JOBS
DIAGNOSTIC
PAKISTAN

Yoonyoung Cho and Zaineb Majoka

Promoting Access to Quality Jobs for All
Overview Report

WORLD BANK GROUP
Social Protection & Jobs
JOBS

DIAGNOSTIC

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ABBREVIATIONS

FDI....................Foreign Direct Investment
FLFP...............Female Labor Force Participation Rate
FY.....................Fiscal Year
GDP.....................Gross Domestic Product
HEs.....................Household Enterprises
HIES...............Household Income and Expenditure Survey
ICT ..................Information and Communication Technology
ILO ........................International Labour Organization
IT ..................Information Technology
KNOMAD .............Global Knowledge Partnership on Migration and Development
KP(K) ..................Khyber Pakhtunkhwa
LFP .......................Labor Force Participation
LFS .......................Labor Force Survey
LSS .......................Labor Skills Survey
MOPHRD ...............Ministry of Overseas Pakistanis and the Ministry of Human Resources
NEET ..................Not in Employment, Education, or Training
NFNA ..................Non-Farm, Non-Agricultural
NGO ..................Non-Governmental Organization
OEP ....................Overseas Employment Promoters
OPs ....................Overseas Pakistanis
PBS ......................Pakistan Bureau of Statistics
SAR ......................South Asia Region
TFR .....................Total Fertility Rate
TVET ....................Technical and Vocational Education and Training
WDIs ....................World Development Indicators
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FOREWORD

Pakistan has made remarkable progress in alleviating poverty over the past 15 years. The share of the population living in poverty decreased from 64.3 to 24.3 percent between 2001 and 2015, as more than 30 million individuals rose above the poverty line. For Pakistan to sustain this progress and to realize the ambition of becoming an upper-middle-income country by 2047, it is critical that the country's most abundant asset—labor—be utilized in productive income-generating activities. This is particularly so since the country's workforce is young, providing great potential to reap demographic dividends.

However, data indicate that the country's human resources are underutilized, with low productivity levels on average. Labor market data from 2017 suggest that a total population of 208 million relies on the incomes of only 46 million earners. This is partly because of the country's demographic structure, whereby 47 percent of the population is either over 65 or under 15. But even among those of working age, approximately half are out of the labor force, in large part due to a low rate of female participation in the labor force. Moreover, a significant share of workers in the labor market is in nonpaid or low-paying jobs. Amid the current demographic transition—characterized by declining fertility rates and a growing share of working-age individuals in the total population—policy efforts are urgently required to address the underutilization and low productivity of Pakistan's human resources.

This multisectoral Jobs Diagnostic provides a comprehensive overview of Pakistan's job market, with the aim of informing key policy areas. It investigates a host of factors associated with labor outcomes, such as the general macroeconomic environment and job-specific conditions, workers' education and skill levels, labor market segmentation and disparities, structural transformation, and workers' mobility. It highlights issues related to job creation, quality, and access by looking at past and present trends in the labor market. It also provides a global and regional comparison of key dimensions of the job market, in an effort to assess Pakistan's position.

The Diagnostic highlights a prioritized set of interventions to address key priorities on the jobs agenda. These include policies and programs that aim to invest in the human capital of the future workforce, help the current stock of workers improve their productivity, promote women's economic empowerment and thus unlock their potential contribution to the economy, support a business environment conducive to entrepreneurial activities and global competition, and provide stable macroeconomic conditions. Labor mobility, both domestic and international, and the technological advances that are pushing the frontier of emerging jobs should also be considered when setting labor policy.

Jobs are at the center of the country's sustained growth and shared prosperity. Given the complex and daunting nature of Pakistan's job-related challenges, the Diagnostic calls for concerted policy efforts on multiple levels. Along with the World Bank study “Pakistan@100: Shaping the Future,” we hope that the Diagnostic will help stimulate debates on the policy priorities and instruments that will do the most to improve job prospects for the Pakistani people—benefiting their lives and the country's future.

Lynne D. Sherburne-Benz
South Asia Regional Director
Human Development Vice Presidency

Ilangoovan Patchamuthu
Country Director
Pakistan
OVERVIEW

I. CONTEXT

Pakistan is undergoing a demographic transition as the young, working-age population is growing faster than the overall population. This could help create an environment conducive to economic growth and demographic dividends. An economy can realize demographic dividends when the total fertility rates decline and the working-age share of the population grows, leading to a decline in dependency ratios and allowing for greater savings and higher investment in human and physical capital. However, a demographic transition alone does not automatically lead to these dividends, and they can be reaped only if:

- The economy creates sufficient jobs to absorb the large number of working-age people;
- Workers engage in more productive activities; and
- More individuals participate in the labor force.

This means that three key aspects of the job market—the quantity, quality, and inclusiveness of jobs—must be simultaneously addressed to reap the potential benefits of a young labor market. The Pakistan Jobs Diagnostic carried out a careful analysis of the trends and characteristics of Pakistan’s labor market over the 2000–17 period, with respect to key aspects of the country’s job market, and this overview presents the most salient features and recommendations.¹

Pakistan needs more people to engage in productive activities and to support the economy’s growth. In 2017, the proportion of the employed (57 million) out of the total population in the country (208 million) was only 27 percent (Figure O.1). This means that one breadwinner provides for 3.6 individuals in Pakistan. This number of dependents is significantly higher than in other countries: 2.7 people per breadwinner in Bangladesh and 1.9 in Vietnam, for instance. This is in part because almost half of the working-age population is out of the labor force, due to several factors such as a very low female labor force participation rate and a high percentage of youth who are not in education, employment, or training.

Figure O.1
A Snapshot of Pakistan’s Labor Market in 2017


¹ See Appendix A for employment-related terms and concepts used throughout this overview.
If the market is to employ more people—including those who are currently out of the labor force, more job opportunities need to be created. During the period 2000–17, the increase in the number of jobs corresponded to the growing number of workers in the labor force—mostly men—without raising unemployment rates. The employment ratios and working hours of men remained high while the unemployment rates remained low, despite some fluctuations in an economic cycle of boom (2000–05), bust (2006–11), and recovery (2012–17). For instance, in 2017, the average labor force participation rate of prime working-age men (between the ages of 26 and 64) was over 90 percent, and weekly working hours exceeded 50 on average. The rate of employment growth with respect to economic growth is higher in Pakistan than in many other countries, which corroborates the finding that the economy has been absorbing as many people as it can—a critical feature for those who cannot afford not to work. This indicates that there is little room for the labor supply of prime working-age men to increase. Thus, to reap the demographic dividend, more jobs are needed to induce potential workers (now out of the labor force), particularly youth and women, to engage in work.

The quality of jobs, reflecting labor productivity, remains a significant challenge amid limited structural transformation. Structural transformation is characterized by labor moving from lower to higher productivity activities, typically from agriculture to industry and services, and from nonwage to wage employment. At the aggregate level, compared with 2000, in 2017 the labor market was less agriculture-based and featured more wage employment. However, the pace of this change has been very slow, and Pakistan's labor productivity growth rate is far lower than that of comparator countries (e.g., Bangladesh, India, Sri Lanka, Indonesia, and Vietnam) during the same period (Figure O.2).

The overall slow structural transformation is in part due to the economy’s frequent boom-bust cycles, depending on which the pace of quality job creation has varied (Figure O.3). The share of industry and

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**Figure O.2**
Cross-country Comparison: Changes in Productivity, 2000–17

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<tr>
<td>Contribution</td>
<td>Change in productivity (value added per worker) by country and major sector</td>
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<tr>
<td>Vietnam 2000–17</td>
<td>TOTAL=4.5%</td>
<td>VIETNAM 2000–17</td>
<td>4.5%</td>
<td>INDONESIA 2000–17</td>
<td>3.7%</td>
<td>SRI LANKA 2000–17</td>
<td>4.6%</td>
</tr>
<tr>
<td>Indonesia 2000–17</td>
<td>TOTAL=4.6%</td>
<td>TOTAL=4.6%</td>
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<td>TOTAL=4.6%</td>
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<td>TOTAL=4.6%</td>
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<tr>
<td>Sri Lanka 2000–17</td>
<td>TOTAL=4.6%</td>
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<td>TOTAL=4.6%</td>
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<tr>
<td>India 2000–17</td>
<td>TOTAL=4.6%</td>
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<td>TOTAL=4.6%</td>
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<tr>
<td>Bangladesh 2000–17</td>
<td>TOTAL=4.6%</td>
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<td>TOTAL=4.6%</td>
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<tr>
<td>Pakistan 2000–17</td>
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<td></td>
<td>TOTAL=0.9%</td>
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**Figure O.3**
Changes in Sectoral Employment Share, 2000–17

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>AGRICULTURE</td>
<td>-8.0%</td>
<td>0</td>
<td>2.0%</td>
</tr>
<tr>
<td>INDUSTRY</td>
<td>8.0%</td>
<td>-6.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>SERVICES</td>
<td>2.0%</td>
<td>-2.0%</td>
<td>0</td>
</tr>
</tbody>
</table>

Sources: Jobs Structure Tool based on Labor Force Survey and WDI.

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2 Jobs involve any activity undertaken to produce goods or provide services for pay or profit. People in jobs include not only wage workers employed by firms, but also the self-employed and unpaid workers.

3 Pakistan has seen frequent boom-bust cycles without sustained, continued growth. For more discussion, see World Bank (2019a).

4 This is often referred to as employment intensity or the elasticity of growth.

5 The quality of jobs is assessed by employment sector and status as well as earnings. Given that earnings information is available only for wage workers, and labor productivity is measured mostly in aggregate, the sector and status of employment are commonly used criteria for measuring the quality of jobs.


7 The share of agriculture declined from 48 percent in 2000 to 43 percent in 2017; industry from 17 to 26 percent; and services from 34 to 31 percent. Meanwhile, the share of wage employment increased from 37 percent in 2000 to 44 percent in 2017.
services increased during the boom, leading to a significant decrease in the share of agricultural employment. However, during the economic bust that followed, this progress was reversed, as workers increasingly relied on agriculture while industry and services added fewer employment opportunities. Then, as the economy slowly recovered, the industry sector gained momentum in adding jobs, while the share of jobs in the services sector fell further. Similarly, the growth of wage employment (vis-à-vis nonwage employment) was also procyclical. If the economy had grown steadily without much fluctuation, the overall change in the quality of jobs could have been larger.

**Informality is prevalent in Pakistan, and is often considered a source of low-quality jobs.**

Agricultural jobs, most of them informal, provide employment opportunities to a large number of workers in Pakistan: in 2017, over 40 percent of workers still had jobs in agriculture. In addition, a significant share of households (28 percent in urban areas and 17 percent in rural areas) report being self-employed in nonfarm, nonagricultural household enterprises, most of which are also likely to be informal. Even among wage employees, the share of formal workers (with a written contract) is low (only about 26 percent in 2017). Most formal workers are concentrated in the high-productivity services sector (e.g., government services, finance, insurance), and their earnings are more than double those of informal wage workers. In total, roughly 20 percent of urban workers and less than 10 percent of rural workers had formal wage jobs in 2017, with a large gender gap (Figure O.4).

Many of these informal workers in the labor market engage in income-generating activities only to find that their earnings are not sufficient to lift them and their families out of poverty (i.e., they are among the working poor). Alongside robust poverty reduction between 2002 and 2016, the likelihood that workers would find themselves in poverty even while working also declined across all types of workers. The pace of poverty reduction among workers in urban areas, in Khyber Pakhtunkhwa, and in the services sector is particularly noticeable. Despite progress, however, close to one quarter of workers were still in poverty in 2016; more than half of those worked in agriculture, three-quarters had a primary education or less, and the majority (83 percent) were in rural areas. Workers’ characteristics, such as gender and education as well as the status and sector of their employment, are important determinants of poverty. Moreover, the geographic location of a worker is a strong predictor.

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8 Definitions and measures of informality vary depending on whether the focus is on enterprises or workers. For further discussion, see the Appendix B.

9 Close to 60 percent of nonfarm, nonagricultural household enterprises report having no workers but the owner, and 25 percent are family businesses run by the owner and nonpaid family workers. Based on the 2015 Labor and Skills Survey (LSS), 77 percent of household enterprises are informal, with only 23 percent registered.
People can gain access to better-quality jobs by migrating. In Pakistan, spatial mobility is characterized by rural-to-urban and international migration. With respect to urban migration, movement of working-age people within and between provinces is common. Focusing on migration within the past 10 years and excluding those returning from abroad, about 70 percent of internal migration was within the same province and the other 30 percent was across provinces. Although not all internal migration is from rural to urban areas, the large majority of within-province movement was to urban destinations. In particular, there was a significant increase in the population of each capital district between the 1999 and 2017 censuses. There is suggestive evidence that internal migrants have better labor market outcomes (e.g., more wage employment, less of it in agriculture, and for higher earnings) than those who stay put (Figure O.5). Similarly, a significant number of individuals from Pakistan pursue overseas employment for better-quality jobs. The number of outmigrants reached a peak of 900,000 in 2015, although this volume dropped to 500,000 in 2017. Overseas employment provides higher earnings than domestic (Figure O.6), and remittances—equivalent to 7 percent of gross domestic product in 2017—are a critical source of funds as foreign direct investment (FDI) is limited and foreign reserves are low. International migration is particularly common in the province of Khyber Pakhtunkhwa.

There is huge heterogeneity in access to quality jobs, across workers’ characteristics and location. Differences across the male/female and urban/rural divides are among the most notable. The female labor force participation (FLFP) rate has remained stubbornly low (Figure O.7). The FLFP rate in rural areas had been gradually improving up until 2014, and then fell significantly between 2014 and 2017 (from 32.9 percent in 2014 to 28.3 percent in 2017). Meanwhile, the urban FLFP rate is strikingly low and stagnant—it remained at about 11 percent during 2001–17. Frequently mentioned constraints include women’s mobility, household responsibilities, social and individual perceptions of women’s work, and road and workplace safety issues. In addition, the quality and variety of jobs available to women is rather limited: the majority of employed women are almost exclusively in agriculture (78 percent) and manufacturing (19 percent), with a large share of working women being unpaid and underemployed. Other than gender, educational attainment levels and age are important determinants of access to quality jobs. The share of youth (ages 15–24) who are not in education, employment, or training is high, showing large variations across male/female and urban/rural divides (Figure O.8). Moreover, as the employment structure differs widely between urban and rural areas, so does the quality of jobs. The heterogeneity of labor market outcomes across different types of workers is further compounded by large variations across provinces.

10 See Amir et al. (2018) and Amir and Pande (2019).
II. JOBS POLICY FRAMEWORK AND AGENDA

The Pakistan Jobs Diagnostic considers key questions across three broad policy areas:

- What can the Government of Pakistan do to help create more jobs in Pakistan?
- What can be done to improve labor productivity and the quality of jobs?
- What can be done to make the labor market more inclusive and help all individuals gain access to labor market opportunities?

In response to these questions, Table O.1 summarizes the relevant recommendations made in the Diagnostic, organized by policy area and key objectives.

Table O.1
Jobs Policy Areas and Recommendations

<table>
<thead>
<tr>
<th>Policy areas</th>
<th>Policy recommendations</th>
<th>Policy objectives (+ indicates relevance)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Quantity of jobs</td>
</tr>
</tbody>
</table>
| 1. Strengthen the fundamentals of job creation | • Foster an **economic environment** conducive to job creation  
• Facilitate the accumulation of physical and human capital | +++           | ++           | +           |
| 2. Boost labor productivity         | • Provide support for **informal** sector firms to grow and protect workers better  
• Assist the **working poor** to engage in more productive activities  
• Promote workers’ **mobility** to help them benefit from higher earnings | +          | +++          | ++          |
| 3. Promote the inclusiveness of the labor market | • Provide active labor market programs for **women** while promoting overall empowerment  
• Develop comprehensive youth employment initiatives that address multiple barriers | +          | ++          | +++         |

Sources: Labor Force Survey, various years.
The first question is related to the economic fundamentals of job creation—policies that support an enabling environment (encompassing the macroeconomic, business, and competitive environment) and the accumulation of capital (both physical and human). These policies will help create more and better-quality jobs especially in the formal sector, thus stimulating overall economic growth. A large body of literature on economic growth, including Pakistan-specific studies, have suggested several key areas of policy intervention (see McMillan, Rodrik, and Sepulveda [2017] for global research; World Bank [2019a] for discussions of Pakistan).

The second question concerns the broad issue of labor productivity. A first set of policies is needed to help firms and workers in the informal sector to gain access to the benefits of the formal sector: opportunities for the growth of firms (through the deepening of capital, innovation through research and development, technological progress and adoption, and linkages to larger markets, and thus higher labor productivity) and better protection for workers. At the same time, the productivity and earnings of a large majority of the working poor should be enhanced, to help them improve their earning capacity to levels that protect them from poverty. Finally, policy measures to enhance the skills of the working poor currently in the informal sector and to increase the expected returns to labor mobility are worth investigating.

Finally, the third question relates to policy options for including vulnerable workers in the labor market. In particular, the significant challenges faced by female and young workers compared with their male and older counterparts are noted. Some of these can be more structural due to social norms, legal and institutional barriers, and conflict and security conditions. Others can be addressed through a comprehensive and customized set of interventions. Policy options to help make the labor market more accessible to these workers, based on global research and evidence, are considered.

III. POLICIES TO STRENGTHEN THE FUNDAMENTALS OF JOB CREATION

BOX 0.1: KEY CHALLENGES TO JOB CREATION

- Overall uncertainties in the economy
  - Frequent economic fluctuations
  - Security and conflict concerns

- Inefficient business environment
  - Weak business infrastructure [e.g., electricity, connectivity]
  - Cumbersome business processes and regulations

- Lack of resources for physical capital accumulation
  - Firms’ limited access to credit
  - Weak financial markets and low foreign direct investment
  - Limited financial inclusion and low level of domestic savings
  - Limited fiscal space for public investment due to very low tax revenue

- Lack of human capital accumulation
  - Limited skills development opportunities throughout the life cycle

While the private sector creates jobs, the government can adopt measures to make the economic environment more conducive to quality job creation in line with strategies for growth. The following policy measures need to address the specific challenges summarized in Box O.1.
• First, ensure macroeconomic stability and move away from long-standing economic fluctuations. As seen in Figure O.3, stable growth helps create quality jobs while busts easily reverse the progress made. Short-term stabilizers addressing the issues of current account imbalance, depleted foreign exchange reserves, and lack of confidence in the economy help avoid deeper recessions. At the same time, measures to ensure fundamental stability (e.g., tax policies to improve revenue collection and remove distortionary subsidies, reforms for public utilities and energy sectors to rationalize public spending, and an exchange rate policy to strengthen the export sector) should continue to be upheld even after short-term crises are avoided. There is renewed emphasis on these policies in light of the recent, near-crisis macroeconomic conditions of 2019.

• Second, improve the business environment. While macroeconomic conditions affect the overall economic performance of a country, the business environment has a direct bearing on the private sector’s ability to start and operate businesses, and thus create jobs. The World Bank’s Doing Business 2019 and 2020 (based on surveys conducted in Karachi and Lahore) ranked Pakistan 136th in 2019 and then 108th out of 190 countries in 2020, and highlighted a few priority areas for reform (World Bank 2019c). In particular, among the 11 potential areas considered in the Doing Business score, the processes and regulations that influence the accumulation of firms’ physical capital (e.g., dealing with construction permits, registering property, paying taxes), and areas that are critical to firms’ operations (e.g., getting electricity and enforcing contracts) lagged. Compared with the macroeconomic environment, which is affected by external factors and is not entirely under the government’s policy control, the business environment can be significantly improved by a strong government commitment to policy reforms and their prioritization, and to the adoption of innovative technology, as several countries have shown.

• Third, foster export competitiveness. This is important not only for the country’s growth prospects, but also for quality job creation. Studies suggest that exports, especially labor-intensive manufacturing industries such as textiles, can further contribute to creating quality jobs (Artuc et al. 2019; Lopez-Acevedo and Robertson 2016). Pakistan’s exports face a few interconnected challenges: their integration with the global market has been weak; little progress has been made in export diversification over time; export activities are concentrated on textiles and agro-food products with limited diversity compared with other countries (see Vietnam’s case, for instance) (Figure O.9); and exports tend to come from traditional goods (e.g., raw materials and commodities) rather than modern production (e.g., synthetic materials and manufactured goods). Several export promotion measures have been used in Pakistan (e.g., export processing zones, subsidies), but their effectiveness is unclear. More efforts are needed to promote a gradual reduction in tariffs and revamp export promotion measures. Reducing tariffs on intermediates will reduce production costs for Pakistani firms downstream and thus help them gain competitiveness, by allowing them to access cheaper, better quality or more varied intermediate inputs—just as their competitors in Bangladesh do. Also, gradually reducing tariffs on final goods will help bring more competition and spur efficiency gains, and help more productive firms to grow. Moreover, it will be important to revamp export promotion measures, to reduce informational costs and level the playing field for new exporters to be able to find new markets and introduce new products. Export promotion measures should be combined with appropriate monitoring and evaluation mechanisms to enable evidence-based policy making (see World Bank [2012, 2019a] for more discussion).

In addition to creating an enabling environment, efforts are needed to increase and upgrade inputs for production—especially physical and human capital, to strengthen the fundamentals.

• First, mobilize resources to increase investment in physical capital. Pakistan lags in capital investment—as measured by the rate of fixed capital formation and FDI. Weak financial markets and limited domestic savings in part explain the lack of available resources, and the difficulties firms face in gaining access to credit.

11 Short-term adjustment measures include increasing the interest rate, raising energy prices, allowing currency devaluation, tightening fiscal spending, and mobilizing resources from financial markets and international financial institutions (e.g., the International Monetary Fund).

12 The recent macroeconomic conditions led to a negotiation with the International Monetary Fund for a support program. See Ahmed (2018) and World Bank (2019a, 2019b) for more discussions of policy measures for macroeconomic stability.

13 For case studies that include several success stories, see: https://www.doingbusiness.org/en/reports/case-studies/view-all.

14 In 2001, Pakistan’s exports as a share of gross domestic product (GDP) were at a similar level as those of the South Asian countries, at about 14 percent, but by 2017, Pakistan’s share decreased to 8 percent whereas Bangladesh’s was at 15 percent, India’s was close to 20 percent, and the regional average was about 18 percent.
Fiscal space for public investment is also limited due to very limited tax revenues.\textsuperscript{15} Thus, mobilizing resources through tax policies and a drive for financial inclusion in the domestic market is required (see World Bank [2019a] and the National Financial Inclusion Strategy [2015]). Also, facilitating FDI and remittances from the international market is critical. More efforts to facilitate FDI (e.g., make procedures easier and information on promising sectors available) can be undertaken while efforts to strengthen other fundamentals continue. Further, given that the economy is increasingly relying on remittances from international migrant workers, more systematic management of international migration and the facilitation of remittance transactions is needed.\textsuperscript{16}

- **Second, increase public financing in human capital investment while getting the priorities right.** It is worth highlighting that investing in human capital and building a strong foundation for labor productivity are critical. As the World Bank’s Human Capital Index and policy discussions around it have indicated, the highest priority goes to investments early in the life cycle for effective human capital accumulation (Ahmed, Cho, and Fasih 2019). Numerous studies have already emphasized the importance of the first 1,000 days in a person’s life, a critical window of opportunity for human capital investment. Informed decisions on parenthood; early childhood health, nutrition, and development; and school readiness all merit greater policy attention. Then, ensuring universal primary schooling and a transition to secondary schooling as well as enhancing the overall quality of education and learning are important. Given that the human capital indicators of vulnerable individuals—especially girls from low-income households—are significantly lagging behind those of their peers, and that these individuals are least likely to benefit from general investments in education, targeted support for low-income families and girls in particular should be prioritized. A recently announced policy framework, Ehsaas (meaning “compassion”), and corresponding provincial investments are a welcome approach.\textsuperscript{17}

\textsuperscript{15} Pakistan collects less than 13 percent of GDP in tax revenue, with a very narrow tax base.

\textsuperscript{16} In 2017, remittances were equivalent to 7 percent of GDP, whereas foreign direct investment was around 1 percent of GDP.

\textsuperscript{17} http://www.pakistan.gov.pk/ehsaas-program.html.
IV. POLICIES TO BOOST PRODUCTIVITY

**BOX 0.2: KEY CHALLENGES TO GREATER PRODUCTIVITY IN THE LABOR MARKET**

- Limited incentives for businesses to operate as formal entities and pursue growth
  - Costs associated with formality may outweigh the benefits

- Limited skills of workers
  - Overall level of skills is low—e.g., the literacy rate among the working-age population is only 70 percent
  - Access to education and skills building opportunities are uneven (e.g., primary enrollment rate: 46 percent among bottom quintile households vs. 92 percent among the highest quintile)

- Limited access to productive assets and financial products and services, and low levels of confidence among potential entrepreneurs
  - Access to productive assets [credit, land, livestock, etc.] is limited
  - Financial inclusion rates [as measured by the Global Findex Database] are low, and access to credit for business purposes is significantly limited
  - Confidence [and access to social networks] is lacking

- Risks associated with migration
  - Limited information on available job opportunities
  - Limited access to finance to pay for migration costs [especially for international migration]
  - Unforeseen challenges in destination markets

Given the heterogeneity in the productivity of informal firms and workers, there is room for interventions to support informal sector firms to pursue growth and better protect their workers. Because formality is typically associated with higher productivity, efforts to formalize firms have been part of the package of interventions to address low productivity. Formalization efforts include reducing the costs of formality (by deregulation and lower tax wedges)\(^\text{18}\) and simplifying administrative procedures to formalize.\(^\text{19}\) However, with increasingly diversifying and fluid labor markets, more attention is being paid to promoting growth among informal firms and providing protection for workers regardless of their employment status, shifting away from formalization efforts. The following interventions hold promise to achieve such outcomes.

- **First, provide business development services for local microenterprises to address their challenges to growth.** Studies note that lack of access to credit and low levels of business management capacity are two key constraints to firm growth, and Pakistan is no exception.\(^\text{20}\) The majority of nonfarm, nonagricultural household enterprises in Pakistan report being primarily set up using individual capital, household income, or asset sales (not through loan finance). They tend to be local without being connected to broader value chains, and operate in specific areas (mostly the hometown of the household head) with input providers and consumers that are also local. These businesses tend to continue traditional ways of operation without pursuing much innovation, risk taking, or firm growth. Few have a systematic mechanism to learn about prices, and several that responded to surveys expressed a need for access to more market information to

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\(^{18}\) See reviews from di Porto, Elia, and Tealdi (2017); Packard, Koettl, and Montenegro (2012); Feld and Schneider (2010); and Maloney (2004), among others.

\(^{19}\) Multiple studies have examined the impact of policy efforts to formalize informal firms on the productivity, performance, and formality of these firms. See de Mel, McKenzie, and Woodruff (2013); Bruhn (2011); Fajnzylber, Maloney, and Montes-Rojas (2011); and Kaplan, Piedra, and Seira (2011), for example.

\(^{20}\) For instance, Diniz and Mansuri (2018) found that offering an eight-day business training for entrepreneurs led to improved business and household outcomes in Pakistan.
properly set prices. Thus, providing access to credit and opportunities for managerial capacity building, coupled with efforts to promote formality among firm owners, could make a difference in enhancing firm productivity. In addition, growth mindsets and the building of noncognitive skills can be part of business development services; an increasing body of research supports the effectiveness of interventions that focus on these (to be discussed further below).

• **Second, support informal workers to gain access to the benefits of formality, which can reduce the costs to firms.** Informal workers typically do not have access to job security (through written contracts), social insurance (e.g., pensions or health insurance typically provided through formal employment), worker protections (through labor regulation), and/or ability to invest in skills development (e.g., on-the-job training). These shortcomings affect workers’ labor productivity. Countries have been experimenting with mechanisms through which workers who may have the resources to save, but are not in a formal employer-employee relationship, can access contributory pensions/savings (see Guven [2019] for further discussion). Studies also suggest that workers’ valuation of access to such benefits varies, as does employers’ willingness to provide them.21 For instance, written contracts that provide job security are valued by workers, while employers would not mind providing them. In such cases, helping employers and workers adopt standard contracts, and promoting a culture of such practices, would make a major difference.

There is a strong need to help poor, unskilled workers overcome key obstacles to higher earnings in an environment where formal jobs and employees positions are limited. These workers typically face multiple challenges, including lack of skills, productive assets (credit, land, livestock, etc.), financial products and services (savings or borrowing), lack of connection to markets, and limited confidence and agency (see Box O.2). Several key steps would support such workers in engaging in more productive work:

• **First, provide skill development opportunities.** Second-chance skills development in basic literacy and numeracy, entrepreneurial skills, and noncognitive skills and social empowerment are among the possible priorities. In particular, noncognitive skills—including attitudes, behaviors, and mindsets—are increasingly receiving policy attention as they are an important determinant of schooling, employment, work experience, and choice of occupation, and thus labor market success (Heckman, Stixrud, and Urzua 2006). In Pakistan, there are stark differences in the returns to cognitive and noncognitive skills between wage workers and the self-employed. Some dimensions of noncognitive skills are strongly associated with higher earnings, but only for the self-employed, conditional on years of schooling and a cognitive score. A growing body of research corroborates the impact of efforts to encourage a “growth mindset” for entrepreneurial outcomes, and proposes cost-effective measures for doing so.22 Interventions to foster the development of noncognitive skills as part of active labor market programs—such as mentoring, community-led volunteer or club activities, or peer networks—should be further investigated and expanded in the context of Pakistan.

• **Second, offer productive inclusion (also known as graduation) packages to enhance the productivity of the poor.** Such efforts are based on a holistic framework that (i) promotes basic well-being (e.g., health, nutrition, consumption), (ii) builds livelihood activities, (iii) deepens financial inclusion, and (iv) strengthens social empowerment. Pakistan has implemented related interventions but these have tended to focus narrowly on livestock transfers. A much broader menu of options for supporting the livelihoods of the poor, considering the local context, should be investigated. For example, efforts to further their financial inclusion and social empowerment can be strengthened. The scale of these interventions also needs to be significantly increased, commensurate with the large segment of the population that would benefit from this support.

Given the returns to domestic and international migration, several questions arise: Why don't more people take advantage of such opportunities? And how can policies help them do so? The main mobility challenges boil down to (i) uncertainties and costs associated with moving and (ii) prospects (or lack thereof) of high earnings and quality of living in the destination markets. Workers do not have sufficient information on better jobs, and tend to receive information through social networks or middlemen (in the case of international

21 See Kumar et al. (2019) for further discussion.
22 Campos et al. (2017) found that the provision of training focused on a self-starting, future-oriented, and persistently proactive mindset significantly improved business outcomes.
The costs associated with a failure to secure employment opportunities are often too large to bear, especially for the poor, who have limited access to credit and savings. The urban labor market, as noted in the literature, is characterized by income volatility, expansion of informality and working poor, congestion and other constraints that make commuting to jobs difficult, slums and risky housing conditions, low-quality and highly congested social services, and potential socioeconomic marginalization due to a lack of social or kinship-based networks. In the international markets, significant challenges exist associated with exploitation and cultural isolation and lack of safety nets.

The following measures are proposed to address several of the challenges associated with workers on the move:

- **First, provide resources (financial and nonfinancial) to lower the cost of migration and to mitigate the consequences of risks.** Incentives to migrate, information on urban jobs, and interventions to promote safe migration are among a few examples.

- **Second, adapt safety nets and labor programs to the urban context to help vulnerable workers (migrants) cope with risks and enhance their resilience.** It is well recognized that urban areas pose a different set of opportunities and challenges than do rural areas, and policy responses must be adapted to the environment (Gentilini 2015). For instance, public works could focus more on local community projects that improve urban public services (e.g., water and sanitation, waste management), labor programs could support green enterprises (e.g., recycling, eco-construction, and green energy), and safety net programs could be linked with specific urban measures such as housing subsidies.

- **Third, manage international migration (and remittances) more systematically for safe, inclusive, and productive migration.** Many areas can be strengthened throughout the process: pre-decision and pre-departure support, services in destination countries, and support of return migration. In the short run, immediate support for workers and better regulations for middlemen (i.e., overseas employment promoters) would be helpful. Given that many workers rely on a relatively narrow set of personal networks and middlemen for information, the government can provide a wide range of information through various mechanisms (e.g., job fairs, media, migration resource centers, local government offices, and the premises of religious centers), and strengthen mandatory predeparture orientation and training so that they are more practical and helpful. Further, regulations regarding overseas employment promoters and their utilization of subagents can be better monitored and enforced by introducing a robust grievance redressal mechanism. In the longer run, at the macro level, greater efforts can be made to establish bilateral agreements to promote diversified productivity, the sustainability of labor migration systems, and workers’ protection.

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23 For the benefits of providing incentives to migrate in the case of Bangladesh, see Bryan, Chowdhury, and Mobarak (2014). For efforts to promote safe migration in Bangladesh, see BRAC and World Bank (2016). In the rural Philippines, providing individuals with vouchers to attend a job fair encouraged job seekers to look for work in urban areas and increased their chances of getting a job in the formal sector (Beam 2016). Similarly, in India, spreading information in villages about city-based business process outsourcing jobs for women, and offering placement services, increased the likelihood of young women working outside the home (Jensen 2012).
V. Policies to promote the inclusiveness of the labor market

Box 0.3: Key challenges to a more inclusive labor market

- Barriers to women’s labor force participation
  - Deep-rooted social norms regarding women’s roles and work
  - Limited access to ownership and control of productive assets
  - Mobility constraints, security and gender-based violence, household responsibilities
  - Limited psycho-social and workplace-related cognitive and non-cognitive skills

- Challenges faced by youth
  - Limited psycho-social and workplace ability as well as cognitive skills
  - Lack of entrepreneurial ability
  - Lack of experience
  - Inefficient job-matching due to limited networks and information
  - Disparity between actual conditions and aspirations for modern employment [non-agriculture, wage employment] and easier mobility [between provinces and across borders]

First and foremost, the highest priority on the policy agenda for labor market inclusiveness is to increase women’s economic empowerment. The Global Gender Gap Index 2018 produced by the World Economic Forum ranked Pakistan 148th out of 149 countries (WEF 2018). Deep-rooted social norms that affect women’s human capital accumulation and labor market status, as well as civic and political activities, are often pointed to as the culprit. In this daunting environment, steady and long-term policy efforts are needed to influence social norms toward encouraging women’s empowerment. Meanwhile, several targeted active labor market programs could be adopted to specifically address some challenges (Box 0.3) and make a difference in women’s economic engagement and labor market activities at the margin.

- First, address gender norms, lower procedural (legal, institutional) costs for women’s economic activities, and promote girls’ education to promote women’s overall economic empowerment. Awareness raising activities, social messaging, as well as role models and demonstration effects can change the perceptions of women’s work and mobility as well as shared household responsibilities. Relatedly, there is a strategic need to promote girls’ secondary education, given its significant benefits (e.g., delayed marriage, delayed childbearing, and significant returns in the labor market). Provinces such as Punjab and Sindh operate stipend programs to incentivize girls’ attendance in secondary school. Similar initiatives can be introduced in other provinces, and such programs can be further strengthened to ensure inclusion of girls in rural areas and from poor households, and to promote a broader set of skills enhancement (e.g., job-relevant skills, life and business skills as well as core cognitive ones). In addition, policy reforms are needed to make procedures less costly and cumbersome for women’s ownership of land, formal financial accounts, and enterprises.

- Second, promote income diversification and secondary activities in rural areas. The data show that women from low-income families who need secondary incomes are more likely to work. However, women’s choice of occupations is quite limited (Figure O.10); many women engage in agricultural activities—often without pay—in rural areas, where mobility constraints are relatively muted and working hours are flexible. Thus, agriculture is important for women’s employment. To further women’s economic empowerment while increasing their productivity, secondary activities (such as cash crops, livestock, petty trades, and food

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24 A legal and institutional framework for gender equality that goes beyond labor market interventions should be examined. See World Bank (2019e).

25 The FLFP rates in the first and second quintiles of household wealth—at 24 and 16 percent, respectively—are significantly higher than those of their non-poor counterparts as per the Labor Skills Survey (2015).
processing) can be promoted in addition to the main agricultural activities. In doing so, the female workforce can be further utilized for government programs such as extension services to encourage other women to participate in labor market activities.

- **Third, upgrade agricultural practices along the value chains for women.** As much as women depend on agricultural jobs, the sector also depends on the female labor force: the female share of agricultural workers increased from 23 in 2001 to 39 percent in 2017. Thus, upgrading female agricultural workers’ skills, knowledge, and linkages to value chains can significantly enhance agricultural productivity. Gender-smart investments and technology adoption in the agricultural value chain—inputs, production, post-harvest processing and storage, transportation, marketing, and sales—should be further investigated and strengthened.

- **Fourth, adopt measures that require or incentivize employers to provide gender-friendly work environments (e.g., separate workspaces, transportation, or childcare).** Such efforts can start from large enterprises in manufacturing. Studies suggest that employment opportunities in manufacturing, especially for young women, not only increase the FLFP but also further general empowerment by delaying marriage and childbearing (Heath and Mobarak 2015; Jensen 2012). Focus group discussions, however, suggest that many women have reservations about working in offices (or factories) vis-à-vis home-based employment, mainly for two reasons: work-life balance and workplace harassment (see Amir et al. 2018). Due to rampant workplace, gender-based harassment, gender-segregated workspaces are generally preferred. At the same time, employers are concerned with the costs associated with hiring women such as potential implications for workplace dynamics, additional expenses for providing separate workplace facilities, and regulations regarding maternity leave. Incentives (e.g., tax credits/exemptions or subsidies; gender equity certifications) combined with regulations (e.g., requirements for workplace safety) can help mitigate employers’ costs while meeting the needs of women in the workplace.

- **Fifth, harness information and communication technology (ICT) and social sector jobs (e.g., as caregivers, health workers, social workers, etc.) for the benefit of relatively well-educated women in urban areas.** The unemployment rate among urban females with postsecondary education was about 12 percent in 2017. This rate is significantly higher than for men or women at any other education level in rural or urban areas. And again, this is in an economy where the overall unemployment rate is only about

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26 See FAO (2015) for further discussion.
27 See IFC (2016) for discussions of investing in women along the agribusiness value chain; FAO (2015) for women in agriculture; and World Bank (2019d) for an example of gendered value chain analysis in Nepal.
28 See Pungiluppi, Castro, and Muñoz-Boudet, 2010 for discussion on the gender equity certification model.
2 percent. Many unemployed women hope for public sector jobs, but opportunities are few. These women may be arguably not part of vulnerable groups, as they tend to be from relatively well-off families (and thus can afford not to work), and reap the returns to education from the marriage market. However, without addressing their unemployment challenges, it will be difficult to improve women’s labor force participation in urban areas. Emerging ICT jobs that could provide new opportunities for women may be promoted. In Pakistan, freelancers in ICT generally work 34 hours a week, with flexible hours, and a gender gap in earnings does not seem to exist; some records even suggest that female freelancers in Pakistan earn more than their male counterparts. Measures to promote women’s ICT jobs include creating workspaces for women with Internet connections, networks, and mentors. Also, social sector jobs that tend to be considered female-friendly and socially acceptable jobs for women, are significantly lacking. These potential areas of growth—and others yet to be identified—can be further investigated and promoted.

The disadvantages that young people face in the labor market should not be overlooked. School-to-work transitions take place as early as age 12, although Pakistan defines 15 (or even 18 or 19) as the minimum age for employment. Youth from low-income families are more likely to start working at earlier ages, with limited educational attainment. Despite young people’s higher educational attainment (compared with their older counterparts), the agricultural share of employment was about 40 percent among youth—a level similar to that of older workers.

Globally, many efforts to tackle the challenges of youth employment have had limited effects, and Pakistan is no exception. Many studies have examined the effectiveness of various youth employment programs, including technical and vocational education and training (TVET), youth entrepreneurship, wage subsidies, assistance in job searches, and public employment services, and indicated that their performance is mixed (Kluve et al. 2019; Cho and Honorati 2014; McKenzie 2017; IEG 2012). The consensus emerging from these studies is that effective interventions (i) take a holistic approach to tackle the multiple challenges faced by youth, (ii) incorporate soft skills or life-skills training, (iii) integrate workplace learning, (iv) focus on entrepreneurship and self-employment, and (v) are tailored to the particular group of youth targeted by the program.

The following measures are proposed to address several of the challenges (see Box O.3) associated with at-risk youth:

- First, develop more comprehensive youth employment initiatives that combine the development of skills (cognitive, technical, and soft skills), on the job training (in case of wage employment) or financing (in case of self employment), and mentoring and coaching. Pakistan’s youth programs have been focusing on skills development, particularly formal TVET. However, given the number of youth who have not completed a secondary education or are not qualified to receive TVET, the initiatives should be adapted to poor and less-educated youth.

- Second, expand opportunities to build workplace skills and experience. These may include on-the-job training, internships/apprenticeships, and wage subsidies. The delivery mechanisms of these programs may vary, but all would do well to prioritize fostering workplace skills and relevant experience among youth.

- Third, in line with the first two points, there is a need to reform TVET to place greater emphasis on comprehensive support and the building of workplace skills. Pakistan’s TVET programs face multiple challenges related to access, coverage, governance, and quality, among others (Nomura 2019). In addition to addressing these challenges, training programs can be strengthened by other supplementary services including job search assistance, job placement, and on-the-job training. The monitoring and evaluation systems for TVET should do more to track labor market outcomes beyond the inputs and outputs of training provided.

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29 Among unemployed youth, almost half (49 percent) expressed a desire to be employed full time in the government sector, indicating that unemployment is in part explained by a gap between actual labor market conditions and job seekers’ expectations (only less than 5 percent of jobs are in the public sector).
30 See Anukriti and Dasgupta (2017) for discussions of marital sorting and dowry.
31 Common ICT jobs include IT and programming, design and multimedia, writing and translation, and sales and marketing.
32 http://www.technologyreview.pk/working_hard_for_money/.
• **Fourth, make agriculture attractive to youth.** In most countries, the share of agricultural employment among youth is typically lower and declines faster than that of older adults. However, this is not the case in Pakistan, where the share of agricultural employment is about the same for youth and older adults, at around 40 percent. Efforts to utilize the young workforce to improve agricultural productivity while responding to their labor market aspirations could include supporting the adoption of new technologies, use of ICT, green fertilizers and pesticides, commercial crops, and nonfarm rural business (see World Bank 2017; FAO 2014). Given the very limited understanding of the constraints and needs as well as aspirations of young workers in agriculture, more research on this topic is required.

• **Fifth, provide job search assistance (and intermediation).** The key market failure noted here is that it is difficult for youth—who have limited networks and labor market experience—to obtain labor market information. Surveyed Pakistani jobseekers mention that their main sources of such information are their personal networks (friends and relatives), indicating significant barriers for youth (particularly women). Studies have suggested that job search assistance, core to public employment services, is a cost-effective way of reducing youth unemployment in developed countries (Card, Kluve, and Weber 2018; Marinescu 2017). Job fairs, the provision of information on the availability and requirements of jobs, and clinics supporting job seekers in updating their resumes are among the options to consider.

### VI. IN CLOSING

**Pakistan’s job challenges, while not unique, are daunting.** Like most countries around the world, Pakistan faces challenges in the quantity, quality, and inclusiveness of its jobs. As in many developing countries, the pace of job creation in the formal sector has also been lagging, and many workers remain informal, and thus without access to various features of formality that could help increase their productivity. Transitions out of agriculture to industry and services have been slow, and the majority of jobs still come from agriculture. A significant share of workers find themselves trapped in poverty despite their engagement in the labor market. There are large gaps between male/female and urban/rural performance as well as across education and age groups. These gaps are exacerbated by significant provincial variations.

Among many policy options discussed, a prioritized set of interventions to address key challenges merits further emphasis (Table O.2). These include those efforts likely to have large spillover impacts on overall growth and the economy, including on job markets (e.g., reform of tax policies, managed international migration); those proven to have benefits based on global research (e.g., early childhood development, business regulation reforms, promotion of soft skills); and those that can build on existing initiatives and development (e.g., youth programs, efforts to boost ICT).

This overview highlighted the need for policy options customized to the constraints of disadvantaged workers. Some barriers to labor market activities and employability are structural, and so the appropriate policy responses may go beyond labor market interventions. Other barriers, such as a lack of skills, experience, information, networks, and resources, can be addressed through targeted interventions. Given the heterogeneity of such barriers, there is no one-size-fits-all solution: a customized approach directly addressing each constraint will be needed. Also, given the limited evidence base of what interventions work in Pakistan, more efforts to evaluate and assess their effectiveness would be needed.

**The agenda for improving Pakistan’s jobs remains unfinished.** The Jobs Diagnostic was unable to dig deeper into areas where data are significantly limited. For instance, its analysis of firms’ dynamics (entry, growth, exit) by various characteristics such as formality, sector, size, and locality was limited due to a lack of data at the firm level. Informal sector activities and productivity are difficult to capture. The Jobs Diagnostic relied on the Household Income and Expenditure Survey, Labor Force Survey, and Labor Skills Survey for its analysis.

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33 See Merotto, Weber, and Aterido (2018) for common labor market challenges common in low-income countries.

34 The latest economic census in Pakistan was conducted from 2001 to 2003, and released in 2005, by the Pakistan Bureau of Statistics (PBS). The latest Enterprise Survey in Pakistan was conducted in 2013–16 for nonagricultural enterprises with five or more employees. However, the survey suffered low response rates, undermining the credibility of the results. PBS conducted a Census of Manufacturing Industries (CMI) in 2015–16, but has not yet released the data.
of self-employment and household enterprises. However, there is room for further investigation, especially of topics concerning urban slums and informality. The practice of evidence building and setting evidence-based policies could be further promoted; a resulting, broader menu of policy options may be scaled up as and when policies are found to be successful.

### Table O.2
**Policy Areas, Policy Recommendations, and Areas of Immediate Action**

<table>
<thead>
<tr>
<th>Policy areas</th>
<th>Policy recommendations</th>
<th>Specific areas that require immediate action</th>
</tr>
</thead>
</table>
| **Strengthen the fundamentals of job creation** | • Foster an economic environment conducive to private-sector-led job creation  
• Facilitate the accumulation of physical and human capital | • Reform business regulations and tax policies  
• Implement early childhood development programs for poor and vulnerable households, with a focus on general well-being and nutrition |
| **Boost labor productivity**         | • Provide support for informal sector firms to grow and protect workers better  
• Assist the working poor to engage in more productive activities  
• Promote workers’ mobility to help them benefit from higher earnings | • Provide business development services for enterprises with growth potential  
• Provide a package of interventions for productive inclusion  
• Promote managed international migration |
| **Promote the inclusiveness of the labor market** | • Provide active labor market programs for women while promoting overall empowerment  
• Develop comprehensive youth employment initiatives that address multiple barriers | • Encourage secondary, nonfarm activities for women and youth in rural areas  
• Harness ICT for women and youth  
• Promote soft skills building and workplace learning  
• Provide soft skills and job search assistance in addition to vocational training |
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APPENDIX A: DEFINITIONS OF EMPLOYMENT STATUS AND TYPE USED IN THE REPORT

The employment-related terms and concepts used throughout the report are based on the official employment definitions of the International Labour Organization (ILO). The working-age population is classified into two groups: active and inactive. The active population is further divided into employed and unemployed. An individual is considered employed if he or she worked at least one hour over the previous seven days, even if the economic activity was unpaid. An individual is considered unemployed if he or she worked less than one hour in the last seven days, and is actively looking for work and is available to work. In this report, we further subdivide the employed population by type of employment. Definitions of the key terms used in this report are provided below.

<table>
<thead>
<tr>
<th>Table A.1</th>
<th>Employment-related Terms and Concepts</th>
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### Labor Force

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Working-age population</td>
<td>Individuals ages 15 to 64</td>
</tr>
<tr>
<td>Labor force (active population)</td>
<td>Individuals who were employed or unemployed during the week prior to the survey</td>
</tr>
<tr>
<td>Labor force participation rate</td>
<td>Share of working-age population that is in the labor force</td>
</tr>
<tr>
<td>Employed</td>
<td>Individuals who performed any type of economic activity (paid employment, self-employment, or unpaid work) for at least one hour a week prior to the survey, or who had a permanent job but were not working during the week prior to the survey</td>
</tr>
<tr>
<td>Employment ratio (employment to working-age population ratio)</td>
<td>Share of the working-age population that is employed</td>
</tr>
<tr>
<td>Unemployed</td>
<td>Individuals who do not work (are not in employment), but are actively looking for a job and are available to work</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>Share of the labor force that is unemployed</td>
</tr>
<tr>
<td>Inactive (out of the labor force)</td>
<td>Individuals not in the labor force; this includes all individuals who were not employed or unemployed during the week prior to the survey, including because they were in school, were retired, or were ill or disabled</td>
</tr>
<tr>
<td>NEET (not in employment, education, or training)</td>
<td>Individuals of working age who are not employed and not attending school or training</td>
</tr>
</tbody>
</table>
### Types of Employment

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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<tbody>
<tr>
<td>Wage employment</td>
<td>Employed individuals who have declared being employed by an employer outside the household and are paid (either with or without a contract, in cash or in kind); this includes regular wage employees as well as day labor/casual workers</td>
</tr>
<tr>
<td>Self-employment</td>
<td>Employed individuals who work on their own account in agricultural (including farming activities) and nonagricultural sectors to generate income</td>
</tr>
<tr>
<td>Unpaid (family) worker</td>
<td>Employed individuals who are not receiving remuneration</td>
</tr>
</tbody>
</table>

### Formality of Wage Employment

<table>
<thead>
<tr>
<th>Formality</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal employment</td>
<td>Employed individuals who have declared being wage workers with a written contract</td>
</tr>
<tr>
<td>• Formal public</td>
<td>Formal wage employees in the civil service, a para-public enterprise, or an international organization</td>
</tr>
<tr>
<td>• Formal private</td>
<td>Formal wage employees in private firms</td>
</tr>
<tr>
<td>Informal private wage employment</td>
<td>Employed individuals who have declared being wage workers without a written contract</td>
</tr>
</tbody>
</table>

### Regularity of Wage Employment

<table>
<thead>
<tr>
<th>Regularity</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Regular employment</td>
<td>Workers who have fixed, monthly wages with a regular job</td>
</tr>
<tr>
<td>Nonregular employment</td>
<td>Workers who serve as casual labor with piecemeal and output-based payment</td>
</tr>
</tbody>
</table>

### Self-employment

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Employer</td>
<td>Self-employed individuals who employ at least one paid employee</td>
</tr>
<tr>
<td>Own-account worker</td>
<td>Self-employed individuals who do not employ any paid employee, but may employ unpaid (family) workers</td>
</tr>
</tbody>
</table>
Informal employment refers to the hiring of labor that is not subject to labor regulations, including those related to statutory minimum wages, mandated social contributions and benefits, and the termination of contracts. Informal employment is a large component of labor markets in many developing countries. Although the concept of informal employment is clear, measuring it in practice is not straightforward. In that regard, the International Labour Organization (ILO 2013) makes a distinction between the informal sector, which refers to the informality of production units, and informal jobs, which refer to workers’ type of employment.

While the formal sector, made of firms that are registered with authorities, mostly consists of formal employment, not all workers employed in the formal sector are necessarily employed in formal jobs. For employees, the international statistical definition of employment (17th International Conference of Labour Statisticians [ICLS] guidelines) defines informal jobs as “an employment relationship that is, in law or practice, not subject to national labor legislation, income taxation, social protection, or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)."

(In)formality of enterprises in Pakistan: With limited data on production units, such as enterprise surveys or economic censuses, it is difficult to measure the size or prevalence of the informal sector.

In a sole proprietorship (single-member company)—common among household enterprises—there is no distinction between the individual owner’s business and household activities, and the owner is solely responsible for all liabilities as well as profits, which is common in Pakistan. In this case, the business is considered legitimate as long as the owner has a National Tax Number under the Federal Board of Revenue and pays individual income taxes.

A limited liability company (either private or public) has two or more shareholders (owners). In this case, shareholders or owners are protected from corporate/business liabilities, and the corporation pays corporate income taxes. These firms are required to register with the Securities and Exchange Commission of Pakistan (SECP) and are governed by the Companies Act 2017. They are by definition formal firms and are required to fulfill their legal duties, including providing taxes and benefits for workers.

(In)formality of workers (jobs) in Pakistan: Throughout the Jobs Diagnostic, a formal wage employee is defined as a wage worker who holds a written contract for his or her current employment. A rationale for the use of this proxy is that a written contract constitutes the legal basis for the enforcement of and compliance with labor laws that characterize formal employment. This choice was also driven by practical considerations, as labor force surveys do not ask questions about access to social insurance, which could be an alternative proxy for formal employment.
Among workers who are not wage employees, unpaid contributing family workers are systematically classified as informal, as per the ILO guidelines, as their employment is not subject to labor legislation, social security regulations, collective agreements, etc.

For own-account workers and employers, the criteria is the formality status of the production unit they own, which is classified as formal if the entity is registered. A question on whether the enterprise is registered is unfortunately not available from Pakistan’s latest labor force survey.

**How Prevalent are Informal Jobs in Pakistan?**

Based on the Labor Force Survey of 2017, the share of formal workers (i.e., wage workers with a written contract) out of the total number of wage workers is about 26.6 percent. If all nonwage workers are assumed to have informal jobs, the share of formal jobs out of all workers is about 11.6 percent.