

Urban Informal Sector in Pakistan: Some Selected Issues

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I. INTRODUCTION

In recent years there has been much conceptual and empirical debate about the status of the informal sector and its role in the development of Third World countries. It was used by the International Labour Organization (ILO) as a policy tool for employment promotion, alleviation of poverty and elimination of income inequalities in developing countries [ILO (1972) and Weeks (1975)]. However, there is no dearth of studies which critically examine the informal sector [Bromley (1978); Tokman (1978); Gerry (1978) and Hosier (1987)]. Such studies have generated a fair amount of debate in the literature about the status of the informal sector [Richardson (1984); Moser (1984); House (1985) and Mehta (1985)].¹

Based on a recent survey of some selected sub-groups of urban informal activities, this paper is an attempt to examine the status of the urban informal sector in Pakistan. Specifically, it will highlight some of our findings on the characteristics of its participants. The informal sector is defined in this study as representing establishments employing 10 workers or less.

The plan of the paper is as follows. Section II gives a description of the survey data and its limitations. Section III presents an empirical investigation of the characteristics and behaviour of the participants. The last Section gives the conclusions of the study.

II. DATA AND ITS LIMITATIONS

This paper uses data from the survey we conducted in June/July, 1989 to study skill generation in the informal sector of Pakistan [Chaudhary *et al.* (1989)]. Since the survey had a different objective, therefore, we have a bias in the data. Specifically, it excludes some low-level urban informal activities which makes this data set less representative. Out of 2030 respondents in our sample there were 1018 '*ustads*' (mastercraftsmen) and 1012 '*shagirds*' (apprentices) belonging to a large number of enterprises which are grouped together in 24 activities in seven representative cities of Pakistan (Table 1).

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¹For a detailed discussion see my Conference paper [Burki (1990)].

Table 1
Distribution of Sample Respondents by Cities and Activity Groups

Activity Groups	Rawal-		Gujran-		Mian		Total	Ustad	Shagird	
	pindi	Sialkot	Daska	wala	Lahore	Channu				Karachi
Repairing Services										
1. Automobile	85	31	8	67	122	10	127	450	223	227
2. Electrician	26	17	8	35	49	—	28	163	83	80
3. Electrical Appliances	22	10	—	30	35	—	27	124	57	67
4. Watch Repairing	13	—	—	7	20	—	6	46	25	21
Manufacturing/Crafts										
5. Machine Shop/Spares	16	9	17	39	37	5	7	130	62	68
6. Tailoring	28	10	—	33	42	6	106	225	110	115
7. Sanitary Accessories	—	6	—	20	—	—	—	26	13	13
8. Jewellers	20	—	—	4	14	—	24	62	32	30
9. Bakeries	17	—	—	14	22	—	17	70	39	31
10. Sports Goods	—	57	—	—	—	—	—	57	28	29
11. Hosiery	—	—	—	36	—	—	—	36	20	16
12. Surgical Instruments	—	25	—	—	—	—	—	25	13	12
13. Agricultural Implements	—	—	10	—	—	30	—	40	21	19
14. Cuttlery and Utensils	—	10	—	36	—	—	—	46	23	23
15. Leather Goods	—	18	—	—	—	—	—	18	8	10
16. Printing	19	4	—	4	14	—	28	69	34	35
17. Carpet Weaving	—	—	—	18	20	—	—	38	20	18

Continued —

Table 1 — (Continued)

Construction										
18. Mason/Plumber	15	—	—	14	30	—	5	64	31	33
19. Wood/Steel Furniture	20	9	—	24	34	—	36	123	61	62
20. Welders	—	—	—	2	2	—	6	10	7	3
Personal Services										
21. Hairdressers	18	6	—	14	15	—	27	80	42	38
22. Photographers	—	2	—	3	6	—	21	32	18	14
23. Signboard Writers	—	8	—	14	6	—	7	35	19	16
24. Opticians	10	4	—	8	14	—	25	61	29	32
Total	309	226	43	422	482	51	497	2030	1018	1012

Since informal enterprises were not registered, it was not possible to use a systematic sampling technique. Therefore, selection of cities and enterprises was based on a sampling procedure which "approximates a multistage purposively stratified random sampling" [Chaudhary *et al.* (1989)].

III. CHARACTERISTICS OF THE URBAN INFORMAL SECTOR

Earnings Differentials

In the informal sector, due to the heterogeneous pattern of many sub-groups of activities one should not expect a uniform pattern of income levels. 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. The evidence in our survey does not seem to support this commonly held view.

We have found that most of the informants in our survey were earning higher or equal incomes as compared with the formal sector. Moreover, there was a substantial variation in the earnings of self-employed, employees and apprentices within the informal sector.² The data in Table 2 show that average earnings of self-employed (Rs 3476) were about three times higher than the earnings of employees (Rs 1205), and about eight times higher than the earnings of apprentices (Rs 452). Amongst the 688 self-employed, 94 percent were earning more than Rs 1000, 80 percent were earning more than Rs 1500, and 62 percent were earning at least Rs 2000.

Compared to government employees (up to Grade 16) in the formal sector the average earnings of self-employed in our sample were substantially higher. For example, salaries in government jobs were estimated to be Rs 950 for Grade 1, Rs 1110 for Grade 5, Rs 1410 for Grade 11 and Rs 1987 for Grade 16 (at the time of entry including normal benefits). Thus the self-employed in our survey were quite well-placed in their present occupations, despite their lower educational qualifications. By comparison, the earnings of employees were much lower than the earnings of self-employed. About 54 percent of employees earned at least Rs 1000 per month, 43 percent earned between Rs 500 and Rs 1000. The lowest income per month was earned by apprentices who received only pocket money at entry (which ranged from Rs 5 to 10 daily) plus meals. Regular salaries of apprentices were fixed only when they started effectively assisting their '*ustads*'.

There were also significant variations in the average monthly earnings of '*shagirds*' by activity groups. It is interesting to note that wages were fixed quite

²'*Shagirds*' who had at least 5 years apprenticeship training are termed as employees here. Those who had less than 5 years experience are referred to as apprentices. This classification is based on the average training period required by a '*shagird*' to learn his skills fully in sampled activities.

Table 2

Percentage Distribution of Self-employed, Employees and Apprentices by their Levels of Monthly Earnings

Monthly Earnings	Apprentices	Employees	Self-employed
0 – 250	30.3	–	–
251 – 500	34.2	3.7	2.0
501 – 1000	33.2	42.9	4.6
1001 – 1500	2.3	37.5	14.1
1501 – 2000	–	10.5	17.2
2001 – 2500	–	3.0	11.6
2501 – 3000	–	1.7	17.5
3000 +	–	0.7	32.9
	100.0	100.0	100.0
Average Income	Rs 452	Rs 1205	Rs 3476
Respondents (N)	716	296	688

early in those occupations which required a shorter training period. For example, average earnings of *'shagirds'* were highest in manufacturing (Rs 855) and the second highest in personal services (Rs 815), whereas, the average training period in these groups was the lowest (i.e., 3.8 years and 3 years, respectively). In repairing and construction, where the average training period was relatively higher (i.e., 4.25 years and 4 years, respectively) the average earnings were also the lowest (i.e. Rs 687 and Rs 784, respectively).

Attitude and Motivation

Most of the respondents in the survey were found to be highly motivated towards their present occupations and even towards their present work places. The motivation and attitude of informal sector employees is illustrated in Table 3 which shows that more than 89 percent of employees in the survey liked their present occupation and only 11 percent reported their dissatisfaction. However, the proportion of employees who reported that they were looking for better jobs within the same occupation was quite high. As shown in Table 3, 42 percent of employees were not satisfied with their present work. The primary reason for their willingness to quit their existing jobs was better offers from other employers. For

Table 3
*Attitude and Motivation of Employees Towards their Present
 Occupation by Activity Group*

Items	Repairing Services	Manufac- turing	Construc- tion	Personal Services	Total
1. Attitude Towards Present Occupation					
(a) Occupation Liked	90.3	85.5	88.0	93.0	89.2
(b) Occupation Disliked	9.7	14.5	12.0	7.0	10.8
2. Motivation in the Present Job					
(a) Satisfied with Present Job	62.7	48.5	63.7	58.7	58.4
(b) Looking for a Better Job	37.7	51.4	36.3	41.3	41.6

example, when we asked this question to sampled *ustads*/employers, more than 75 percent replied that better offers from other enterprises were the primary cause for their quitting. Personality clash with the *ustad*/employer, and long hours of work were two other causes reported by them. The high percentage of employees in the sample who were in search of better jobs, could be explained by a continuous process of skill acquisition (in which untrained *shagirds* transform themselves into semi-trained and trained workers), which rapidly increases the opportunity cost of apprentices. Moreover, the data on average monthly earnings of the self-employed (Rs 3476), as shown in Table 2, reflects that formal sector employment offers them very little economic incentive. Even those self-employed who were getting below average earnings could hope to earn more by establishing themselves with their increasing experience.

Migration Status and the Informal Sector

It is generally argued that the informal sector represents a marginal activity which is mainly a source of employment for young migrants to the city [Richardson (1984)]. Another approach suggests the informal sector as the "waiting room" for a large number of new entrants in the urban labour market who have their first preference for the formal sector [Harris and Todaro (1970) and Todaro (1984)]. To

test such a hypothesis we have reported our survey findings below.

Firstly, our data on the migration status of '*shagirds*' shows that 72 percent were of an urban origin. Only 28 percent of total '*shagirds*' in the sample reported that they had a rural link. It can, however, be argued that all respondents who had a rural link in the past could not be placed in the category of recent migrants because they were presently living with their parents in the city. In other words, their entire families had moved to cities in the past. Only 10 percent of the total '*shagirds*' could be called recent migrants, as they were living either with their relatives in the city or they were putting up on their work premises. This view can also be supported indirectly. For instance, 58 percent of '*shagirds*' reported that their parents own a house in the city which means that they did not migrate recently to accept informal sector job.

Secondly, the age structure of sampled enterprises (Table 4) shows that over 80 percent of enterprises were established 6 or more than 6 years ago by their present owners or their family members which implies that the majority of the self-employed were not recent migrants.

Thirdly, the data on ages also shows that a vast majority of the self-employed were in their prime-age group. This is summarized in Table 5 where it can be seen that about 73 percent of self-employed were in the age-group of 20–40 years. Furthermore, 23 percent of self-employed were more than 40 years of age, and a mere 4 percent were between the ages of 16–20, who could be called as young or recent entrants. In addition no significant difference was observed in the ages of self-employed across different activity groups.

It appears from our findings that unlike the popular image respondents in our survey were not recent migrants. In particular, it shows that both self-employed

Table 4

<i>Age Structure of Sample Enterprises</i>	
Years	Percent
1 – 5	22
6 – 10	27
11 – 20	34
21 – 30	9
31 +	8
Total	100.0

Table 5
Percentage Distribution of Ages of Self-employed by Activity Groups

Age	Repairing Services	Manufacturing	Construction	Personal Services	Total
16 – 20	3.1	4.3	4.0	5.6	3.9
21 – 40	77.1	70.7	68.7	70.4	72.9
41 – 60	18.8	21.7	25.3	23.1	21.1
60 +	1.0	3.3	2.0	0.9	2.1
Total	100.0	100.0	100.0	100.0	100.0

and '*shagirds*' has a strong commitment with their respective enterprises.

Upward Mobility

Our findings also show that there was a great potential for upward mobility within the informal sector. The mean age of '*shagirds*' in our sample was 19 years whereas the mean age of self-employed/*ustads* was 34 years (Table 6) which shows that '*shagirds*' were new entrants in the labour force. The cross-tabulation of data on ages and employment status of self-employed/*ustads* and '*shagirds*' (Table 6) shows that as our respondents advanced in age the proportion of self-employed to '*shagirds*'

Table 6
Employment Status by Age of Sample Respondents

(Percentage)

Age Group	Total	Self-employed	<i>Shagirds</i>	Total
0 – 15	100	Nil	100.0	12.5
16 – 25	100	26.1	73.9	45.1
26 – 35	100	85.7	14.3	23.4
36 – 45	100	95.5	4.5	14.1
46 +	100	98.0	2.0	4.9
Total Sample	All	50.2	49.8	100.0
Mean Age		34	19	

increased very sharply which reflected upward mobility within the sector. In particular, it shows that after the age of 35 years, about 96 percent or more of the labour force in our sample becomes self-employed. A similar evidence on upward mobility was presented by Guisinger and Irfan (1980) from Rawalpindi which reached at a similar conclusion. Given the large income differentials prevailing between the self-employed and '*shagirds*' this trend reflects a significant improvement in their living standards. Such a rapid mobility is unlikely to exist in the formal sector where promotions take place on the basis of seniority, professional competence, and a set of other rules specific to particular organizations which makes upward mobility difficult.

Apprenticeship Training

It is sometimes believed that the informal apprenticeship training system is a source of exploitation of apprentices by their employers [Moser (1984); Gerry (1978) and Tokman (1978)]. However, in our view this is a misleading phenomenon. The apprenticeship training under '*ustad-shagird*' system in Pakistan should essentially be seen as an institution which represents a mutually beneficial relationship between '*ustads*' and their '*shagirds*'. As a matter of fact, due to the very nature of work most '*ustads*' need '*shagirds*' to undertake minor tasks. They cannot employ full-time workers to perform such minor work. On the other hand, '*shagirds*' benefit from this system by acquiring skills which help them in setting up their independent business or in raising their future wages. For example, 92 percent of '*shagirds*' reported that they were learning skills to start their independent workshop or business at some later stage.

The findings of our survey are that when *shagirds* take a job which involves skill learning they are not paid salaries or wages at entry. It is a common feature in many enterprises that '*ustads*' bring lunch, either from home or order it from a nearby restaurant, which is shared by all the '*karigars*' (workers) including the '*ustad*'. The '*shagirds*' get a regular salary when they effectively assist their *ustads*. For instance, 73 percent of '*shagirds*' in our sample remained unpaid for a period upto one year, 16 percent upto two years and 9 percent upto three years. '*Shagirds*' are paid lower initial earnings because such earnings include the cost of training. This foregone earning is an investment, in the human capital sense, which *shagirds* make for the acquisition of required skills. Due to free market conditions in the informal sector, a large number of small enterprises become prospective employers for the skilled workers which makes their acquired skills highly "portable". Therefore, no wise employer will be prepared to make an investment on '*shagirds*' unless they recover their full training cost. If '*shagirds*' continued getting full wages, they will take the whole investment of the employer with them on joining some other employer. Thus, the '*ustad-shagird*' system cannot work unless the full training cost

is not recovered from the trainees by their 'ustads'.

IV. CONCLUSIONS

Based on a sample survey, this paper attempts to examine the status of the urban informal sector in Pakistan by focusing on some selected sub-groups of activities. We have found that this sector makes a significant contribution to development by offering many income earning opportunities to the labour force and by skill formation at no public cost. The average earnings of self-employed and employees in this sector were found to be substantially higher when compared with the government employees. Moreover, the respondents were highly motivated who had a great potential for upward mobility. Notwithstanding the arguments of the exploitation thesis we have argued that the 'ustad-shagird' system is an institution which is mutually beneficial for both the parties. Therefore, keeping in view the important role of the informal sector in development, it is time that the government should introduce some planned measures to provide encouragement to this sector.

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machine shop/spares, electrical appliances and wood/steel furniture. Such a sample selection may create biases in the analysis and make the results less meaningful. For instance, average income of Rs 3,476.00 of the self-employed as reported in Table 2 becomes meaningless when seen in the background that about two-thirds were having income at a level below Rs 3,000.00.

Thirdly, it is not understood how the total respondents have been grouped under three categories, namely apprentices, employees and self-employed. In addition, out of 2030 respondents, 1018 *ustads* and 1012 *shagirds*, Table 2 gives a lesser number of *shagirds* and other respondents. Information on the number of untrained, semi-trained and trained *shagird* as well as the process of this transformation is not available.

Fourthly, the contention of the author that the listing of informal sector activities does not exist is not correct. Probably, he is unaware that, for each locality and market such a listing is available with the labour departments.

Fifthly, the estimates of urban informal sector employment, based on the data of Labour Force Survey (LFS) and Annual Establishment Enquiry (AEE) cannot be taken without reservations. Both of these sources do not give such information directly. The AEE in fact does not even bifurcate information on an urban-rural basis. It also excludes from the enumeration all non-manufacturing establishments employing less than 20 workers.

Analytical Issues

Firstly, the analysis is largely confined to aggregates, ignoring the existence of inter-activity differentials. Besides the pattern of analysis does not appear to be uniform. In some cases, for instance, income differentials, comparisons have been amongst the three types of informal participants, namely apprentices, employees and self-employed. In other cases, for instance attitudes and motivation, differentials amongst sub-groups of activities have been analyzed. It would have been more useful if analysis was done for each sub-group separately for the three categories of participants.

Secondly, incomes of the three categories of participants have been calculated (i) by using two separate methodologies, one for the employee and apprentice and the other for the self-employed without giving adequate justification and (ii) average incomes for the three categories of participants have been given ignoring thereby significant inter-activity differentials.

Thirdly, information on initial investment and recurring expenditure is missing. This would have made estimates of income of the self-employed more meaningful, besides indicating the investment requirements of different activities in the informal sector and also giving the cost for employment generation. Such an analysis, presently inadequately available, could have made the findings of the study meaningful.

Fourthly, an undue reliance has been placed on general statements and observations, particularly while discussing factors affecting employment in the formal and informal sectors. In fact, most of the discussions in Section V appears to be unjustified.

Concluding Remarks

Notwithstanding the methodological and analytical inconsistencies, this paper is definitely a useful addition to the body of literature on this important but neglected area. The paper gives insights on the functioning of a part of the informal sector. With certain refinements, this paper can serve as a useful guide for the policy-makers.

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