Socio-Economic Determinants of Home-Based Informal Businesses: Evidence from Sibi, Balochistan

Fazila Parveen[1] and Iqbal Marri[2]

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Abstract

This paper explores socio-economic conditions that have contributed to the booming home-based informal businesses in Sibi, Balochistan. The research design was a mixed-methods approach to collect data from 150 local informal business owners to determine which of the following factors are their key motivators, the economic impact of their businesses on their households, the business challenges they face, and their readiness to formally register. The results show that the primary drivers of these unregistered businesses are economic hardship, high unemployment rates, and a severe shortage of formal job opportunities. Moreover, such ventures are mainly initiated by women seeking a flexible, income-generating venture that can work around household chores. Although these micro-businesses are providing the much-needed supplementary income, as most of them earn between PKR 10,000 and 20,000 per month, they are, to a large extent, survival tactics, rather than growing businesses that provide a source of livelihood to others. The barriers to entrepreneurship are high and include limited access to formal bank loans, insufficient business training, and extremely complex regulatory procedures. Although most respondents were in the informal sector to avoid bureaucratic red tape and taxation, a vast majority indicated a strong willingness to formalise, provided the government offered less red tape and more readily available institutional support. The conclusion of the study is that simplified registration, accessible microfinance and specific skills development should be implemented to promote sustainable economic integration.

Keywords: Informal Economy, Home-Based Businesses, Socio-Economic Factors, Micro-entrepreneurship, Sibi Balochistan, Formalization.

Introduction

The informal economy is a significant component of the global financial system, particularly in developing countries. It encompasses all the economic activities which are not regulated by the government, do not pay formal taxes, and operate outside the regular legal frameworks (Hussain & Khan, 2021). Chen (2005) explains that informal work is characterised by the absence of official contracts, legal protections and social security benefits. Despite these shortcomings, the informal sector is commonly recognised as an important source of development and a potent instrument for alleviating poverty (Ndoya et al., 2023). Informal businesses worldwide span in size from street vendors and small repair shops to unregistered home-based businesses (Williams & Horodnic, 2018). Some of the most obscured personnel in this industry are the people (mostly women) who run small business enterprises right in their homes. They are involved in day-to-day chores such as sewing garments, craftwork and food processing (Chen, 2005). These micro-businesses are a lifeline to people who are not included in the formal job market. In Pakistan, and particularly in Balochistan, the informal sector is a

[1]*Department of Management Sciences, Mir Chakar Khan Rind University Sibi, Balochistan.*
Corresponding Author Email: fazilap28@gmail.com
[2]*Department of Management Sciences, Mir Chakar Khan Rind University Sibi, Balochistan.*

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much more critical part of the local economy. It supports the livelihoods and incomes of the vast majority of the population (Khan & Qadir, 2020). The lack of formal jobs and ongoing economic hardships push many people in areas such as Sibi to rely on unregulated businesses for income (Schneider, 2021). Owing to this, the informal economy serves as a buffer to economic shocks and provides flexible means of survival to marginalised communities (PIDE, 2020).

Problem Statement

Although its economic value is also quite obvious, the informal sector poses serious problems to both the employees and the state. Informal workers do not have access to the safety net, i.e., they cannot access health coverage, pensions, or job security (De Vries, 2022; UN Women, 2023). This exposes them to great vulnerability to economic instability, business shocks and exploitation.

In Balochistan, several intertwined barriers prevent entrepreneurs from breaking out of this informal loop. Small business owners are actively discouraged by high registration costs, red tape in the business environment, and complex tax compliance procedures (Ahmed & Hussain, 2019; Zafar & Shah, 2018). In addition, the lack of access to formal banking systems is forcing these entrepreneurs to take the risk of survival through informal credit from family or local moneylenders (Javed & Akhtar, 2021).

Although the informal economy offers direct relief from unemployment, it is unregulated, making it hard for the government to collect taxes or provide adequate social services (ILO, 2018). So, it is absolutely necessary to know precisely why such businesses keep on increasing. The current research seeks to understand the specific socio-economic factors driving the growth of home-based informal businesses in Sibi, Balochistan. By understanding these drivers, policymakers can develop more effective strategies to support these small entrepreneurs, improve their working conditions, and gradually integrate them into the formal economy (Schneider, 2021).

Literature Review

The informal economy, often called the shadow or underground economy, is a multifaceted yet important part of global economies. Scholars usually delimit this sector by the fact that it is not subject to formal institutions or government regulations. Portes and Castells (1989) define the informal economy as all economic activities occurring outside of the official legal, regulatory and taxation systems. This goes a long way toward activity, covering both small-scale agriculture and street vending, as well as unregistered home-based businesses.

Although some researchers have argued that the informal economy can slow formal economic development by avoiding taxes and evading state regulations, there is agreement that the informal economy is a critical factor in employment provision. Hart (2001) also notes that the informal sector is an important survival strategy for marginalised populations experiencing extreme poverty and unemployment. In places such as Sibi and Quetta in Balochistan, the rapid growth of the informal economy is due to a combination of economic, regulatory, social, and technological factors.

Economic Factors

The first contributing factor to the growth of the informal sector in Balochistan is Economic necessity. Shahzad et al. (2023) emphasise that the high unemployment rate and the acute shortage of formal jobs force most people to resort to informal employment to survive. In regions with low economic growth and high inflation, there is no way the formal workforce can accommodate all job seekers. This then leads to informal businesses stepping in to fill the gap in employment provision, which is necessary and serves as a buffer against economic instability for vulnerable households.

Regulatory Challenges

The complicated regulatory environment in Pakistan actively discourages entrepreneurs from officially registering their businesses. According to Ahmed and Hussain (2019), formalising a business involves numerous handshakes through heavy bureaucratic red tape, long delays, and high costs. Compliance costs and corruption further complicate the process, making the formal sector very uninviting to small business owners. Also, informal operations seem far more appealing in a formal economy with high tax rates. Experts opine that the registration process should be simplified and regulatory barriers reduced to encourage such businesses to formalise.

Social and Cultural Dynamics

Social and cultural factors are also major contributors to the survival of informal businesses. Another significant hindrance to small entrepreneurs is the inability to access formal financial services. Since formal banks have strict requirements and require collateral, most business owners are forced to resort to informal sources of finance, including family, friends, or local moneylenders.

Without state-provided social safety nets, informal enterprises can only survive through social networks and community support systems. According to Zafar and Malik (2023), robust local relationships and trust within the communities can present a stable support framework that enhances the resilience of these businesses. Moreover, home-based businesses are an honourable way to attain financial autonomy because self-employment and small-scale trading are culturally accepted and deeply embedded in the lives of these societies, making them a respectable means of gaining financial independence.

Informal Businesses: Technological Adoption and Urbanisation

Informal businesses are highly flexible, and their owners can easily adapt to changing market conditions without being confined by rigid formal rules. In recent years, the efficiency of informal ventures has improved with the adoption of technology, including mobile money and digital communication. According to Ali and Gul (2022), these technological solutions enable unregistered companies to expand their customer base and manage financial operations with ease, even without a physical storefront. Nevertheless, the general lack of digital literacy prevents everyone from using these tools fully.

Lastly, an increase in informal jobs has been driven by rapid urbanisation in cities such as Sibi and Quetta. According to Fatima and Bashir (2023), the growth of urban populations is far outpacing the number of formal jobs that can be created. Since the formal sector fails to absorb the growing workforce, more and more people are pushed into the informal sector to earn a living.

Methodology

Research Design

This research employed a mixed-methods design to comprehensively investigate the socio-economic factors driving the growth of home-based informal businesses in Sibi, Balochistan. A mixed-methods approach is very effective in understanding complex issues because it combines numerical and statistical data with participants' real-life and personal experiences (Creswell, 2014). It enabled a far more in-depth, context-rich perspective on the local informal economy.

Respondents and Data Collection Instruments

The study included 150 respondents who operate small, unregistered businesses. A validated, structured questionnaire was the primary data collection tool and aligned with the study's main objectives. The questions were written in simple, straightforward terms to ensure the local community could easily understand the survey.

Two primary methods were used to collect the data: Direct visits to houses in Sibi and telephone interviews with those unreachable by in-person methods. During data collection, researchers encountered various responses: some people were uncooperative, while others were very cooperative and willing to share their insights.

Quantitative and Qualitative Procedures: To record quantitative data, the survey collected information on participant demographics, monthly income, types of businesses operated, operational challenges, and overall perceptions of formal business registration. To obtain qualitative information, the survey was supplemented with open-ended questions, informal interviews, and direct observations. This allowed participants to tell their entrepreneurial stories in their own language.

Analysis and Ethics: After data collection, various analytical strategies were implemented based on the data type. Frequency distributions, percentages, pie charts, bar charts, and cross-tabulations were used to analyse quantitative data and identify clear numerical trends. The qualitative data were reviewed thematically, enabling the researcher to identify common patterns, themes, and struggles among the business owners.

Ethics were also closely followed during the study. Each participant was fully informed about the study's objectives to ensure they understood what was expected of them, and their participation was entirely voluntary.

Results & Findings

Demographic Profile of Respondents: The research gathered information from 150 respondents who operated informal home-based businesses in Sibi. Those who made the findings are right in stating that the overwhelming majority of such business owners are women. Social norms that encourage women to juggle domestic chores with earning income by working in the comfort and safety of their homes are largely behind this trend. In terms of age, the 26 to 35-year-old group is the most active, followed by the 18 to 25-year-old group. This suggests that young adults who are unable to find formal employment are increasingly dependent on informal entrepreneurship. Moreover, a substantial number of respondents are married, indicating that informal businesses are an urgent means of addressing family finances. Reasons to Start Informal Businesses: The majority of those who have started informal business ventures do so because of the low investment and skill-based nature of the enterprises they are involved in, such as tailoring, embroidery, and small-scale food production. Such businesses are quite popular because they require little initial capital and are socially accepted by the community. Indeed, 140 of the 150 respondents confirmed that they have strong social support from their local community to help them run these businesses. When questioned about why they avoid formally registering their operations, most cited the sheer complexity of the legal process and feared heavy taxation and registration fees.

Table 1: Primary Reasons for Avoiding Formal Business Registration

Reason for Avoiding Registration	**Number of Respondents**	**Percentage of Total (N=150)**
Process Complexity / Red Tape	72	48.0%
Tax Concerns	32	21.3%
High Registration Costs	27	18.0%
Other Reasons	19	12.7%
(Data extracted from survey responses on registration avoidance)		

Economic Impact on Households: These businesses have an important yet small impact on the economy. Of the 150 respondents, 129 indicated that overall their household income has increased since they started their business. Nevertheless, the profits are still comparatively low. The bracket with the highest monthly income reported was between PKR 10,000 and 20,000. This implies that these enterprises are mainly a secondary source of high-level wealth rather than a primary provider. Also, 113 respondents indicated that they are fully in charge of their businesses and do not hire any external workers. This is indicative of a survival-based economic model rather than a growth-based one.

Challenges and Institutional Support: Informal entrepreneurs in Sibi face very high operational challenges. The most urgent issue is the exclusion on the financial basis. An astounding 144 respondents indicated that they have no access to bank loans or other formal financial services. Moreover, an enormous proportion (124 respondents) do not receive aid from local organisations or NGOs. There is also a severe lack of skill development,, as only 71 respondents had undergone any business training, and the rest were left to operate without formal training.

Attitudes Towards Formalisation: As of now, 5 out of 150 surveyed businesses are formally registered, highlighting the enormous scale of informality in the region. There was also general agreement (147 respondents) that the current tax policies have an adverse effect on their choice to remain in the informal sector. Despite these obstacles, there is a strong desire among businesspeople to legitimise their businesses, provided the government provides simplified procedures and supportive resources.

Figure 1: Willingness of Owners to Formalize if Resources and Support Were Available

Yes (Willing to Register) : (116 Respondents)

No (Prefer to stay informal): (34 Respondents)

(Graph based on survey data reflecting the willingness to formalize)

The data makes it clear that the primary obstacle to formalisation is not the unwillingness of business owners to formalise, but the lack of resources, proper guidance, and simplified legal procedures.

Discussion

The results of the current study are in strong agreement with the existing literature, demonstrating that informal businesses in Sibi are not born of pure entrepreneurial ambition but rather of economic necessity. The demographic statistics indicate that most of such micro-enterprises are run by women. This underscores the cultural acceptability of home-based work in the region, enabling women to comfortably multitask by balancing it with their domestic chores. Moreover, the active involvement of the youth (aged 18-35) highlights the dire scarcity of formal job opportunities for the youth. On the economic front, although these businesses do indeed boost household income, the income is modest, usually ranging from PKR 10,000 to 20,000 per month. This supports the literature that informal businesses are not a means to great wealth or massive job creation. The fact that the overwhelming majority of such entrepreneurs do not hire any other workers only supports this model of survivalism. In addition, these entrepreneurs also encounter drastic structural and institutional obstacles. Their inability to expand is severely limited by the widespread inaccessibility of bank loans and business training. Also, the difficulty involved in registering legal businesses and the fear of heavy taxation keep them in the informal sector. One of the main results of this study is that business owners' willingness to formalise is high when the government simplifies procedures and provides supportive resources. This counters the misperception that informal workers are actively interested in evading the law; instead, they merely lack the clear channels and support needed to legitimise their work.

Conclusion

Informal businesses operating in Sibi, Balochistan, are a key economic safety net to marginalised groups. These micro-businesses offer the highly needed and flexible income, especially for women who face barriers to accessing the formal workforce.

Nevertheless, these businesses, though very significant to the local economy, are very restricted and stagnant. A critical lack of business training, complete financial isolation of the formal banking system, and a highly complex system of government registration all hold back the entrepreneur. Institutions that fail to address these issues continue to prevent these small projects from entering the formal economy. The fact that many of these business owners are keen to formalise under the right circumstances suggests an imminent opportunity for the government and support agencies to leverage to foster sustainable economic growth.

Recommendations

According to the results of this study, the following action measures can be advised to support and formalise home-based businesses in Sibi:

1. *Streamline Registration:* The government should radically simplify the process of registering a business and reduce the amount of money one has to spend on doing so in order to make it affordable to a small, home-based business.
2. *Offering Business Training:* Basic business management and financial literacy training programs should be offered and specifically designed to suit informal business owners.
3. *Improve Financial Access:* Banks and microfinance institutions should design and provide small, easy-to-reach loan programs and savings plans, which do not require impossible collateral.
4. *Provide Mentorship:* Local NGOs and community groups are encouraged to step in and offer direct guidance, mentorship and support to help these small businesses expand.
5. *Awareness Campaigns:* The government must launch effective, community-based awareness campaigns to inform informal business owners of the long-term benefits and protection of formal registration.

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