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Peshawar's historic walled city

Firms, mobility and public services



In brief:

- Ancient cities, which were often old walled cities, exhibit peculiar spatial, social and economic forms. Their urban forms are highly path dependent featuring narrow congested streets, and make retrofitting modern infrastructure extremely challenging. This creates unique challenges for government agencies involved in urban service delivery.
- This study examines data to document historical spatial and economic patterns of economic activity to find out where and what clustering of businesses exist.
- To document this economic activity, the researchers conducted a survey with 400 businesses located throughout the inner city of Peshawar, Pakistan.
- The findings show that the state of public service delivery is generally poor, with power supply and building quality being a primary concern. Most priority problems identified by respondents require empowered, high capacity and well-resourced local governments focused on delivering responsive and accountable governance at the grassroots level.

*This project was
funded by IGC
Pakistan*

Overview of the research

In inner cities, economic specialisation based on historic spatial patterns could arguably improve productivity, but not unless basic urban functions are delivered adequately. In Peshawar's inner city, most of the workforce consists of low-income individuals, with approximately 75 percent of full-time workers earning 14,500 PKR (\$105) or less per month, and no women owned businesses.

As Peshawar constructs its first mass transit service, the researchers worked in close coordination with provincial government authorities to undertake this project. Since this project was the first attempt to study individual level businesses in the walled city, the total number of businesses, their types or any other parameters were unknown. Therefore, a geographic approach was designed based on prominent local landmarks such as historical markets (e.g. Qisa Khwani Bazar) and key buildings (e.g. Cunningham Clock Tower). This study aimed to examine the inner city's firms layout through the following three questions:

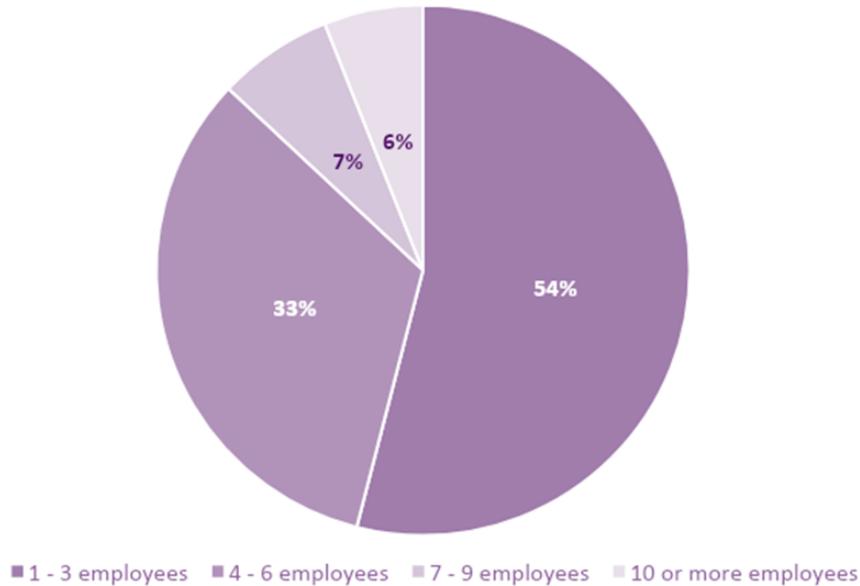
- How feasible are firm surveys in hard to reach places?
- Where and what clustering of businesses exists in the inner city?
- What measures should authorities introduce to ameliorate spatial and economic inefficiencies?

In Peshawar, there is generally an unpredictable law and order situation, with a recent history of terrorism and businesses' fear of tax authorities' attempts at increasing the tax base. Despite these difficulties, the 12-member field team completed 404 surveys spread across 21 partial or full days between March and May 2018. Understanding the role of local intermediaries, such as respected business or community leaders, was critical in achieving desired response rates without which, fieldwork would have remained unfeasible. Besides the frequent reliance on local intermediaries for introductions, on several occasions, local businessmen or residents blocked access to their neighbourhoods. On such occasions, teams were instructed to suspend fieldwork until after interventions from the field team leadership and local community leaders.

Furthermore, in bi- or tri-lingual working environments such as Peshawar, where enumerators interacted with respondents mostly in local language Pashto, followed by Urdu, Hindko and in a few cases English, it was important to create multiple versions of the questionnaire. When attempting to survey individuals in small establishments during the business day, there were challenges, as those individuals were also involved in serving customers, leading to more missing data for questions found later in the survey instrument.

Similarly, data on sales and assets was difficult to collect because of the concern that such information could be used against them. Most of the businesses were undocumented, not registered with the federal board of revenue (FBR) for a national taxation number (NTN) to collect and pay sales taxes. Additionally, they are not registered with the Securities and Exchange Commission of Pakistan (SECP).

Figure 1: Sample by total number of employees



As expected, respondents were particularly reluctant to provide financial data, including employee wages and establishment sales, with only 50.4% providing the former and 32.9% the latter. With this caveat in mind, the reported mean gross sales of 2,694,413 PKR (minimum of 50,000 and maximum of 36,000,000) and mean monthly salary of full time workers of 12,675 (minimum of 2,000 and maximum of 25,000) is consistent with the overall profile of an economy based on small establishments with a relatively low-skilled work force.

Findings

This study found that the majority of businesses within the walled city are either completely, or mostly, operating in the informal economy. The majority of their business transactions are undocumented, i.e. either on cash or informal reference based accounts payables/receivable systems and, thus, are presumably outside the official tax net. In highly congested urban environments, where high buildings and narrow streets block line of sight to cell phone towers and overhead satellites, mobile broadband and GPS coverage could be patchy, and otherwise, unreliable.

Moreover, workers lack adequate public transport access, suppliers do not have large vehicle access for deliveries, and customers find it extremely difficult to find any parking facilities. Due to the absence of public transport services and factors listed above, there are severe constraints on physical mobility that in turn hamper firms' ability to tap into a broader labour market.

Table 1: Employee mode of commuting by firm size

Mode of transportation	Percent of employees using mode by number of employees				
	All firms	1 – 3	4 – 6	7 – 9	10 or more
Walk **	58.9%	70.2%	49.7%	39.4%	27.3%
Drive/ride on a motor bike **	22.3%	20.9%	21.8%	24.2%	44.3%
Bus **	13.9%	6.3%	23.1%	26.9%	17.5%
Taxi or rickshaw	2.9%	1.7%	4.0%	4.5%	5.0%
Ride or drive in a car **	1.6%	0.8%	1.5%	5.1%	5.9%

N = 365 ** p< .01

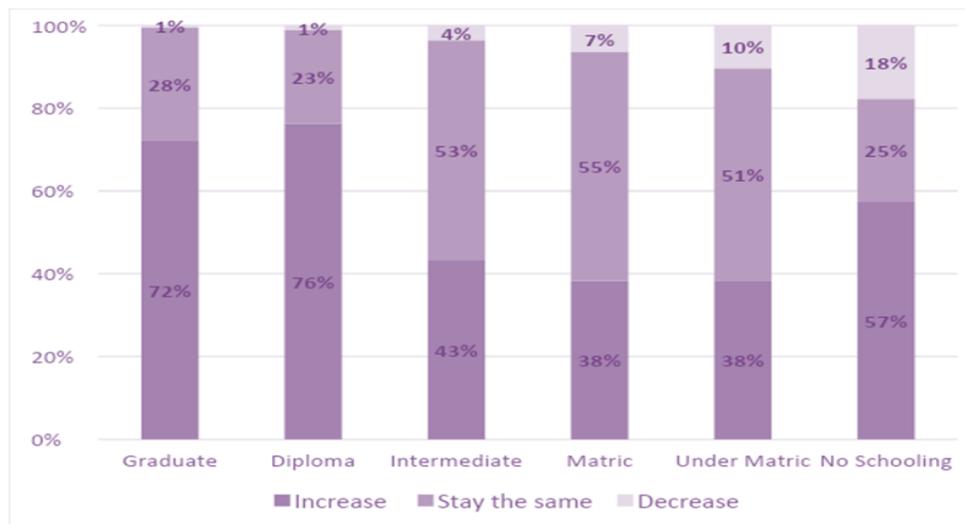
The same reason explains why motorbikes are dominant in private vehicles in congested conditions, i.e. they are extremely easy to navigate in narrow streets and require no parking. Private car use for work is rare or virtually non-existent, in large part due to time spent in traffic jams and the absence of parking spaces. This implies that firms can only access a limited talent pool of workers, which could stifle growth in productivity.

When asked if transport for employees is a moderate to severe obstacle, only 18.0% of smaller firms but over 2/3rd of larger firms indicated this was a moderate to severe concern. When asked the same question for transport supply chains, these numbers were 34.8% and 56.5% respectively, showing that narrow streets preventing access to larger vehicles is of particular concern. In the case of quintessential public services like electricity and water, these percentages are significantly smaller at 22.2% and 26.1%, and 9.5% to 17.4% respectively. Even though water is a more fundamental public service than transport for average households, firm profitability is more directly associated with the former.

Regarding education and workforce quality, survey respondents were asked their expectations over the next five years of their establishments' demand for employees with varying education. Roughly, three-quarters of the establishments anticipate increased demand for the two highest levels of education: Graduate (72%) and Diploma (76%). Interestingly, but consistent with the types of establishments found in the inner city, more than half of the respondents expected to increase employment of workers who had never been to school (57%).

When examining establishment characteristics, an interesting relationship emerges between ownership and mean gross sales and full-time wages. Employees in rented establishments earn slightly more on average (12,759 PKR) than those working in facilities that are owned (12,407 PKR), however the difference is not statistically significant. The average gross sales of rented establishments are lower (2,166,935 PKR) than the facilities owned (3,523,346 PKR), and this difference is statistically significant.

Figure 2: Projected demand for employers by level of education



The survey results also demonstrated how sales, wages and rent vary with firm size. Average gross sales are lowest in establishments with three or fewer employees, but the average sales per worker are highest in the same firms. Furthermore, wages are lowest in the smallest of firms and highest among those with ten or more employees. Average rents are also lower for small establishments than for larger establishments, but once firm size is considered, the average rent per worker is lowest among the larger firms. If these pilot findings prove to be robust with a larger sample and less missing data, then it appears that economic gains could be found by focusing on worker productivity in firms with ten or more employees.

Policy recommendations

- Improving the quality of public service delivery.** The relatively poor state of public service delivery indicates a strong sense among business owners that government's services are grossly inadequate. This may in part be contributing to informality in the economy since the business community is unclear on what value, if any, their tax payments would bring back to them.
- Public investment in urban infrastructure and transportation.** The walled city's highly congested built environment significantly increases the difficulty level of retrofitting urban infrastructure like piped water service or a new road. This is partly responsible for the arguably inadequate level and quality of municipal services, however, not including fundamental human capital developing sectors like health and education. In addition, the city's public transport system is practically dysfunctional and mostly inadequate for meeting the needs of workers, clients and business owners alike.
- Encouraging youth population to pursue further education.** There is an indication of demand for workers with higher levels of education, so young people ought to be encouraged to pursue further education. Moreover, the projected increase in demand among half of the establishments for workers with no schooling means that even the least educated workers are likely still able to find employment in the next five years.

- **Increasing the productivity of businesses by investing in the infrastructure, capital and labour they use.** As noted above, average wages for full-time workers are highest among establishments with ten or more employees, while the same establishments also have the lowest average sales per worker. Given that these establishments also have the lowest rental costs per worker, increasing the productivity of these establishments should focus on the infrastructure surrounding them and the physical capital they use, as well as the human capital of those they employ.
- **Incentivising establishment ownership among businesses.** The findings also show that owned establishments rather than rented have higher average gross sales. Incentives that encourage ownership (e.g., lower utility and tax rates for businesses that are owned rather than rented or higher tax rates on rental income) should be considered, especially as most establishments have been in their current location for a number of years.