad must incur. Wages of the *shagird*, however, were found to increase with time spent on training and on acquiring skills.

According to Burki (1990), apprentices and employees earned substantially less than the self employed, but the lower earnings for employees and apprentices appeared to be a temporary phenomenon. As they progress in age their earnings rise sharply. The earnings of skilled persons increase significantly with on the

¹Such as Food and Beverages, Textiles, Wood and Furniture, etc.

job training. There was a correlation between wage levels and training period. The average earnings of shagirds were highest in sectors where training period is the lowest. Most of the respondents were highly motivated. More than 89 per cent of the employees liked their present occupation.

3. Income Differentials Between Formal and Informal Sectors

This is perhaps the most hotly debated topic in the literature on labor markets and the informal sector. One of the earliest pieces of economics research on this subject was the doctoral dissertation of Nadeem ul Haque (1986) at the University of Chicago. This dissertation argued that individuals self-select themselves into the informal sector, rather than wage employment, if they perceive that the informal sector can provide higher returns to their entrepreneurship. The dissertation sought to refute the notion that the informal sector is a marginal activity characterized by poverty. The empirical evidence for this research was based on a survey conducted by the Pakistan Institute for Development Economics in the urban Rawalpindi area; the analytical methodology was that of econometric estimation of occupational choice and earnings differentials.

According to Burki (1990), in the informal sector, we should not expect a uniform pattern of income levels. This is mainly due to the heterogeneous pattern of many specific sub-groups in this sector. It is frequently reported that the average earnings of the informal sector are significantly lower than those existing in the formal sector in developing countries. Similar evidence also exists for women working as sweepers, homeworkers and the like in Karachi. Such a result is due to the focus on low-level informal activities (e.g. street vendors, house-workers, garbage pickers and shoe-shine boys) which are more visible. Once the full range of informal activities is included, the income distribution of the informal sector and the formal sectors overlap.

Burki notes that evidence from a survey of informal sector enterprises does not seem to support the view that earnings of the informals are significantly lower than the formal sector earnings. Most of the informals in the survey were earning substantially higher incomes than the formal sector. Moreover, there was a substantial variation in the earnings of self-employed, employees and apprentices within the informal sector. The average earnings of self-employed (Rs 3,476) were about three times higher than the earnings of employees (Rs 1,205) and about eight times higher than the earnings of apprentices (Rs 452).

Evidence points to lower wages in the informal sector being offset by longer hours worked. With respect to wage rates, Guisinger and Irfan (1980) found a 50 per cent wage differential

between formal and informal sector employees in Rawalpindi while another reported wages of formal sector workers that are twice those of informal sector workers. However, this differential was largely accounted for by worker characteristics rather than by the nature of formal/informal sector activity. Thus, controlling for age and education reduced the wage differential between formal and informal sector in Rawalpindi to about 25 per cent. Incomes differ less than wages between the informal and formal sectors because of the time input.

4. Women in the Informal Sector

From the women's perspective, Shaheed and Mumtaz (1981) examined the situation of women piece workers in Lahore. They collected household data in several localities of Lahore. They found low levels of income and a strong presence of middlemen among women piece workers.

Another study on women in the urban informal sector was undertaken by Hussein (1989) on contract for the World Bank. This study obtained case studies and some illustrative numerical data from six cities, including the twin cities of Rawalpindi and Islamabad, Sialkot, Lahore, Faisalabad, and Karachi. The main findings were that: (a) institutional development is needed to provide women access to crucial inputs; (b) the need to make available an information system to ensure timely information to women about job opportunities; (c) a program for skill development; and (d) the availability of special credit arrangements for women, as well as the need to develop a marketing strategy within existing programs and increasing marketing outlets for sale of products directly by women.

5. Informal Sector in Development Projects

Prescriptive formulations based on the experience of the informal sector are visible in projects such as the Orangi Pilot Project, the Aga Khan Rural Support Programme, and the Hyderabad Development Authority. These projects are documented in project reports as well as in articles in the popular press. Since 1989, there has also been an interest in developing projects specifically for those who work in the informal sector in Pakistan, particularly microentrepreneurs. Among donors, the World Bank, the Netherlands and Canada have shown interest in such projects, while Switzerland and the Netherlands already have projects focusing on light engineering and metal workshops in NWFP.

Textbook Illustration of the Economics of Illegality

From: Gary Becker. *Economic Theory*. New York: Alfred A. Knopf, 1971.

Question: Will a decline in the relative price of black market or stolen merchandise increase the quantity demanded of such merchandise? Is this because people become less "honest" when the price of "crime" is lower? How would you measure, at the margin, a person's preference for legal over illegal merchandise?

Answer: In order to answer this question, let us suppose that a set of goods, given by the vector X_j , could be bought in either an illegal market for stolen merchandise (i) or in a legitimate market (l) and assume that only sellers in the illegal market ("fences") are subject to punishment. Whether a consumer buys in (i) or (l) would depend essentially upon his "honesty" defined as his relative preference for legal over illegal merchandise. Assume now that an average consumer reaches an initial equilibrium position corresponding to the amounts X_i^0 and X_l^0 bought in markets (l) and (i). A compensated decrease in the price of X_i , p_i , relative to the price of X_l , p_l , that did not change his initial apparent real income or his indifference level is clearly expected by economic theory to induce him to increase his purchases in the illegal market, or $X_i^1 > X_i^0$. Clearly, this prediction does not rest on the assumption that people become less honest. The argument, rather, is that the cost of being honest increases and that, consequently, at least some consumers respond, in particular, those who had purchased positive quantities of illegal merchandise before the change in prices occurred and those who may find the new relative price of X_i sufficiently low to induce them to enter (i) for the first time. At the margin, the relative preference for legal over illegal merchandise (RLP) of those who actually consume both X_i and X_l can be measured by the ratio of the actual market prices of identical units of X sold in the two markets, $RLP = p_i^0 / p_l^0$, because both must be equal in equilibrium.

Historical Perspective on the Informal Financial Sector

The roots of the informal financial structure can be traced back to the pre-partition colonial period, when it was mainly rural in character because of our traditional reliance on the agricultural sector. The most dominant activity in this sector, i.e., credit, had affected almost every household in those days. Before independence, the money lenders were mostly the Hindu *bania*, *sahukar* or *arhtia* (commission agent), who supplied credit mostly for production, marketing or household needs. He seldom asked questions about why the money was borrowed, and charged unbelievably high interest rates. In addition, they would also collect gold ornaments from the borrowers as a collateral, and would not press for the repayment of the principal as long as the interest was paid regularly. As a result, once a peasant got into debt, he seldom was able to repay it in his lifetime, and passed the heavy burden on to his successors. That is how the ownership of land began to pass from the agricultural classes (peasants) to the urban money lenders. Since 1947, the money lenders have been replaced by Muslims, who are as oppressive as their predecessors, but their operations are carried out in a rather discreet manner.

Similarly, a look into the history of savings and investment also reveals that the informal sector had been catering to the needs because of the formal sectors incapacity to serve the masses. Traditionally, household/business savings were kept at home (sometimes hidden underground). Banking was mainly limited to the urban areas, and the rural inhabitants did not have any other alternative. With the improvement in the postal facilities, the Post Office Savings Scheme (Pass Book System) started gaining popularity in the country. In the formal sector, the National Savings Centers are operating in all parts of the country, but with limited operations. First, the centers are not accessible to everyone; second, the offered savings schemes are not well publicized with the result that majority of the people are ignorant of what is being offered. Traditionally, the informal investments have been in hoarding and speculative activities, and this practice even continues now, using better and innovative methods.

The foreign exchange informal market has developed with the increase in foreign trade, migration of Pakistani workers abroad, the constant depreciation of the Pak Rupee, and very strict State Bank of Pakistan foreign exchange regulations.

Registration under Shops and Establishment Ordinance 1969

Excerpts from the Ordinance:

An application for registration of an establishment shall be made by the employer in form 'A' and shall be accompanied by a treasury challan under head "XXXVI-Miscellaneous Departments--G-Miscellaneous--(S)-Receipts under the West Pakistan Shops and Establishment Ordinance, 1969" for an amount of-

- o Rs 2.00 in the case of an establishment employing 1-5 workers.
- o Rs 3.00 in the case of an establishment employing 6-10 workers.
- o Rs 5.00 in the case of an establishment employing 11-20 workers.
- o Rs 10.00 in the case of an establishment employing more than 20 workers.

Besides, registered establishments under Shops and Establishment Ordinance 1969 must abide by the regulations mentioned in the ordinance. These regulations include:

- o A mandatory weekly holiday.
- o stipulated opening and closing hours.
- o a 48 hour work week and 9 hours per day maximum for adults; for young person 42 hour work week and 7 hours per day maximum
- o payment of overtime wages
- o provision for annual, casual, sick leaves and festival holidays
- o prohibition of employment of children
- o safe guarding of machinery
- o maintenance of records and registers

Costs of Being Formal in Manufacturing

Firms registered under factories act 1934 must adhere to various labor standards outlined in the this act. These include:

- o a 48 hour work week and 10.5 hours per day maximum for adults;
- o no hiring of children (below 14 years old);
- o work regulations for women including:
 - i) no woman shall be allowed to work in a factory except between 6 A.M. and 7 P.M.
 - ii) no woman shall be employed in any part of a factory for pressing cotton in which a cotton - opener is at work.
- o payment of overtime wages;
- o adherence to health and safety standards;
- o bi-annual medical examination of employees;
- o 14 days annual leave; and
- o old age benefit schemes for all employees/workers.

Social Security

A deduction of 7 per cent of the workers salary per month.

Employees Old-age Benefit

A deduction of 5 per cent of the workers salary per month.

Income Tax

As per rules, and as assessed by the Income Tax Officer.

Education cess

For the highest number of workers employed during the year the employer has to pay Rs. 100 per worker.

Requirements for Registration and for Conducting Business

According to the Lahore Municipal Corporation (LMC), all itinerant (mobile) vendors are required to register with it. Vendors register with the municipal corporations in their respective zones.² All zones have a consistent criteria for issuing licenses.³ The number of licenses issued in a given year, however, differ from one zone to another.⁴ A license is issued for the sale of specific goods.

The cost of registration is a uniform Rs. 60 without a license plate and Rs 65 with a plate, across the six zones. According to some itinerant vendors who were interviewed, bribes ranging from Rs 100 to Rs 250 were also offered. In most cases these bribes were necessary costs of being informal. This raised the effective cost of registration to as high as Rs 250. The license has to be renewed at the end of a 12 month period for a fee of Rs 25.

The LMC has no registration requirements for fixed or semi-fixed⁵ vendors. Officials at the LMC stated that the government has never made any provision for fixed or semi-fixed vendors; their widespread existence in Lahore was classified as illegal activity.

The main agency involved in the registration process for vendors in Peshawar is the Peshawar Municipal Corporation (PMC). Since 1983 the PMC has stopped issuing licenses to itinerant vendors with the objective of reducing traffic problems. The presence of a large number of vendors around Firdous cinema and *sabzi mandi* clearly depict this problem.

The process of obtaining a license was simple and did not involve any major costs and time. The PMC did not establish

²Lahore city and peripheral areas of it fall into six zones.

³The decision to issue a license of a zone was based on how a marginal increase of vendors would affect a given zone. The extent of traffic congestion caused by vendors was used to assess whether a license ought to be issued or not.

⁴This is because some zones are more congested than others.

⁵Semi-fixed vendors have the flexibility to relocate at the end of a trading day, but are not compelled to do so.

the number of license to be issued in any given year before hand. To obtain a license an applicant had to incur an annual fee of Rs 50, an excise fee of Rs 10 per annum, present a valid national ID, and vend only in a specified area and commodity.

Over time it became apparent that the policy of issuing licenses without an established target resulted in major problems. The vendors did not comply with registration requirements. Street invasions became a chronic problem. The consequences of a public place congested with vendors affected the environment and the entire network of economic life in the city. For example, the presence of vendors near bus stops and other key locations in the city created traffic jams.

The lack of a clear sense of how many licenses ought to be issued was not the only problem; a mechanism to enforce the requirements for conducting business was also deficient. Meanwhile new entrants in trade and commercial activities began to grow. The newer entrants faced with increasing costs of registration⁶ elected themselves into the informal sector without complying with registration requirements. Uncontrolled street invasions became popular.

Efforts by the Peshawar Traffic Police and the PMC to curb the growth of informal trade and commerce were largely abortive. The PMC decided not to issue any new licenses in 1983 and the police became more vigilant in attempting to forcefully remove the illegals. These efforts were not very successful because the enforcing agencies started receiving regular bribes along with other forms of economic incentives which would deter them from seriously addressing the problem under consideration. One such incentive was in the form of free fruit or vegetables which the traders would offer to the Police and to PMC officials. This attitude of the regulating agency and the convergence of its interests with the informals⁷ contributed to further evasion of registration requirements from new arrivals.

LMC has some broad requirements for conducting business. These are targeted primarily at itinerant vendors. Insofar as the LMC is concerned, the activities of fixed and semi-fixed vendors,

⁶According to one official at the PMC, the official cost of registration did not rise. The frequency and amount of bribes, however, increased and acted as a deterrent for new entrants to get registered.

⁷This is not to say that the informals "willingly" paid bribes and incurred other costs of informality. The decision to incur this cost was based on a cost-benefit analysis of staying informal.

and those in *mandis* are illegal.⁸

One important requirement for conducting business is that no itinerant vendor can stay at any one location longer than the time it takes for a sale or transaction to materialize.⁹ This means that the itinerant vendor must constantly be mobile. In none of the surveyed areas in Lahore was this requirement met by vendors.

A vendor with a license is also required to conduct business only during specified hours and localities. If he fails to comply with this requirement, LMC has the right to confiscate his *rehri* and whatever goods he might be selling. Another ground for confiscation of goods by LMC occurs if a vendor is found to sell goods for which the license does not hold.

Though these requirements appear to be strict their enforcement was ineffective due to a number of reasons. In the first instance of a breach, the LMC would typically warn the offender. Repeated offenses were met with drastic actions by the LMC. According to some vendors, there is no warning system by LMC. Bribes are paid in advance and sometimes on the spot to the LMC by both licensed and non-licensed vendors to avoid hassles.

Vendors in Peshawar face the same requirements for conducting business as those in Lahore. The major difference is in the enforcement of the requirements for conducting business. In Peshawar, enforcement was even more inefficient than it was in Lahore. The number of individuals with expired vending licenses were numerous. A general trend among such individuals was to start business by complying with official requirements¹⁰; over time, however, there was a proclivity to evade fulfillment of requirements for registration as well as those for conducting business.¹¹

Strictly, speaking, however, one cannot attribute this phenomenon to evasion. The fact that vendors did not get their

⁸Juma (Friday), Mangal (Tuesday), and Itwar (Sunday) bazaars are legal activities but fall under the regulating purview of the Lahore Development Authority and not LMC.

⁹There are obvious problems of enforcing such a requirement, an issue to which we will revert in the next section.

¹⁰This basically only meant having registered themselves with the appropriate regulating agency. In the case of vendors this was with the municipal corporation.

¹¹Evasion was in the form of invalidated licenses.

licenses validated was primarily due to the fact that the municipal corporation had no provisions for validation of licenses, a situation which reflects the informals wanting to be formal but not being able to be formal. On the other hand, there were vendors who simply chose not to get their licenses validated, reflecting an open preference for staying informal. Some informals were reluctant to get their licenses validated simply due to fears that the municipal corporation might harass them or become aware of their whereabouts. In essence, such an evasion reflects the costs of staying formal.

Outline of Areas for Trade and Commerce

The cities of Lahore and Peshawar were chosen for the survey. Lahore was chosen because a significant percentage of the city's labor force is employed in trade and commercial activity (approximately 30 per cent). Peshawar was included in the survey because of the expected level of informal activity in that city. The survey was biased in that it gave primary attention to the activities of vendors and *mandis* (specialized commodity markets). These represent the lower echelon of informal activity in trade and commerce.¹² They were chosen as the focus for the study because of their visibility.¹³ *Mandis* were interesting because in spite of the fact that they constitute the bulk of the wholesale market in fruits and vegetables, they are illegal activities.

Both cities were also interesting from the point of view that neither supported the popular hypothesis that the informal sector is the primary venue of migrants, and that migration is the *casus belli* of urbanization and of urban planning.¹⁴ On this score, the surveyed cities offered a direct contrast to Peru, where the informal sector and part of the reason for its phenomenal growth is attributed to migrants.

¹²Santos has developed a scheme whereby informal activity is categorized into layers. According to this scheme, the informal sector is divided into an upper, middle, lower and bottom class. The upper class consists of wholesalers, merchants, proprietors of workshops, religious leaders, transporters, etc.; self-employed artisans, shopkeepers, dairymen, skilled workers and religious teachers make up the middle class; the lower class consists of hawkers, domestic cooks, casual laborers, apprentices, etc.; the bottom of the scheme are mendicants, orphans, handicapped, etc. (Santos, 1979).

¹³This was a significant consideration in light of the limited time to do field work. We have, however, not exclusively confined our analysis to these activities in the informal trade sector. Where appropriate we will discuss other activities of the informal trade sector in parts of the report.

¹⁴In the case of Lahore, Qadeer demonstrates that in-migrants make up only 25% of the urban population (Qadeer, 1983). According to our survey, most traders in the informal trade sector were not migrants but commuters from nearby villages and towns, such as Dir and Bajaur.

In Lahore, parts of Anarkali, the Railway Station, Akbari Mandi, and Liberty were chosen for the survey. In all these areas the presence of informal vendors (includes itinerant, fixed and semi-fixed vendors), street hawkers, and peddlers was significant. Significance of the level of economic activity was gauged from figures on initial investments and number of employees. The figures for these variables were obtained through individual interviews of people involved in the trade of different commodities.

Anarkali, Liberty and a significant portion of the Railway Station was marked by traders in ready-made garments. The Railway Station was also the venue for substantial trading in fruits, vegetables and refreshments. Vegetables and fruits were the primary commodities traded in *Akbari mandi*.

In Peshawar, chunks of GT road where informal trading appeared to be significant were chosen for the survey. Roughly, the surveyed area encompassed the parts on and around the Firdous cinema. The most substantive trading in this area was in vegetables and fruits. Part of the GT road sidewalk directly opposite the Frontier Corps Headquarters was the venue for women traders. Here, informal trading was primarily in goods such as bangles, trinkets, toys and ready-made garments. The road leading up to the railway lines, that is, the street along Firdous cinema, was dominated by fruit and vegetable vendors. The New *Sabzi Mandi* on Shahi Bagh Road which encompasses the area around the Railway line crossing was one of the main surveyed parts of the area. In addition, the Fruit Bazaar, situated less than a mile ahead of Firdous Cinema on GT road, was also surveyed.

Role of Women in the Informal Trade Sector

The role of women in the informal sector of trade and commerce can be understood in terms of the existence of a dual labor market in the informal sector. This dual labor market is made up of a primary and secondary informal labor market. The primary informal labor market consists of male traders with some years of experience. Women, along with new male entrants (who have little work experience) are a part of the secondary informal labor market.

The two informal markets reflect different levels of economic well-being, the primary informal market being more attractive than the secondary. The socio-economic characteristics of the two markets also vary considerably. In general, the primary informal labor market is a more appealing work setting than the secondary informal market.

Due to the likelihood of an increase in competition, the entry into the informal primary labor market is usually not easy for new male informals. Barriers to entry are set up by established informal traders in the primary market by force and through means already described in section 12.7 on organizations and trade associations.

Women who want to enter the informal primary labor market face discrimination similar to the new male entrants. In this regard the difference between the female and the new male entrants is that females have less mobility into the informal primary labor market. This, as mentioned above, is largely because of restrictive social customs which deter women from interacting with males in a work environment. In the case where restrictive social customs are not stringent or where economic necessity compels women to work, we have two different work scenarios for women.¹⁵

In the first case, we have women who have some member of their family working in the informal primary labor market. Women in such cases worked only to complement the family income and as such were secondary earners of the family. These women elected themselves into the secondary informal labor market.

Discrimination from the primary informal labor market, which new male entrants also confront, was not the only reason why women in this case chose to be in the secondary informal labor

¹⁵These situations were based on interviews with women working in informal trade and commerce in Peshawar.

market. As mentioned earlier, some of these women refused to work in the primary informal market because they felt that by doing so they would be competing with their own family members, a self-defeating task. In our view this is an exaggerated and irrational view. If such women do act as secondary sources of income for their families, then in the absence of restrictive social customs, there is no need for them to accept employment in a less profitable labor market.

In the second case there were women working in the informal primary labor market but with no member of the family in the primary informal labor market. In this case, these women were the main income earners of the family. Women in this category also had to contend with strict barriers to entry in informal primary labor markets. The difference between them and women in the first case is that they did not quietly succumb to the resistance from informals in primary labor markets. Their presence in the secondary informal labor market was not out of choice.

All women who belonged to the second category expressed a desire to work in the informal primary labor market because wages were better and the chances of acquiring large credit (to buy commodities which would fetch higher prices) more favorable. Some of these women had recurrently tried to get into the informal primary labor market but were unsuccessful. The level of success was confined to those women who could carry their goods through the street and stay only long enough for a few transactions to materialize. This usually occurred only during peak hours of trading. Furthermore, only those women who were situated close to the main market were able to conduct trade in this manner. This was because they had the advantage of quickly returning to their original posts in the event of resistance from informal traders.

Another reason why women were able to conduct trade in this manner had to do with the amount of time they had spent trading in the area close to the primary informal labor market. In general, the more time a woman trader spent in such a location the more flexibility she acquired to conduct trade in primary informal labor markets. Time spent in such a location invariably led to contact with traders in the informal labor market. Familiarity with such traders permitted women in such cherished locations an extralegal right to conduct trade in the main centers of informal trading.

Women interviewed in Peshawar illustrate the above points. Due to lack of credit the elements they traded did not involve large initial investments. These were usually toys,

trinkets, bangles, jewellery, etc.¹⁶ Credit was available to them through wholesale traders on a trust basis and on the condition that a small percentage of the sales would go to the wholesaler.

The location of women traders was away from the main center of trading. In the case of Peshawar the main trading was on and around the street leading into Firdous Cinema on GT road. This area was, according to our definition, the informal primary labor market and consisted primarily of males trading in fruits, vegetables, etc. The sidewalk along GT road was the venue for women traders. In light of our classification scheme for informal dual labor markets, this area would be the informal secondary labor market. An interesting observation in this regard is that women who had made attempts to enter the informal primary labor markets were mostly concentrated in the area closer to Firdous Cinema, the main center of informal trading.

Women from both categories indicated a preference to work in the formal labor market; the decision was based on their assumption that wages were higher in the formal labor market. None of the interviewed women, however, had ever made an effort to enter the formal labor market, nor was there even a vague sense of what formalization entailed. Based on how difficult it was to get into the informal primary labor market, they reasoned that the formal labor market would probably be even more difficult to enter.

¹⁶Incidentally, the new male entrants in informal trade also conducted trade in similar places and in similar goods.

Relationship Between Formal and Informal Sectors in Trade

Most inputs used in the informal trade and commerce sub-sector were obtained from the formal sector. The sources of supply varied according to the type of element that was traded in the informal sector. In most cases, the commodity bought from the formal sector was directly sold by the informal sector. In the surveyed areas, the informals in trade did not process the produce bought from the formal sector but only sold it. This was largely due to lack of appropriate capital and skills. Some examples illustrate this point.

Ready-made garments were brought from wholesale and retail agents and sold at higher prices. In the surveyed areas, there was no evidence of garments being made by the informal sector. They were purchased directly from the formal sector and then sold by the informal sector.

Inputs for trade in beverages in the informal sector were obtained from the informal manufacturing sector of this activity. The informal traders in this activity were not involved in the processing of beverages; supply was directly obtained from the illegal manufacturing sector of this activity and then sold at higher prices.

Basically, final goods were bought from the formal sector and then sold at higher prices in the informal sector. Along with profit the higher prices reflect certain transaction and transportation costs of the trader. For example, in Lahore the supply of fruit gets channeled through several actors before it reaches the final consumer; according to Qadeer, by the time the fruit reaches the consumer its price has been marked up by about 400 per cent (Qadeer, 1983).

Part of the reason why informals in trade were able to charge a price higher than the real price of the good was because they provided essential marketing channels to consumers. This is an important service in that it reduces the hindrance of place and time for the consumer. Consider the case where trading is done in a good such as meat. The source of supply for such a good is usually away from the main areas from where it is actually sold. The skin from animals is removed and meat is chopped up into large slabs. The traders then bring in these slabs of meat into the main centers of trading from where they are sold to consumers.

Organizations and Associations in the Informal Trade Sector

There was existence of informal organizations¹⁷ operating in surveyed cities. The nature of informality differed from place to place and from city to city. In general, all those places where informal trade was pronounced and visible¹⁸ the existence of informal organizations was equally visible. This was because the chances of being raided or inspected by government officials in such areas was high. As a consequence, informal organizations which protected the interests of the informal traders from government inspectors, was also high.

Informal arrangements among groups of informals with interests in divergence to other informal traders were also prevalent in the surveyed cities. In Lahore, the sub-letting of public property to street invaders by shopkeepers is one example. The nature of such an arrangement is difficult to capture. There was no written document which recorded the objectives of the shopkeepers vis-a-vis street invaders. All shopkeepers unanimously adhered to their unwritten objectives, and acted collusively to form this extralegal system of their objectives.

In Peshawar women working in the informal trade and commerce sub-sector were also barred from the main centers of trading through a similar arrangement of informal male traders. According to some of the people interviewed this had less to do with competition from female traders, and was essentially a reflection of social customs prevalent among the traders. Some women revealed that their husbands worked in the main centers of trading and accepted a less profitable location on both grounds of custom and on the rationale that competing with ones family was a self-defeating task.

The Committee of Commission Agents (CCA) in the New Sabzi

¹⁷An informal organization may be defined as a group of individuals with convergent interests and with the purpose of lobbying such interests vis-a-vis another group. Such an organization would be legal if it is recognized by a government agency.

¹⁸In Lahore these areas were Anarkali and Akbari *mandi*. In Peshawar, informal organizations were found in the New *Subzi mandi*, the street on Firdous cinema, and the fruit bazaar.

Mandi in Peshawar is an example of a fairly well-organized informal organization. The purpose of such an organization was primarily to lobby high prices for their goods. These agents are basically wholesale traders who buy vegetables and fruits from farmers and sell in the open market at marked up prices. According to one member of the Committee the organization consists of 60 members. A president is democratically elected for a five-year term by the members. The responsibility of the president is to oversee administrative concerns and to act as the main liaison between government officials and the Committee.

Literature from secondary sources provide evidence of informal organizations operating in Lahore. One such organization is among traders in the Azam Cloth Market in Lahore situated in the core of the so-called "Walled City." Reportedly Azam Cloth Market has registered phenomenal growth in employment and investment and has immense income generating potential for informal traders. The organization consists of members who have powerful connections with the government. The organization has been able to successfully lobby its interests vis-a-vis the relevant organizations and groups. This is reflected in the fact that the organization had originally started informally, but due to its strength was given legal recognition by the government soon after it was established.

Unfortunately no concrete evidence is available on the exact objectives and strengths of this organization. Natives from Lahore, however, reinforce our casual observation that the organization consists of people who belong to the highest earning echelon of Pakistani businessmen.

During the course of the survey no formal organizations promoting trade in the informal sector were observed. Data from secondary sources depict the existence of some legal organizations which have intermittently flirted with the idea of promoting the informal sector. One such organization is the National Manpower Commission. In a recent report, it acknowledges the need to address the informal sector with the motivation to promote it by providing certain essential inputs, like credit and training programmes which are likely to improve skills on the job. These provisions, however, are not aimed solely at informal trade but are geared towards informal sector activity at large. Consequently the effect of such a policy on informal trade, assuming it materializes into a policy and actually gets implemented, is difficult to gauge.

Taxes, Duties, Audits etc. in Trade and Commerce

In both Lahore and Peshawar taxes were included in the registration fees. There was no evidence of an after sales tax, or a tax on profits. One reason for this was the lack of an appropriate mechanism to collect such taxes. A more fundamental reason was the inability of regulating agencies to even set a tax. The heterogeneity of incomes and types of activities represented in informal trade and commerce augmented this problem. From interviews it was difficult to tell whether these problems were a result of informals evading taxes or, a lack of interest (inefficiency) among regulating agencies to enforce the tax, or both.

For the purpose of the study one need not only analyze official or formal taxes. The nature of taxation in the informal sector in trade and commercial activities is definitely not as simplistic as the sub-heading would indicate. The nature of informal taxation is complex and varies with respect to activity, amount and extent.

Informal taxation can generally and somewhat heuristically be defined as a cost of being informal. The cost is incurred by informals but not necessarily collected only by official regulating agencies. It can be collected by informal regulating agencies. Moreover, even if the collecting agency is official (legal, if you please), the act of collecting informal taxes may not necessarily constitute a legal tax.

At least one informal tax paid by informals to formal regulating agencies was in the form of bribes.¹⁹ Such formal entities including officials from municipal corporations, city development authorities, and the police. Bribes were paid during registration with appropriate authorities and during inspections by the police and other agencies. Bribes ranged from as low Rs 100 to as high as Rs 2, 000.

One note regarding the frequency of inspections by police and other regulating agencies is warranted. Inspections were more frequent in Lahore than in Peshawar because the presence and extent of informal trade and commercial activity was greater in the former city. Greater visibility of informal trading made it easier for inspecting and regulating agencies to spot informal activity and

¹⁹Bribes are costs that are not exclusive to the informal sector. Their existence in the formal sector is common knowledge, and as such need not be elaborated.

allowed them to take appropriate action. Due to the prominence of informal trade in Lahore, the problem of congestion due to invasion of public property was a bigger issue in Lahore. In both cases, however, inspections were largely conducted casually; one of the main objective was to filter out the illegals and confiscate their goods. For the most part, confiscation occurred only if the informal trader refused to pay bribes.

A characteristic change in the nature of an inspection occurs when an informal trader refuses to pay bribes. The inspection then takes the form of a "raid". In addition to confiscation of goods and the vendors' *rehri*, there was evidence in Peshawar of destruction of property, and physical abuse of vendors. But this did not occur frequently either because the informal trader succumbed to paying a bribe, or he managed to evade the inspection or the raid.²⁰

Bribes, in the form of cash and commodities, was not the only type of informal tax that an informal trader had to incur as a part of conducting business. Nor was informal tax confined to an exchange between informal traders and regulating agencies. Informal taxes paid to informal traders by informal traders was also prevalent in some parts of the surveyed area. This type of informal tax was evident in Lahore in some parts of the Anarkali bazaar, namely Tolintin Street.

Most shopkeepers interviewed on this street are formal in the sense that they are registered under the Shops and Establishments Ordinance, 1969. Immediately in front of these shops on sidewalks and on the road are makeshift, semi-permanent vending stalls, where informal trading primarily occurs in ready-made garments and textiles. In a De soto framework of analysis these informal traders are street invaders.

Shopkeepers have something of an unwritten right to the areas in front of their shops. When this area gets occupied by vendors, the business of shopkeepers is naturally affected. In order to recover the profits or business which a shopkeeper loses due to the presence of an invader, an informal tax is levied by the shopkeeper on the invader. At any rate, this is an interesting phenomenon in that neither party acts legally; both however, have an unwritten right to public property.

The tax is typically in the form of a monthly rent which the invader must pay to the shopkeeper. In some cases a shopkeeper

²⁰The evasion of an inspection or raid was a fortuitous matter. If a vendor discovered that in some location a raid or inspection was being conducted, then as a precautionary measure he would relocate until the raid was over.

levies a combination of a tax which includes a monthly rent as well as a percentage of the sales from an invader. This varies according to the size and profits of a invaders business, from Rs 500 to Rs 1,000. Problems in the collection of such a tax are rare. The level of trust and confidence involved in this extralegal system is remarkable. Invaders accept the tax as a necessary cost of being informal.

In a number of cases the shopkeeper himself is the invader. There was evidence of traders who maintained legal shops (in the sense that they were registered with appropriate agencies), but also concurrently engaged in informal activity by invading the areas in front of their shops on sidewalks and on road.²¹ The general reason for this was the opportunity to make extra profits. As a rule, street invaders usually sold goods that were meant for low-income families. On the other hand, the shopkeepers on this street sold goods which were typically above the purchasing power of low-income families. In order to diversify their business, the shopkeepers sold goods to both types of clientele. These types of traders were also subject to the same kind of inspections and taxes as other street invaders.²²

²¹We are not referring here to the prevalent phenomenon of shopkeepers using the public area (sidewalks, roads, etc) outside their shops to display their goods. According to our definition, this would be a plain case of a breach of law, and as such need not concern us.

²²One point that emerges from this discussion is the difficulty of defining the informal sector. We have a situation here where a trader acts both formally as well as informally. There are also situations where a trader is categorized into the informal sector because he meets only a few and not all of the requirements of a given trade. Quite clearly one is confronted with levels and degrees of informality.

Evolution of Mechanized Road Transport in Pakistan

Motor transport started assuming importance in the Indo-Pakistan sub-continent only after the First World War. The Motor Vehicle Act of 1914 was the first all-India enactment for controlling the vehicles.

The 1914 Act was supplemented in Post-war years by a number of Provincial Acts. However, nothing substantial could be done without replacing the Act of 1914 by a more comprehensive Law. Meanwhile, the question of rail-road competition was beginning to engage attention.

The Indian Road Development Committee appointed in 1927 drew attention to the recommendations made earlier by the Government of India Secretariat Procedure Committee of 1919 and Indian Railway Committee of 1920-21 to the effect that there was need to constitute one department to control all modes of transport namely, Railways, Ports, Water Transport, Road Transport etc. and it emphasized "as particularly important" that the development of roads and railways should be directed by a single policy.

1. Mitchell-Kirkness Committee.

With the onset of the economic depression in 1930, competition between railways and road transport was intensified and in 1932 the government (British Government) appointed the Mitchell-Kirkness Committee to inquire into the extent of this competition and the possibility of future co-ordination and development. The report of this committee while bringing out the extent of rail-road competition, inter-alia suggested that:

1. The railways should, in some cases, themselves operate road transport on routes running parallel to them.
2. Each form of transport should, as far as possible, be confined to its own appropriate field.
3. The control over motor transport should be tightened in order to ensure safer, more convenient and more reliable service.

The proposals of this committee were embodied in a Bill in 1935 which was put before the Indian Legislative Assembly. It was fiercely criticized and the Assembly refused to pass it accusing it of being highly partial to the railways. In England, The Road Traffic Act 1930 was passed to control passenger

transport. It was followed by the Road and Rail Traffic Act 1933 for the control of carriage of freight.

Road carriers were divided in 'A' (for hire and reward), 'B' (for mixed ancillary, transport and commercial haulage) and 'C' (for ancillary users only). Transport Authorities were set up and the 'Permit System' introduced. Old carriers in India and England mainly consisted of single vehicle owners and they were given operating rights through the grant of permits on the same routes, between the same terminals and subject to the same conditions as before.

2. The Provincial Boards of Communications

The problem of rail-road competition was discussed at a Conference in 1933, and an important outcome of this was that Boards of Communication were set up in the Provinces, and a Transport Advisory Committee was created in 1936 following the example of a similar body which had been set up in England in 1933. The latter strongly pressed for amendment of the 1914 Act. The Indian Railway Enquiry Committee of 1937 (The Wedge-Wood Committee) also dealt with the subject of rail-road competition and stressed the necessity for proper regulation of road transport in order to guide its development on sound and economic lines. Accordingly, in March, 1938, a Bill based on the recommendations of the Transport Advisory Council and the Wedge-Wood Committee Report was introduced in the Legislative Assembly, namely the Motor Vehicle Bill.

3. Motor Vehicle Act, 1939 and the Roughton Committee

The Bill was passed as the Motor Vehicle Act in 1939. It had a rough passage in the Assembly and was said to have severely discriminated against road transport. It was said that the Act was regulatory and restrictive and that the larger national interest of developing road haulage as an integral part of the national transport system had been lost sight of. Meanwhile a Committee known as the Roughton Committee had been set up on the subject of compulsory motor vehicle insurance. The provisions on insurance were embodied in the M.V. Act 1939 but the chapter concerned was held in abeyance and not brought in force till 1943. Whereas the M.V. Act 1914 contained provisions only for the compulsory licensing of drivers and registration of motor vehicles, the M.V. Act 1939 required all transport vehicles to obtain permits from authorities constituted under the Act and restricted them from operating except in accordance with the conditions given in the permits. The Act also created Transport Authorities for the administration and control of road transport and introduced the

permit system which has continued up to the present day.

One of the basic features of the Act was that all the permits were to be issued either for a region or a specified route. Regional Transport Authority in granting new permits was required to consider, among other things, the adequacy of the existing road transport services on the route or in the region concerned.

The main consideration in regard to the regulation of road transport through permit system was the control of 'intense' competition within the road transport industry. However, the Act contained provisions empowering the Provincial Governments to put restrictions on distances of validity of permits, types of traffic carried, and empowered them to regulate fares and freights having regard, among other considerations, to the desirability of coordinating road and rail transport.

The Act was further amended by Motor Vehicles Act 1951 and West Pakistan Motor Vehicles Ordinance 1965.

The Railways were however encountering fierce competition from the road transport and Railway revenues had steadily fallen during the thirties. The road carriers being too many were indulging in a war of attrition. Between Lahore and Amritsar on which 10 trains used to run daily in each direction, there were hundreds of buses. Each bus had to wait from 2 to 3 days for a single trip between these stations. The Railway fare was 8 annas (old currency) but busses were carrying passengers for 3 annas each.

4. Effects of M.V. Act, 1939

The Motor Vehicles Act 1939 had the effect of slowing down the increase in the number of road carriers to a large extent. The Railways now acquired the right to object to the issue of new permits. The Act brought security to the road carriers who were established before the new Act came into force and whose operating rights were now confirmed. The Railways also gained so far as the road carriers were concerned. The latter tended to concentrate on the "more paying traffic routes" and also "skimmed the cream" off the traffic on all routes. This had given rise to protests from the Railways as their fixed costs were high. The heavily used routes of the Railways are comparatively more profitable whereas the lightly used routes are less profitable. Railway services in sparsely populated and less prosperous areas are usually financed from the profits of heavily used routes. The M.V. Act, 1939 opened a new era in the history of the Railways. The advantages in which the Motor Vehicles had in handling small loads in less populated and less prosperous areas brought a change in the age old approach of the Railways and instead of agitating for eliminating them as

a rival they become resigned to their acceptance and now become disposed to think and plan in terms of participation. Road carriers were working against great odds owing to war shortages and were in no position to reject these overtures. Participation offered them numerous advantages such as the use of railway land for terminals, introduction of rail cum road tickets, capital for expansion and replacement of worn out rolling stock and other equipment and finally association with an influential partner.

5. The Road Transport Boards

The amended M.V. Act (1951) enjoined upon the provinces to constitute "Road Transport Boards". The three provinces viz. Punjab, North West Frontier Province (NWFP), and Sindh implemented this decision. The Boards consisted of seven members including the chairman nominated by the Provincial Governments and three members nominated by the Central Government. The Railways was represented on the said three Boards by its Chief Operating Superintendent (COS), Chief Commercial Manager (CCM), and Financial Advisor and Chief Accounts Officer (CAO).

The West Pakistan Road Transport Board (WPRTB) was formed in 1957, an important feature of the WPRTB was "Rail-Road Co-ordination Committee" on which Railway was represented by its CCM. With the integration of provinces in West Pakistan into "One Unit" in 1956 the area of operation of the machinery controlling road services was expanded. The Provincial Transport Authority (PTA) consisting of nine members was re-constituted. The Central Government was represented on the committee by the CCM of Pakistan Western Railways (PWR). Besides, the Regional Transport Authorities (RTAs) with headquarters at Peshawar, Rawalpindi, Lahore, Multan, Karachi and Quetta were also set up. The Commissioner of each region was to act as the Chairman RTA. Since 1960 the Railways has been represented on these bodies by the Divisional Superintendent concerned. The Railway Administration maintained its 25 per cent financial interest in the WPTB. The Board continued to promote rail-road co-ordination by augmenting its service on the routes feeder to the Railway. The RTAs, however, continued to grant additional route permits for stage carriers (buses) on the routes competitive to the Railways. Protests lodged by the Railway Administration under section 57 of M.V. Act were turned down by the RTAs mainly on the grounds that it was in the interest of public generally to provide alternative facilities for transport.

In 1962-63 the policy in regard to the co-ordination of rail and road transport was revised in that the development of road transport both in respect of passenger and freight traffic was left in the hands of private operators. The West Pakistan Government further decided to stop contribution to the WPRTB. It was decided

that the Board shall raise funds from internal sources to meet its expenditure in future. The Railways capital already contributed was to be treated as a loan.

6. Road Transport Corporation

By a Gazette notification of 17th May 1963 of the West Pakistan Government (Transport Department), exercising the powers conferred by section (i) of section 43-a of M.V. Act 1939 the "West Pakistan Transport Board" was reconstituted as a "Road Transport Corporation" (RTC) with effect from 18th May, 1963, with one Chairman and two Members. The Railway which had subscribed to the extent of Rs 14.5 million was not given any representation on the RTC. The Railway Administration, however, continued to have representation on the Provincial Road Transport Authority (PTA) and the RTAs.

Rising profits tempted outsiders and they began to invade the profession through the back door. Persons who were politically powerful or had other contacts began to secure permits which they promptly leased out to others and took rents and commissions. They accepted no responsibility of the actual provision of the service. Surveys had ceased to be carried. Fitness and suitability ceased to be the criteria for selection. It was no longer necessary to provide the service after obtaining a permit. Officials connived at the leasing out of the permit to a person of the permit holders choice who offered him the highest rent or commission. The objections filed by the old carriers were ignored. No new permits were given to them. The practice of leasing out a permit was no longer reprehensible but had become respectable. Persons in high positions in the social, political and religious hierarchy were involved in malpractice. The result of this leasing out of permits was that today a majority of the intercity buses/flying coaches on the roads do not belong to the persons under whose permits they operate.

This arrangement also reduced the incidence of income tax. Whereas the entire income was previously treated as a single taxable unit, it was now divided as (1) the income of the permit holder and (2) the income of the bus owner. The rate of income tax naturally decreased and Government revenue suffered.

With the dissolution of One Unit in June, 1970, the West Pakistan Road Transport Corporation was also dismembered. Three separate road transport corporations were created in the Provinces of Punjab, Sindh and NWFP.

From February, 1977, two urban Transport Corporations were organized under the Federal Government to smooth out Urban Transportation - a sector confronting a multitude of problems.

The Punjab Urban Transport Corporation (PUTC) is responsible for city bus services in Lahore and the twin cities of Rawalpindi-Islamabad while the Karachi Transport Corporation (KTC) tackles the marathon bus transport operations in Karachi Metropolitan Area, which is also serviced by private bus companies.

7. Transport Matters Controlled Simultaneously by Different Departments

One of the main grievances of transport operators is that several departments are in charge of their affairs. That there is little co-ordination or liaison between/among these departments and that sometimes they follow and practice policies which conflict with one another.

The importance of Road Transport cannot be sufficiently stressed. It has two main branches:

1. Transportation of passengers.
2. Transportation of goods.

The growth of population and general trade activity has increased the volume of passengers traffic which in turn has necessitated increase in the number of buses, cars and other modes of travel. Similarly, the flow of marketable commodities from one place to another in the country has considerably increased. Import/export of large quantities of different kinds of goods and their transportation from/to Karachi harbour to/from near as well as remote corners of the country has a corresponding effect on the number of trucks is evident.

The private sector in transport - road transport - may be broken down in two sections:

1. Formal Private Transport
2. Informal Private Transport

Extract of Government Regulations on Transport

The legal basis upon which the sector in Pakistan is founded is determined by a body of legislation based on the Motor Vehicle Act of 1939, the West Pakistan Motor Vehicle Rules (1969) and Provincial Motor Vehicles Ordinance (XIX of 1965) and subsequent ordinances and regulations.

The legislation admits two types of vehicles for use as taxis:

- o The motor taxicab which may carry up to 5 passengers.
- o The motor rickshaw; a three wheeled vehicle which should not exceed 900 lbs. weight and be designed to carry not more than two passengers.

The other relevant regulations are as following:

1. The driver must have a driving license which has been countersigned as authorizing him to drive a Public Service Vehicle (PSV). To drive a taxicab he must have held a motor car driving licence for at least one year. In this respect a motorcab is distinguished as a separate class of vehicle and in order to qualify for a PSV endorsement to his driving licence the prospective taxi driver must satisfy the examiner as to his character and absence of criminal antecedents. He must also pass a test on the geography of the city in which he intends to operate.

The authority which administers this test is the same as that which grants the licence, i.e. the Traffic Police.

A licence to drive a motorcab rickshaw as a PSV may be granted without the driver first possessing a car driving licence. There is in fact no class of 3 wheeled vehicles given in the first schedule of the Motor Vehicles ordinance (which defines the types of Vehicles for which licenses to drive shall be granted). The legislation is not clear on this point, but it is generally assumed that the rickshaw driver should have a licence valid to drive a motor cycle.

Every PSV driver is required to be issued with a driver's badge and registration number by RTA, an agency of the Provincial Government.

2. The owner of a Taxi must obtain a route permit from the RTA. To qualify for such a permit the owner must for each vehicle, complete an application form, pay the appropriate fee and produce

a certificate of fitness issued by the MVE and an insurance certificate.

3. A motor vehicle fitness test is required every six months. The purpose of this test is to ensure that the vehicle complies with the provisions of the motor vehicle fitness rules and it is conducted by a police Officer who is designated as MVE. Taxis must be fitted with a taxi meter and the legislation specifically requires the meter to be tested and sealed by the MVE.

The determination of taxi tariffs is the responsibility of the Provincial Government, and in the case of the Punjab, different rates are specified for taxicabs and rickshaws.

Other isolated provisions having specific reference to taxi operations are to be found within the body of legislation dealing with such items as the size and placing of letters of the word 'Taxi' which must appear on each vehicle, the duties of owners to supervise their employees, and the designation and use of Taxi ranks.

Modus Operandi to Remain Informal in Transport

1. Stage Carriage (commonly known as bus)

Bus is a major form of mass road transport system. It carries forty to fifty-six passengers, depending on the size of the bus. It is also the least expensive among the various forms of road transport for intercity as well as for intracity movement.

There are several ways in which the buses ply in the country. The majority is that of private owners followed by those owned by Provincial RTCs and then the ones owned by various ethnic and religious communities. There are also a few owned by large industrial projects which cater to the commuting needs of its workers only.

The private owners/operators and the RTCs ply for hire without discrimination. Whereas, those running for/by the 'communities' and the industries provide the service of pickup and drop for its members and their children only. It is alleged that some of the 'community' owned buses ply for hire as well, this constitutes 'informal' activity. It is not possible to prove this allegation.

With the exception of Peshawar, Lahore and Karachi there are hardly any buses plying on the intracity routes of Pakistan. The ones in Peshawar and Lahore are owned and operated by the respective RTCs and are in direct and indirect competition with the privately owned minibuses. The buses being operated by the RTC in Karachi are in competition with privately owned buses as well as minibuses.

There were two hundred and three 'Route Permits' issued to the private operators for intercity routes by the RTA, Peshawar; of which one hundred two permits were "Nationalized" and are now with the Government Transport Service (under the control of RTC). The private operators from whom the permits were acquired were left stuck with vehicles worth rupees five hundred thousand plus and no permission to ply on the roads. These permit less vehicles were sold at ridiculously low prices and the owners went bankrupt. Some of these vehicles were jointly owned by several people and were still in the process of making installment payments.

At present it is not possible to obtain a route permit for a bus from the RTA Peshawar. There is a complete 'ban' on issuing of permits for intercity routes. The only choice is to buy it from the ones who have a permit. The price of such a permit is Rs 350,000 which is also considered to be the goodwill price of

the permit. Besides the price of the permit there is no extralegal cost borne by the bus operators of NWFP. There are no buses in the informal sector and the reason is the few number of permits in the private sector and the size of the province which makes it easy to detect such irregularity on the roads.

There is one bus stand in Peshawar which caters for the minibus/flying coaches as well. This bus stand is under the control of the municipal corporation and was auctioned to the highest bidder for Rs 3.5 million for the year 1990-91. The successful bidder charges Rs 10 per bus and flying coach per trip. Within the bus stand small lots are also auctioned for restricted parking and offices for the transporters. No facility is provided to the transporters or the passengers. A building was constructed for housing offices, ticket sales windows and waiting rooms for the passengers but it is catering to the needs of the Afghan refugees. The transporters resent this act on the part of the concerned authorities.

The intercity bus transport in Punjab is highly politicized and all the major routes are in the form of monopolies. They are owned and operated by members of the Senate and the National and Provincial Assemblies. No new permit is issued for a particular route without the consent of the respective monopolist. Those who are able to obtain a permit without the blessings of the route monopolist is driven out of business (driven off the road) and becomes a figure in the statistics of failures. These transporters are so well connected that they get the railways - which is under state control and their major competitor - to change the timings of the trains for the benefit of their transport business.

With so much control over the environment in which they conduct their business they are involved in numerous informal activities. The prime example is that of plying four to five vehicles under the one registration and route permit. In the first place no law enforcing agency challenges them, in case they are challenged they present a photocopy of the required documents and if forced they bring the originals from their base office. The timings of these informal buses are such that they never cross each other on the road and so the question apprehending them does not arise. This does not mean that the regulatory bodies are not aware of their conduct. An MMPI of one of the roads on their route is on the take to the tune of Rs 40,000 per month, and an MMPI is the highest authority on a highway. If by chance an higher officer of the traffic police conducts a 'surprise raid' - accompanied by the MMPI - then the gratifications go to the higher official and the MMPI reimburses the transporter at a latter date.

Another form of informal transporters is that of plying the vehicles on a routes other than the ones they hold the permit for. This can be seen mostly on less lucrative routes which do

not attract the attention of the major transporters, the ones connecting small towns with short distances and where the waiting time to fill the bus is high.

Yet another form is that of carrying more passengers than authorized for the particular vehicle . On the intercity routes it is a common practice to carry passengers who have to stand (with their heads bending) in the bus. Extra passengers are also carried on the roof of the bus. The fare for all these passengers is the same, no concession or discount is given to the passengers for standing in the bus or sitting on the roof. No matter how many passengers are carried by the operator, he pays Rs 42.00 per seat every three months as excise tax to the Excise and Taxation Department of the respective Province.

2. Minibus (commonly known as Flying Coach)

Minibuses or flying coaches are governed by the same rules and regulations as those of the stage carriage (bus). The main difference is in terms of seating capacity, which is lesser in the minibuses. It's fare is higher than that of a bus and caters to a different segment of the society, those who can afford the differential in the fare. Flying coaches ply on the intracity roads of the major cities in Pakistan - Peshawar, Lahore, Rawalpindi, Islamabad and Karachi, besides the intercity routes throughout the country.

Most of the flying coaches plying on the intercity routes are air-conditioned and are better maintained than those plying on the intracity roads. The reason for this difference is that a vehicle plying on the intercity routes for five to seven years is sold to the intracity route operators, since these are not fit for intercity travel any more. In this way break downs caused because of poor maintenance can be fixed in the city, a break down on the highways become a source of inconvenience to the operators as well as the passengers.

The flying coaches are in direct competition with the buses, exception being the air-conditioned vehicles.

There is a high degree of informal activity found in the flying coaches plying in and around Peshawar. The informal activity is compounded because of the presence of the Afghan refugees in the NWFP. The GOP has extended the courtesy to the Afghan refugees to ply their vehicles - bus, trucks, flying coaches etc. - on the roads without having to pay any relevant taxes, including custom duty. The Afghan transporters were given a special privilege in the sense that they were issued Temporary Registration Numbers in NWFP. For instance, TRP numbers (Temporary Registration Peshawar) were granted for all Afghan vehicles

registered in Peshawar.

A flying coach imported or bought locally cost Rs 480,000 to a Pakistani National. The same vehicle imported by an Afghan national costs Rs 160,000 only. The vehicles imported by the Afghans are sold to the Pakistani operators for Rs 180,000 thus making a profit of Rs 20,000. The buyer spends another forty thousand rupees in bribes to various agencies and gets his vehicle regularized, i.e. for use by a Pakistani. Most of these vehicles ply in NWFP and the whole process is very systematized. The 'legitimate' documents of the vehicle are delivered at the door step of the owner. So far the buyers of such vehicles have not had any problems with law and do not foresee any problems either.

In case someone is desirous of entering the business of plying a minibus on an intercity route he has to buy a 'permit' for Rs 25,000. It can either be bought from someone who has found some better prospects or through a tout of the RTA.

3. Taxicab

"Private Taxi"

There are two ways in which private taxis operate. The first is through the medium of hire-cars, which are not necessarily licenced such, and which operate from the airport and the "Five Star Hotels". Hire-cars may also be found in the other central city locations where they seem to be used primarily for longer-distance journeys - intercity. The second mode of operation is that of the 'pirate' taxi; the private car owner who seeks to supplement his income by picking up fares at places like the airport and other such locations where control is lax. Although, both these practices are known to exist, it is not possible to quantify them. These informalities are prevalent in cities such as Peshawar, Lahore, Faisalabad and Karachi where the number of taxicabs in the licenced sector is very small in relation to the size of the city and the population.

According to the National Transport Research Cell (NTRC) records there are twenty seven hundred and fifty traditional (black with yellow top) taxicabs in the city of Peshawar. The fact of the matter is that there is not a single taxicab of the sort. They might have been registered with the Peshawar registration office at some point and they might have also obtained permits from the RTA but their fate is not known. Whether they found the competition from the Afghan 'flying coaches' too tough and left the business or changed the color of the vehicle and are plying as a 'private taxi' is anybody's guess.

The only method of determining whether a 'private taxi'

is plying with the permission of the RTA is to check its 'number plates'. If the number plate has a white background and the figures written in black, then it is an authorized 'private taxi'. And if the colors are in reverse then the vehicle is not authorized to ply for hire, it is only a privately owned vehicle. It was seen that generally the vehicles with black backgrounds are operating as 'private taxis'. There is no union of any sort among the operators of 'private taxis' in Peshawar. They wait for a passenger outside the few hotels and at the airport and the railway station. Most of the passengers are for long distance and intercity travel. The rates charged are fixed for a round trip for each city according to the distance. There is an extra charge for stopping overnight at a city other than the base, - Peshawar.

Things are different in case of Karachi city. As opposed to the NTRC figures 8,806 black and yellow cabs, there are (according to office bearers of various unions) over a hundred thousand cabs in the city of Karachi.

Almost all the cabs plying on the city roads have all the required documents to ply as a public service vehicle including the 'permit'. They have already gone through the various phases of being informal, like plying without permit once purchased initially.

In order to own and or drive a cab the procedure to buy (for cash) and operate a PSV is very simple. A vehicle which can be bought for Rs 95,000 is sold for Rs 125,000 if it is an authorized cab. In other words, a premium of Rs 30,000 has to be paid in order to be formal. The major chunk of this difference may be broken down as:

Fare Meter	Rs	12,500
Paint (black & yellow)		3,000

Total	Rs	15,500

This still does not add up to the difference of Rs thirty thousand. The balance of fourteen thousand and five hundred rupees is the implicit charge for the 'permit' to ply as a PSV, which is sold along with the vehicle.

Most of the owners are not aware of the implicit payment they make for the 'permit' of a cab. As far as they are concerned it is not possible to obtain a 'permit' from the RTA. The extra charge for a 'permit' is looked upon as 'goodwill' and not as an extralegal cost.

The 'private taxi' business is most organized in Karachi than in any other city of Pakistan. It is also the oldest in the country. There are about 90 to 100 'Rent-a-Car' companies in Karachi. On average they own seven vehicles. According to some

of the operators, eighty per cent of the 700 private taxis are in the informal sector. Apart from these company run taxis there are about seven hundred other private taxis which can be hired for short trips or on long term basis. The second class of these taxis stand at and around Bolton Market area - downtown Karachi - and all of these are in the informal sector.

The private taxis owned by the companies cater to clients of several hotels in Karachi. They also rent/lease them out on long term basis. The rates and rental charges vary from case to case, depending on the kind of vehicle and the duration of the term.

These companies maintain one or two licensed (with permit) vehicles and the rest of the fleet is like any privately owned car. The reason given for the 'informality' is the various departments involved in taking kickbacks. The departments being, Social Security, Employees Old Age Benefit Institution, Labor, Education (for education cess), etc.. These departments increase the overheads and it does not remain feasible to remain in the business.

They claim it is easy to get away with it. They brief the customers how to tackle the traffic cops and reimburse the customer for any extralegal costs borne by him. With most of these companies one has the option of renting with or without a chauffeur.

The Bolton Market group is organized by a person who owns ten vehicles. He is in charge of logistics. One may either rent a taxi through his good offices or directly negotiate with the drivers present there. These taxis also wait at the airport or outside the hotels to pick up a passenger.

The 'private taxis' fulfill all the requirements of a regular vehicle but none of the requirements of a PSV. They do not have a permit or the prescribed number plates.

4. Motor Rickshaw

The highest number among different elements of road transport is that of rickshaw. The figures available from various federal and provincial departments have a substantial variations. Therefore the figures be used are those taken from the two "Union Offices" of the rickshaw drivers.

The total number of rickshaws plying in the Peshawar city are 11,000 out of which 5,000 are plying in the formal sector. The balance of 6,000 is plying in the informal sector. The major reason for higher number of rickshaws plying in the informal sector

is that the office of the ETO registers the rickshaws and the owners start paying the road tax - Token Tax -, at the Post Office but the RTA does not issue them a 'permit' to ply on the roads of the city. This becomes a problem for the owners as well as the drivers. As a result there is a substantial increase in the operating cost of an informal rickshaw. On average, the extralegal cost is between Rs 1,200 to Rs 1,800 per month, whereas the take home on a 24 hour per day basis is Rs 2,000 per month. In most cases one rickshaw is supporting at least two families.

5. Trucks

The trucking industry comprises both private and public (National Logistics Cell, NLC). The NTRC survey financed by the United Kingdom indicates that 88 per cent of the trucking fleet is owned by private operators.

The trucking industry was deregulated in the 1960s. It is the most organized and efficient - under the give circumstances - among the various forms of road transport.

Truckers usually obtain loads from the so-called forwarders, i.e. forwarding agencies, who are the interface between the shippers and the operators. Forwarders usually own warehouses and trucks and run their business on a family basis with partners and contractors in other cities. The forwarders charge 6 to 7 per cent commission from shippers over the freight charges.

Freight tariffs fluctuate from day to day according to the market demand and the government does not attempt to regulate these tariffs. The truckers and forwarders find it substantially less costly per ton.km after using Japanese trucks as compared to Bedford - the word is used synonymous to truck - when their chassis are modified by dummy third axle or converted to a semi-trailer.

The private operators have often increased vehicle capacity by strengthening the chassis and mounted larger tires so as to carry 11 to 13 ton cargoes against 7 tons of originally designed capacity. The result is that the operators pay the same 'token tax' but carry a heavier load. This discrepancy is overlooked by the MMPIS for a monetary consideration. The gratification for this 'oversight' is fixed, and is paid on each haul all along the route - from Karachi to Peshawar.

The systematized bribe to the MMPIS is known as 'number'. The 'number' is charged at different rates in different Districts. A truck carrying goods from Karachi to Faisalabad has to pay up to Rs 500 for each way. The 'number' has to be paid by all the operators with the exception of those belonging to the NWFP. The

exception is attributed to the high scale smuggling and drug operations these operators are involved in and as such they pay off the officers at the highest levels and the lower staff does not bother them.

The number is paid mainly because of carrying more than the permissible load of 7 tons. The other reason for paying the Number is when a truck is *dummar* - a term used when the goods being carried are extended over the 'body' of the truck. This happens in cases of low density goods like cotton, waste paper and other agricultural products.

There is a vast discrepancy in the Division/District wise statistics available from the government sources -specially for those available for the number of trucks registered and the ones on the road. The major reason is the difference in the Token Tax (road tax) among the four provinces and the Azad Jammu and Kashmir (AJK) and Gilgit - a part of the northern territories. The token Tax for Punjab, Sindh and North West Frontier Province (NWFP) is Rs 1,020 per quarter i.e Rs 4,080 per year. The same tax for the province of Balochistan and Gilgit is Rs 840 per quarter or Rs 3,360 per year. For AJK it is Rs 910 per quarter or Rs 3,640 per year. This difference in the Token Tax encourages the operators to get their vehicles registered in the areas where the Token Tax is the lowest. And therefore it is difficult to estimate even the approximate number of vehicles plying in a Division/District.

The truck operators also require to obtain a permit in order to be able to ply for hire. There is no difficulty in obtaining a permit from the RTAs. There are no extralegal costs to be paid in order to obtain a Permit. The cost of Permit is the same - Rs 7,500 - in all the provinces and is valid for a period of three years. For being able to ply in provinces other than the one from where the permit has been obtained an endorsement is required on the permit, there is a charge of Rs 1,500 per endorsement.

The major irregularity which is taking place in the trucking industry is the registration of old reconditioned vehicles as a vehicle of latter model/year. The Pakistan Army auctions its trucks which no longer of use to the Army. The auctioned vehicles are bought by the private operators. The vehicles are reconditioned/renovated and then registered for the first time by the ETO's office. By paying a "premium" of Rs 10,000 a fifteen year old vehicle is registered as new vehicle of the current year. The benefit derived by this irregularity is that the vehicle is then sold to a novice for a price which is slightly less than that of a new vehicle. The registration is obtained by getting an No Objection Certificate (NOC) from the ETO. It is estimated by various operators that five to seven per cent of the trucks registered every year are bought in army auction.

Profile of Organizations/Associations in Transport

The Pakistan Motor Transport Federation is the only representative body of the private bus transporters who look after their problems and difficulties being faced by them from time to time, such as maintenance of general bus stands and other operational difficulties. The West Pakistan Transporter Mutual Assistance Co-Operative Society Limited takes the responsibility of paying compensation to the victims of road accidents on behalf of its members.

In Peshawar, like all other cities visited, there is a union of bus and flying coach operators. An office bearer of the union feels that it is not effective and they are not able to protect the rights of its members. The union is not able to obtain any concessions from the authorities till such time that the demands which were being made - e.g. raise in the rates/kilometer - have to be revised and the process starts all over again. Any complaints against the government agencies are either ignored or heard and then shelved.

1. Taxi Cabs

Presently there are eight taxi cab unions in Karachi. The unions are on the basis of geographical distribution.

	Location	No. of Unions
1.	Korangi	2
2.	Qaid-Abad	1
3.	Cantt. Station	2
4.	Lasbella	3

One of the unions at Lasbella is known as Union Patel Bara. Its offices are located near the mausoleum of Qaid-i-Azam M.A. Jinnah. This union claims to be the single largest among all the unions, the other unions do not refute this claim. No contribution is solicited from its members. The purpose of the union is to safeguard the rights of its members. The rights are protected by streamlining the channels of gratifications given to the various departments.

An example would be a charge of Rs 300 for the Fitness Test conducted by a MVE every six months. The official fee for this test is Rs 25 only. The extralegal cost of Rs 275 covers an unknown amount retained by the union officers, and the balance goes

to the MVE. In turn, the MVE expedites the processes of the test so that the member does not have to wait its turn and overlook the deficiencies for which the test is being conducted for in the first place.

The second most powerful union is based at the Cantonment Station. This union draws its power from its members. This union comprises of those police men/officers who own taxi cabs. It is alleged that one of its members' who is a Head Constable in a *Thana* (Precinct) of Karachi, owns one hundred and thirty three Rickshaws and fifty eight taxi cabs. There is no way to prove or disprove this allegation, but the fact remains that the entire union is comprised of members working in the Police Department in various capacity. No member of this union was willing to discuss their business, problems etc. since they feel that there are no significant issues that need to be resolved.

Then there are those operators who do not belong to any union or association. These operators get their documents in order by greasing the palms of the 'touts' hanging outside the concerned offices. They feel that they do not have to join a union or form one of their own, because the office bearers increase the extralegal costs by keeping a cut for themselves.

An example would be the recent demand of the members of various unions to increase the authorized rate/kilometer charged from the passengers. The demand was for an increase from Rs 1.50/km to Rs 3.00/km, whereas the unions were able to get a raise of Rs 0.50 only and the new rate is now Rs 2.00/km. This increase is of little consequence for the operators because it was offset by the increase in taxes on various oil products - gasoline, lubricants etc.. Then came the budget for the year 1990-91 and additional tariffs and taxes were added to the spare parts used by these vehicles. Therefore, the operators feel that they were cheated by their unions because if their original demand of an increase to Rs 3.00/kilometer had been accepted than there would have been an increase in the real terms and if not all at least some of the additional taxes would have been offset. By quoting this example they feel that the unions are just a farce, they are either for the benefit of the government or the office bearers of the unions.

2. Rickshaws

In Peshawar, there are two unions, viz.:

1. Rickshaw Drivers Union 'Sadar' Baz Mohammad Khan, membership: 7,000.

2. Rickshaw Drivers Union 'Sadar' Sarwar Khan, membership: 4,000.

The word 'Sadar' means President and the two unions are recognized by the name of the president of the union e.g. 'Sadar Baz Muhammad Khan'.

Membership is granted - and the union strength hence determined - by applying the 'Sticker' of the respective union to the rickshaws in the beginning of the month. Whichever organization is more efficient in this process enrolls more members for the respective month and collects Rs 5.00 per member.

The role of the union is to help its members to 'negotiate' with the police in case a rickshaw is impounded and the driver arrested. In case of an accident the union helps its members in negotiations with the third party.

The RTA has promised the 'Sadar' Baz Khan Union 140 permits to be distributed/sold to its members but so far no 'permit' has so far been handed over to the union. This will be the only achievement of the union if they ever get the permits from the RTA.

The union has been making futile efforts for the approval of rickshaw stands in the city. Approved rickshaw stands would reduce the extralegal costs to some extent - no more tickets for 'illegal' parking. The union has pointed several spots in the city where there is provincial and municipal land available and a 'stand' could easily be allotted to them, but they believe that it is in connivance with the Police that the 'stands' are not allotted for their use.

3. Suzukis

There are no registered or any other unions/associations among the formal or informal 'Suzuki operators'. The operators look upon the union as an extralegal cost. They quote the examples of other transporters who have unions and are no better off than the Suzuki operators. They feel there is no need to contribute towards a union and then be back stabbed by the office bearers, who once elected get busy get concessions for themselves and forget the business at hand of protecting the rights of its members.

4. Trucks

There are two registered Unions/Associations presently

active in Faisalabad. Like other transport unions they are effective for their members only when there is a call for a strike. The latest came on the new levy of the Punjab Government in June 1990 for the registration of new Goods Forwarding Agencies. A one time charge of Rs 40,000 is being required, this was previously not being charged nor there is any provision in the law regarding these agencies. Apart from a strike which paralyzed the nations freight movement for two weeks there is hardly any benefit derived from the union. There is an annual fee of Rs 300 paid by all the eighty members of the union. One does not have to own a truck to become a member of the union. Owners of the Goods Forwarding agencies are also members of the union and so are many others who do not own either a truck or an agency.

The unions are supposed to protect the rights of its members. Once in a while they help in recovering a stolen truck or help in apprehending a driver who sells the goods he is carrying and reports them stolen.

The two registered unions in Faisalabad are:

Faisalabad *Ittehad* Goods Association and Faisalabad Goods Transport Association. Both the Unions are headed by owners of Goods Forwarding Agencies. There are forty members in each Union.

Motor Vehicles Status in Peshawar District

	Registered	On Road	Informal*
1 Bus	3,660	2,607	1,053
2 Tractor	2,530	2,444	86
3 Motor Cab Taxi	2,040	1,817	223
4 Motor Rickshaw	5,805	4,766	1,039
5 Delivery Van	1,000	881	119
6 Private Carrier Truck	334	105	229
7 Public Carrier Truck	9,460	6,565	2,895
8 Pickup			
9 Ambulance	30	30	0
10 Oil Tanker			
11 Water Tanker			
12 Others	3,350	3,209	141
	<u>28,209</u>	<u>22,424</u>	<u>5,785</u>

Motor Vehicles Status in Karachi District

	Registered	On Road	Informal*
1 Bus/M.Bus.	12,444	4,696	7,748
2 Tractor	1,198		1,198
3 Motor Cab Taxi	10,145	8,806	1,339
4 Motor Rickshaw	16,525	10,312	6,213
5 Delivery Van			
6 Private Carrier Truck }			
7 Public Carrier Truck }	14,426	6,877	7,549
8 Pickup			
9 Ambulance			
10 Oil Tanker			
11 Water Tanker			
12 Others	24,562	19,064	5,498
	<u>79,300</u>	<u>49,755</u>	<u>29,545</u>

* Per NTRC these vehicles are off road; information gathered during the field work indicates that 95 per cent of these vehicles are plying informally.

N.B. Item numbers 8, 10 and 11 are included in Others.

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