Gallup Pakistan Analysis of World Bank Enterprise Survey

Informality – World Bank Enterprise Survey 2022

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Gallup Pakistan **Analysis of World** Bank Enterprise **Survey**

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PERCENT OF FIRMS COMPETING AGAINST UNREGISTERED OR INFORMAL FIRMS:

45% of firms in Pakistan find themselves competing against unregistered or informal firms.

PAKISTAN	45%
ALL COUNTRIES	48%

58%

FIRMS' REGISTRATION STATUS UPON STARTING BUSINESS

58% firms claim to have been formally registered when they started operations in the country; this is almost 20% lower than the South Asian and 30% lower than the world averages.

TREND ANALYSIS:

Looking at the trend analysis reveals that in the 9 years since 2013, the percentage of firms that formally got themselves registered before starting operations has declined by 22%, from 80% in 2013 to 58% in 2022.

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Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

PRESS RELEASE

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1 in 5 firms in Pakistan identify practices of competitors in the informal sector as a major constraint – **Informality – World Bank Enterprise Survey 2022**

Islamabad, August 15, 2023

Gallup Pakistan, as part of its Big Data Analysis initiative, is looking at Informality (2022). This data is part of a publication by the World Bank called the 'Enterprise Survey 2022'.

The complete Enterprise Survey 2022 is available HERE.

Gallup Pakistan has not conducted the survey work. We are only analyzing the publicly disclosed data and reports provided by World Bank. This is a public service activity done on individual initiative of Gallup Pakistan and not in any way endorsed or commissioned or supported by WB or its agents.

What is the Big Data Analysis Series by Gallup:

Gallup Pakistan's Big Data series was started by Bilal I Gilani, Executive Director of Gallup Pakistan. Bilal explains the rationale of the series: "The usual complaint from academics and policy makers is that Pakistan does not have data availability. At Gallup we plan to bridge this gap in terms of accessibility and use of data. The Gallup Big Data series has earlier worked with data sets such as PSLM, Labor Force Survey, and Economic Survey reports as well as National Census Reports and Election Commission Data sets. The current series is using the World Bank Enterprise Survey, a periodic compilation which reports facts and perceptions of enterprises and businesses operating in Pakistan. We hope that these series are useful, and we welcome both feedback as well as possible collaborations as we create a public good in the form of useful data sets in Pakistan.

What data points this current edition covers:

This series aims to present the important learnings from the Enterprise Survey 2022 for policy makers, the public, as well as for marketers in an easy and understandable way. In particular, this edition looks at Business Informality as of 2022. A large informal sector may represent a challenge to competing formal firms as informal firms are able to engage in practices that can give an unfair advantage over formal firms that must comply with the prevailing rules and regulations. The series' main aim is to provide data. Implications of these data points for the development sector as well as wider socio-political ramifications is something we would like to trigger in relevant circles.

Today's topic is "Informality (2022)"

Key Findings:

1. **Percent of firms competing against unregistered or informal firms:** 45% of firms in Pakistan find themselves competing against unregistered or informal firms.

2. **Firms' registration status upon starting business:** 58% firms claim to have been formally registered when they started operations in the country; this is almost 20% lower than the South Asian and 30% lower than the world averages.

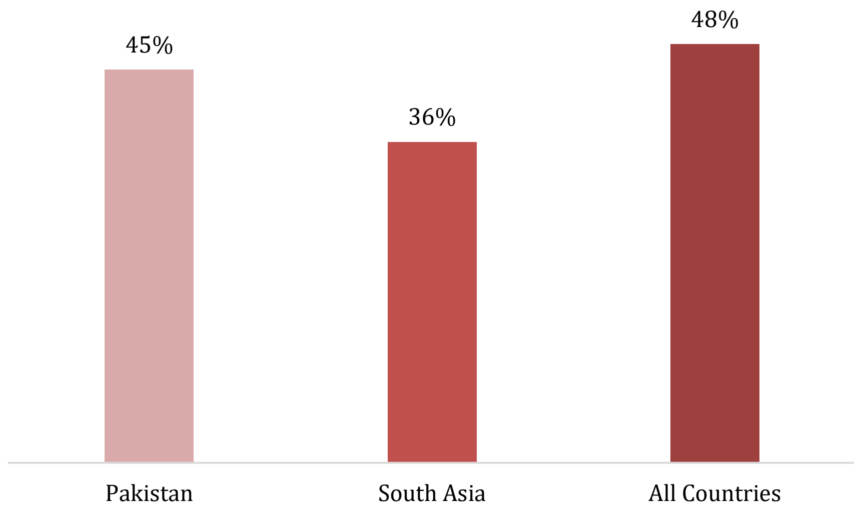
3. **Trend Analysis:** Looking at the trend analysis reveals that in the 9 years since 2013, the percentage of firms that formally got themselves registered before starting operations has declined by 22%, from 80% in 2013 to 58% in 2022.

1. Percent of firms competing against unregistered or informal firms

45% of the firms in Pakistan find themselves competing against unregistered or informal firms. This is higher than the average for South Asia, which is 36%, but lower than the global average of 48%.

According to the Small and Medium Enterprise Development Authority (SMEDA), more than 40% of Pakistan's GDP comes from the informal sector. In that case, it makes sense for almost half of the firms surveyed to claim that they are competing with unregistered or informal firms. Since those surveyed were firms from the manufacturing or services industries, the existence of unregistered firms can be a threat to the business of those registered companies who have to pay hefty taxes while the former is exempt from them.

Figure 1: Percent of firms competing against unregistered/informal firms



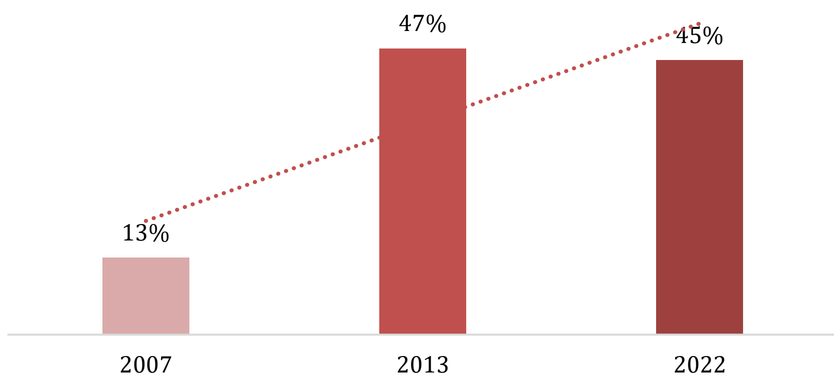
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

While the proportion of firms in Pakistan that compete against unregistered firms may not be as alarming when compared to the figures for South Asia and the world, trend analysis of Pakistan's numbers over the years reveals that there has been a dramatic rise in firms that report this problem.

Only 13% of the companies surveyed in 2007 claimed to have been competing against unregistered firms. This rose by 34% within the 6 years to 2013, where the reported figure was 47%. While it decreased to 45% in 2022, a 2% decrease in 9 years may be too slow.

This poses interesting questions for policymakers, since the sheer size of the informal sector could disincentivize investors or could tempt new entrants to remain unregistered. In that case, the loss incurred to the economy would be in the form of taxes, with a potential increase in unethical practices by businesses since by remaining unregistered, they get the chance to sidestep direct oversight.

Figure 2: Trendline for Pakistan– firms competing against unregistered/informal firms

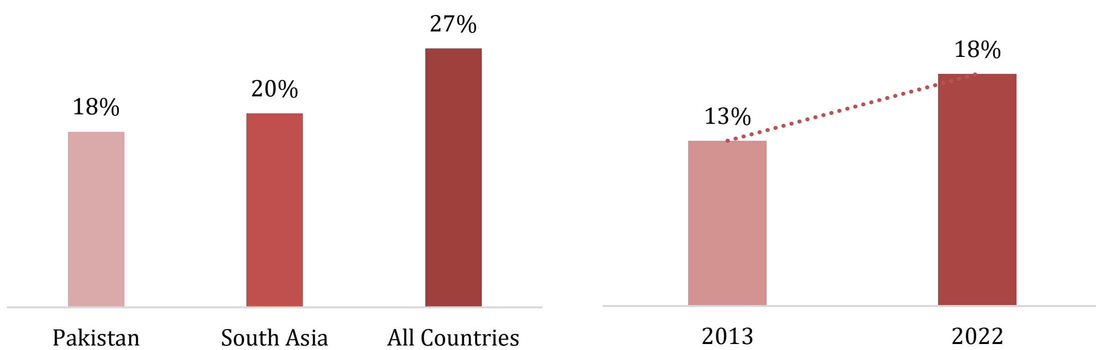


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

While the number for firms in Pakistan that are competing with those in the informal sector is high, it is interesting to note that the percentage of firms identifying the practices of competitors in the informal sector as a major constraint are the lowest across the averages for South Asia and the world. 18% of the firms in Pakistan identify it as a major constraint, compared to 20% in South Asia and 27% in the world.

This is an intriguing finding; it would be useful to look into the reasons for why, despite the increase in competitors in the informal sector, not a lot of firms in Pakistan consider it a major threat. One reason could be that while the informal sector itself is large, the size of the individual firms in it is not large enough, or their market shares not threatening enough for their practices to be a major constraint for registered firms.

Figure 3: Firms identifying practices of competitors in the informal sector as a major constraint – Trendline for Pakistan



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

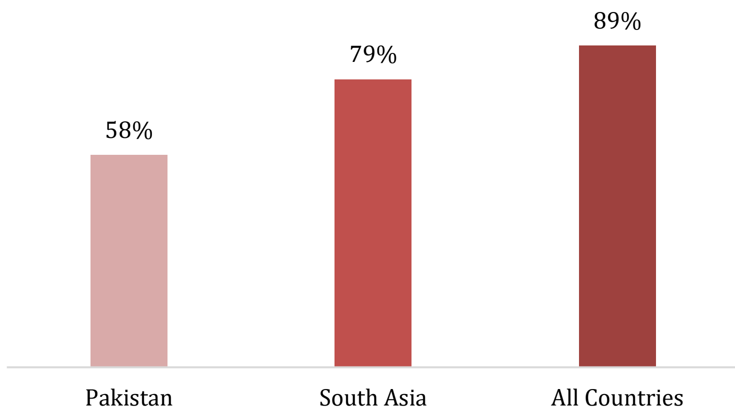
That being said, firms in Pakistan that find the informal sector practices a major problem have increased over the past 9 years, from 13% in 2013 to 18% in 2022. This indicates that while the number of firms for Pakistan is lower than the regional and global averages, it is a concern that is slowly growing over time within the country. It would be useful to cater to it now, from a policy point of view, rather than waiting for it to become a much larger issue.

2. **Firms' registration status upon starting business**

58% firms claim to have been formally registered when they started operations in the country; this is almost 20% lower than the South Asian and 30% lower than the world averages.

Lesser firms registering themselves before starting business indicates that there is not a lot of legal pressure on them to do so. Lack of awareness and access to resources when starting out could also be reasons that attribute to the low registration numbers. If companies are aware that they can start operations without first formally registering themselves, it is more of an incentive for them to not get registered later on as well.

Figure 4: Firms formally registered when they started operations in the country



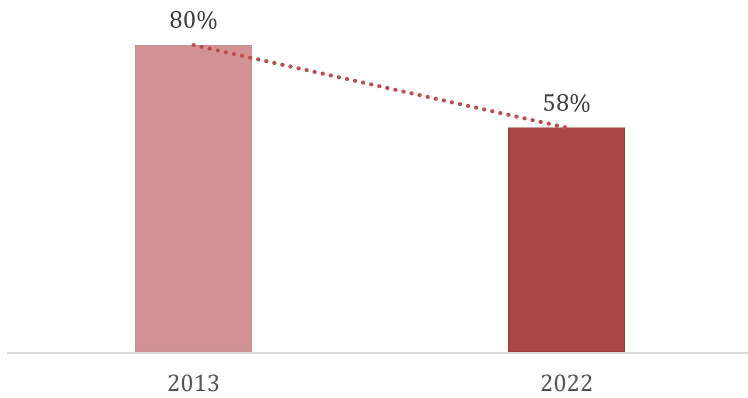
Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The 58% stands out even more when compared to the figures for Pakistan over the years. Looking at the trend analysis reveals that in the 9 years since 2013, the percentage of firms that formally got themselves registered before starting operations has declined by 22%, from 80% in 2013 to 58% in 2022.

It would be interesting to explore the reasons behind this steep decline; whether avoiding taxes is the only major factor or if there are also perks that come with being unregistered that firms would not get otherwise.

Another facet of the problem is also the level of awareness and the barriers businesses face when trying to register firms. If it takes multiple visits to an office or if the process is tediously long, new business owners might prefer to stay unregistered. Offering some type of incentive to firms that start operations as registered businesses, and warning them of the dangers of not doing so, could perhaps drive up the numbers. Regardless of the type of policy, the decline in the number of firms starting out as registered businesses for Pakistan, and its comparison with the regional and global averages, indicates a potential problem that requires looking into.

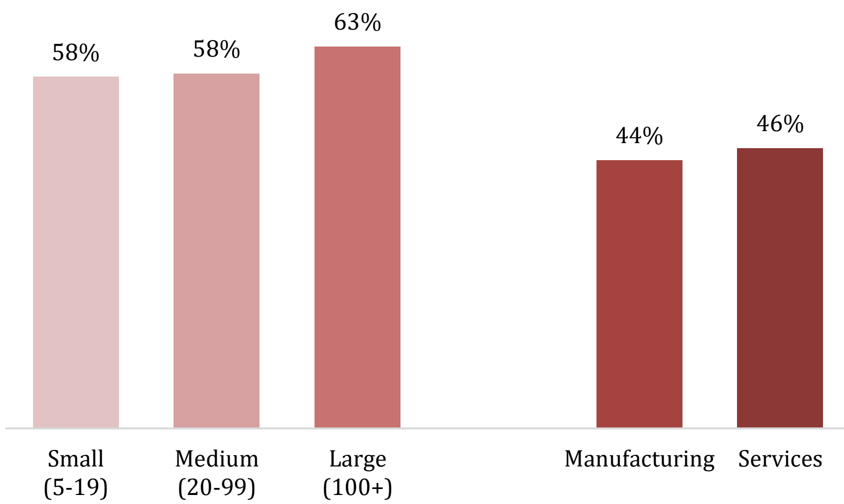
Figure 5: Firms formally registered when they started operations in the country – Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

The percentage of firms that started operations as an unregistered business, for Pakistan, remained mostly consistent across firm sizes and sectors. Within firms of different sizes, more large firms (63%) claim to have gotten registered compared to small and medium firms (58%). Within the sectors, 46% of those in the services sector reported that they began operations as formally registered firms, while 44% in the manufacturing sector reported so.

Figure 6: Firms formally registered when they started operations in the country –
By firm size and sector (Pakistan)

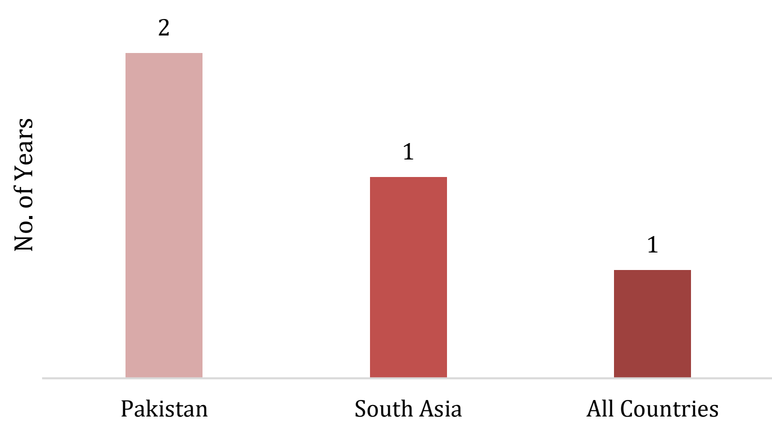


Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

3. Years operated without formal registration

Firms in Pakistan report to have operated 2 years without a formal registration. This is higher than South Asia and the world, where firms operated without a registration for only 1 year. While the difference does not seem too significant in objective terms, it is important to note the opportunity cost of an additional year of remaining unregistered in terms of forgone taxes and potential illegal or non licet practices.

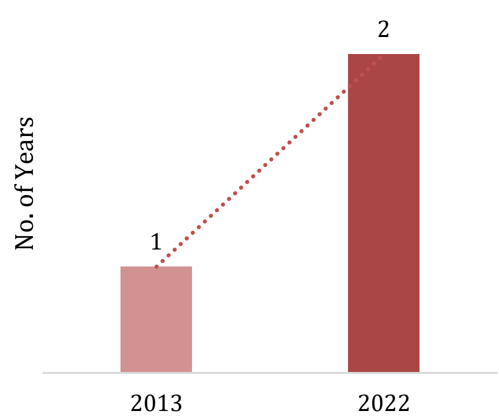
Figure 7: Years operated without formal registration



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Analyzing the trend for Pakistan reveals that in 2013, firms reported operating without formal registration for 1 year, which has increased to 2 years by 2022. The reasons for this could be worth exploring; have the firms' incentives to register themselves decreased over time or is registration not encouraged like it was a decade ago?

Figure 8: Years operated without formal registration- Pakistan trend



Source: World Bank Enterprise Survey; analyzed by Gallup Pakistan

Wish to Contribute to Gallup Big Data Analysis?

Gallup Pakistan is looking for collaboration with researchers to expand the Big Data Analysis project. If you have any ideas, please write to Bilal I Gilani, Project Director, Big Data Analysis at Gallup Pakistan.

Wish to know more about the Enterprise Survey 2022?

The Enterprise Surveys (ES) focus on many aspects of the business environment. These factors can be accommodating or constraining for firms and play an important role in whether an economy's private sector will thrive or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity — key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. Questions contained in the ES aim at covering most of the topics mentioned above. The topics include infrastructure, trade, finance, regulations, taxes and business licensing, corruption, crime and informality, access to finance, innovation, labor, and perceptions about obstacles to doing business.

The ES are repeated approximately every four years for a particular economy (or region). By tracking changes in the business environment, policymakers and researchers can look at the effects of policy and regulatory reforms on firm performance. Repeated surveys aid in studying the evolution of the business environment and how it affects the dynamics of the private sector.

You can find more information on the Enterprise Survey, and complete tables, on

www.worldbank.org

Or visit:

Enterprise Surveys 2022

Disclaimer: *The views and inferences expressed in the article are that of the author himself and Gallup Pakistan does not take any responsibility in this regard. This series, and many such initiatives, are internally funded by Gallup Pakistan and Gilani Research Foundation. No outside country or local funding has been received for this current activity.*

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