



# Policy Brief



## STREET VENDING ECONOMY IN TWIN CITIES: AN ECONOMIC ANALYSIS

*Nasir Iqbal, Saima Nawaz & Muhammad Aqeel Anwar*

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### BACKGROUND

Pakistan has a large street economy (SE) operated by individuals and micro-enterprises, namely street vendors (SVs), across the country, mostly in urban areas.<sup>1</sup> The SE has a strong linkage with a supply chain comprising both formal and informal players (Bromley, 2000; Recchi, 2021). SVs are just the end of the retail outlet of a rather complex supply chain (Haque, 2020; Moosvi, 2021).

Despite the massive penetration of SVs in the urban markets, the economic contributions and supply chain of SE are unknown in Pakistan. It is vital to gauge the contribution of SE in the overall economic landscape of the country due to the overwhelming involvement of individuals and micro-enterprises. There are no precise estimates on the quantum of SE due to the informal nature in Pakistan. Global assessments have shown that the SE has grown exponentially, affecting the daily life of 5 billion people, with a volume of US\$ 30 trillion (Sirkeci, 2020, p. 11).

This brief provides an economic analysis of the street vending economy in twin cities, namely Islamabad and Rawalpindi of Pakistan.<sup>2</sup> On average, 1.5% to 2.5% of cities population is engaged in SE.<sup>3</sup> Both cities operate under different administrative structures. Markets are relatively well organized in Islamabad compared to Rawalpindi. Furthermore, Islamabad host relatively high- and middle-income families while low- and middle-income families reside in Rawalpindi. The analysis is based on primary data collected through the "PIDE Street Economy Survey (PSES)." The survey covers 1683 street vendors (SVs) operating in twin cities.

### WHO WERE THE STREET VENDORS, AND WHAT DID THEY SELL?

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<sup>1</sup> Street Economy (SE), a subset of a broader informal economy, is defined as exchanging all types of goods and services in public areas, streets, sidewalks, and squares (Sirkeci, 2020, p. 14).

<sup>2</sup> Rawalpindi is adjacent to Islamabad – the capital of Pakistan and the two are jointly known as the "twin cities" due to strong social and economic links between the cities. According to Census 2017, the urban population of Rawalpindi tehsil is 2 million while around one million people live in urban areas of Islamabad tehsil. Total population of Rawalpindi district is 5.4 million and Islamabad district is 2 million.

<sup>3</sup> This implies that around 60,000 SVs are operating in twin cities.



# Policy Brief



The descriptive analysis based on PSES shows that with over ten years of vending experience, around 61% of SVs use tables, and 32% use cart for vending, mainly placed in front of shops. Approximately 84% of SVs owned vending carts/tables, and over 86% of SVs also owned the vending business.

Around 26% of SVs offer food-related items for sales, including packed food/snack, food prepared with fire, and food without fire. About 22% of SVs offer garments for sales – the second largest category of sales item offered by SVs after food items. Around 15% of SVs provide fruits and vegetables for sale, followed by shoes, sunglass, and watches category (13%), plastic items (8%), electronic and mobile accessories (8%), and ladies' bags and jewelry (5%). These statistics show that food, garments, fruits/vegetables, ladies' handbags, electronic and plastic items are the main selling products in the street vending economy.

Around 43% of SVs reported starting street vending businesses due to unemployment. Furthermore, approximately 26% of SVs mentioned that they started street vending businesses willfully due to significant returns. Around 23% of street vendors stated they opted for street vending business due to a lack of formal education and experience to be engaged in formal employment or any other business. A small portion of SVs (around 8%) reported that street vending is their family business.

## **THE ECONOMICS OF STREET VENDING**

This section presents information on business operations, economic linkages, income, sales, and profit of the street vending business.

### **Formal-informal economy linkages**

The street vendors locate their stalls (tables/carts) outside the formal store using the public spaces and sidewalks available. Owners of the formal shops charged for the use of public space in front of their business. In some cases, owners of the formal shops hired a worker (around 15% of SVs) to operate a stall in front of shops. These findings reflect that formal-informal linkages are beneficial for both formal shop owners and street vendors. Wholesalers/distributors (mainly working in the formal sector – formal business) are the primary input providers for street vendors. Around 70% of SVs purchase raw material and other inputs from wholesalers/distributors. About 26% of SVs use the marketplace ("Mandi") to buy raw material and other inputs. Very few (around 4% of VS) use middlemen as a source to purchase raw



# Policy Brief



material and other inputs for street vending. Approximately 73% of SVs use stall space to store sales items, while around 18% use warehouses to store sales material. The street vendors reported that formal shop owners provide storage space to store sales items by providing rent to shop owners. This arrangement also reflects bi-directional dependence between formal shop owners and street vendors to generate business returns.

## **Business operations: Revenues, investment, profits, and operational costs**

The average monthly revenue of street vendors is Rs. 114,708 (US\$ 740). Street vendors, on average, earn a significant profit amounted US\$ 212 per month (29% of total monthly revenue). Street vendors made, on average, US\$ 571 investment to run a vending business. Around 60% of SVs invest their own money to start a street vending business, followed by 32% of SVs who took money from their family and friends to invest in a business. Very few street vendors (only 8%) took a loan from formal and informal sources to invest in the street vending business. A street vendor pays around US\$ 107 monthly as an operational cost, and more than 51% of the total operational cost incurred falls under the category of rent paid to the owner of the shop. Furthermore, street vendors pay around 8% of the operational cost to avail essential utilities such as electricity, water, and other services. Approximately 13% of operational expenses fall under the category of transportation, and 25% are other costs.

## **Business operations: Financial inclusion**

Only 11% of SVs have a formal bank account. To use a bank account, we find that only 24% of SVs use a bank account for trading purposes, while around 50% use a bank account for saving purposes, and around 25% of SVs use a bank account for sending money to home. This implies that apart from very low financial inclusion, the use of bank accounts is also limited to non-productive means. Over the last few years, mobile banking has been expanding exponentially in developing countries, including Pakistan. Around 49% of SVs has mobile banking account. Approximately 50% of SVs use mobile banking accounts to send money home, i.e., remittances. Furthermore, around 37% of SVs use mobile banking accounts to make business transactions.

## **Economic contribution at the national level**

The national statistics based on the Labor Force Survey (LFS) conducted by the Pakistan Bureau of Statistics (PBS) show that around 0.75 million people out of 61 million employed labor force



# Policy Brief



(approximately 1.22%) engaged in street vending activities across Pakistan. By combining LFS and PSES data, we argue that the economic contribution of SE to the national economy is around PKR 1,037.45 billion (US\$6.69 Billion).

## **VENDING LICENSES AND COST OF EVICTION**

The PSES data shows that only 2% of SVs have a license to operate in the market. This implies that 98% of SVs are working without legal protection in the market. The illegal status of SVs induces local administration to confiscate the material and evict the street vendors. The analysis shows that 65% of SVs face eviction. Around 25% of evicted street vendors get a receipt of confiscated material. This indicates that the majority of street vendors do not get any legal documents as evidence to claim confiscated material. Around 65% of street vendors reported that they did not get back their confiscated material. This again shows massive exploitation by the local administration to extract rents from street vendors. The majority of SVs reported that their carts/tables were removed from the existing location. Only 39% of SVs claim that their carts/tables remain intact after confiscation. Among those who mention confiscation, SVs reported that it took, on average, more than seven days to get back their confiscated material. The local administration imposed a penalty of around US\$ 9. Around 39% of SVs mentioned that confiscation causes more than 50% loss to their inventory, while 37% claimed it causes loss to inventory between 25% to 50%. We use reported data on daily income to monetize the economic loss that occurs due to confiscation. The total economic loss due to confiscation is US\$ 457. The reported economic loss due to informality constitutes around 62% of monthly revenue, which is 215% of net monthly profits. This implies that one-time eviction would lead to almost two months of net profit for the SVs.

## **IMPACT OF COVID-19 ON STREET VENDORS**

Around 87% of SVs are adversely affected by COVID-19 restrictions. This suggests that the majority of SVs are affected by business restrictions imposed by the government to reduce the spread of the pandemic. Around 46% of SVs reported a 100% loss in income due to business closure during the lockdown. Due to lockdown, approximately 41% of SVs reported income loss between 50% to less than 100%. This implies over 87% of SVs face more than 50% loss in income. This reflects a significant decrease in street vendor income during the lockdown.

## POLICY RECOMMENDATIONS

The economic analysis of street vending in the twin cities of Pakistan provides numerous insights for policymakers and other stakeholders, including businessmen, market associations, regulatory authorities, administrative bodies, and social protection agencies. Based on the analysis, the following implications are noted:

- i. Promoting financial inclusion: SVs are poorly integrated with the financial sector to use financial services for business expansion. Financial exclusion undermines business transactions in two ways. First, it restricts business expansion due to low investment and cash transactions. Second, it hampers business prospects due to high lending costs from the informal sector – money lenders operating in the informal market. Financial exclusion occurs due to lack of documentation due to migrant status, collateral to obtain financial services, and stringent legal requirements. Financial inclusion can be improved in the following ways:
  - a. Reduce the documentation requirements (so-called sludge) to facilitate street vendors, especially migrant workers, to obtain financial services. Mobile banking is an alternative to increase financial inclusion.
  - b. The government may allow mobile accounts as collateral to lend loans to street vendors for business purposes. The Micro Finance Institutions (MFIs) should use the mobile account as a security/collateral to expand microfinance.
  - c. To address the demand-side issue of financial inclusion, it is proposed that MFIs may devise lending schemes as per informal committee (informal lending without interest on a rolling basis) to attract street vendors to use the formal financial sector.
- ii. Provide legal protection to street vendors: More than 98% of SVs do not have legal protection to run their businesses. Illegality causes a significant economic loss to street vendors. It is proposed that local administration introduce work permits to qualified street vendors on an annual basis to provide legal protection. These permits generate revenues for the government and help standardize street vending products to ensure quality. The work permit may be renewed on a yearly basis after providing quality protocols.
- iii. Mechanism to formalize the income: Most business transactions (sales and purchases) occurred in cash, allowing tax evasion. The government may link the renewal of work permits with annual income statements based on formal transactions. Street vendors with no formal transaction may not be allowed to renew



# Policy Brief



their work permits. This helps to formalize the income transactions and ultimately enhance tax collection

- iv. Reducing the cost of informality: More than 50% of the operational cost goes to the shopkeeper as the rent of using public space. The local administration should take appropriate measures to tag public spaces for street vending. Legal protection (mentioned in ii) may also help reduce the cost of informality.
- v. Address huge inaccessibility of women to urban markets: Very few women are involved in street vending business in twin cities due to lack of proper spaces for women. It is proposed that particular areas or zones be allocated for women to do street vending business.

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## APPENDIX

**PIDE Street Economy Survey (PSES) Description:** We interviewed fixed street vendors located in the main markets of the twin cities. In Islamabad, we interviewed the entire population of SVs operating in *Markaz* of 15 sectors. Furthermore, we interviewed SVs in the peri-urban market, namely *Bhara Kahu*, in Islamabad to capture the regional heterogeneities. In Rawalpindi, two trading hubs were selected for the survey based on the importance of the markets. First, we interviewed SVs in *Raja Bazar*, a wholesale market, and customers from adjacent districts use this



# Policy Brief



market to buy products at wholesale prices. Secondly, we cover the *Commercial Market*, which is one of the biggest retail markets of Rawalpindi in terms of the offering. We used the computer-assisted personal interviewing (CAPI) method to collect data using android tablets and mobiles. The field survey was conducted in June-July 2021, and the final dataset covers 1683 SVs.