

Measuring the Perceived Economic Growth: Prospects for Informal Economy**Muhammad Imran Ullah**

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Abstract

The study examines the impact of perceived political, cultural, religious, and economic factors on the perceived economic growth of Khyber Pakhtunkhwa in users of informal financial systems. The study applied a survey questionnaire technique to record responses from respondents associated with firms from informal financial institutions to gain insight into perceived political, cultural, religious, and economic factors. A sample of 500 respondents was taken for the survey, 369 responded, while 309 were found valid. Diversified themes associated with the study were identified and discussed. The results of the study and its implications brought to light the role of informal financial institutions in the context of strategic orientation. The findings of the study are examined in an informal financial system that revealed a significant impact of perceived cultural stability, perceived economic environment, and perceived political stability. Perceived religious affiliation had an insignificant impact on perceived economic growth. Subsequently, the blend of the results was also linked with present political, cultural, religious, and economic factors, and the said results were discussed with more implications at KP province.

Keywords: Informal Economy, Perceived Economic Growth, Informal Financial System

South Asian region in particular is under the tremendous influence of economic slump but the situation in war-torn areas in Pakistan like the province of Khyber Pakhtunkhwa (KP) is even worse. Khyber Pakhtunkhwa is one of the four administrative provinces of Pakistan, located in the northwestern region of the country along the international border with Afghanistan and which is lagging economically than other provinces of Pakistan. Further, the economic indicators revealed that steady growth was recorded in the credit needs of the private sector in the first decade of the 21st Century but its trend is on the decline since the start of the second decade. The banking sector of Pakistan has exhibited tremendous growth in terms of assets base and total deposits doubling its magnitude since 2008 but the proportion of Gross Domestic Product (GDP) to private sector credit has been on the decline, 22 percent in 2009 to a meager 14.7 percent in 2014. The declining trend was especially steep in the case of Small and Medium Enterprises (SMEs) sector where bank lending falls from 16 percent in 2008 to 7 percent in 2014. So, the economic indicators in the context of banking services in Pakistan recorded a declining trend in total.

The above scenario indicated an economic crisis in the region. Thus, it is important to find out the factors that cause economic damage to revive the economic situation in the province. The researchers described several factors that are accounted for the poor economic conditions (Abadie, 2004; McCleary, 2006; Easterly 2001; Ali 2010; Barro, & McCleary, 2003). Easterly (2001) indicated that political instability is a factor that has influence the Pakistani economy. Ali (2010) stated that war on terror causes economic damage to the country. Barro, & McCleary (2003) highlighted the influence of religion on the economic development of the country and many other researchers indicated several factors that are accountable for the economic disaster of the region. However, limited knowledge is available about the factors that are linked with the economic slump in the Khyber Pakhtunkhwa province of Pakistan. Thus, the current study focused on studying the factors in users of the informal financial system that influence the economic development of the Khyber Pakhtunkhwa region.

The attempt made in this study to investigate the impact on economic growth is different and special in the sense that instead of following the traditional estimation methodology is a little different. Like time series analysis based on a famous economic model such as Solow growth model here the estimation methodology is not time series rather it is the perception of the people regarding growth just as done by Gabel & Whitten (1997). The idea of psychological growth is not new and propagated by (Bonanno, 2004; Maercker & Zoellner, 2004 and Tennen & Affleck, 2009). Gabel & Whitten (1997) argued that the motivation and willingness of the public is important to form a structure particularly the economic structure and public support and attitude is built on what they perceived about the economic growth and the policies of the government.

Similarly, the present study also is an attempt to investigate the impact on perceived economic growth rather than dealing with it quantitatively. The theme of this study is different as here the author is interested to estimate the perception of economic growth as a function of other perceived macroeconomic variables. Though for consideration we will follow the basic growth model $Y = f(KL)$

Where Y is output K is capital and L is labor but the generosity of the model allows us to include as many factors in the model as predictors. Following the same theme, we will include political, cultural, religious, and economic factors but again instead of taking their quantitative scaling this study is interested to investigate the perception regarding these factors which is uncommon in economic research but the uniqueness of the issue needs to be taken on broader perspective for more debate and research.

There is an ongoing debate among researchers on the role of formal and informal financial systems in economic development (Ayyagari, Demirgüç-Kunt, and Maksimovic, 2010). The foundation of the formal financial sector is a recent phenomenon and its history can be traced back to the colonial period or a legacy of foreign systems that are operated and regulated by the State itself. On the other hand, the informal financial sector is present from primitive times and there are no systematic and regulated proceedings associated with the informal financial system (Iganiga, & Asemota, 2008 & Seibel, 1982). The majority of the people living in Khyber Pakhtunkhwa province do not have access to formal financial systems and are thus handicapped to be associated with informal financial services.

This leads to a fundamental research question whether the factors (political, religion, culture, and economic) influence on economic development is similar in informal financial systems. Thus, this research aims to find out the effect of informal financial systems on the relationship between factors (political, religion, culture, and economic) and economic development of the Khyber Pakhtunkhwa region.

Problem statement

Researchers in recent years indicated a variety of factors that influences the economic development of any country (Tabassam et al., 2016; Easterly 2001; Abadie, 2004; Barro, & McCleary, 2003; McCleary, 2006; Ali 2010). Tabassam et al. (2016) highlighted a negative relationship between political instability and economic development in Pakistan. Whereas, in previous studies, Abadie (2004) argued about political freedom, the impact of religion on economic growth (Guiso, 2003; Noland, 2005; Barro, 2003; & Glahe, 1989, Wang, & Lin, 2014), Cultural factors in the context of economic development (Walton & Rao, 2004). Thus, it can be concluded that the researchers explored the political, religious, cultural, and economic factors that influence the economic development of a country. However, there are some potential pitfalls to the existing understanding of the relationship between these factors and economic development. The conclusive problem statement embodies the question which remains unexplored whether the cause of low economic growth in the Khyber Pakhtunkhwa region is attributed to the factors including political, cultural, religious, economic situation? Thus, the current study aims to investigate the relationship between these factors and economic development in Khyber Pakhtunkhwa in the users of informal financial economy.

Objectives of the study

The study aims to materialize the following research objectives:

1. To measure the effect of perceived political factors on the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy.
2. To examine the effect of perceived cultural factors on the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy.
3. To investigate the effect of perceived religious factors on the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy.
4. To examine the effect of perceived economic factors on the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy.

Research Questions

The following research questions remained in major concentration during this study:

1. Whether perceived political factors turn the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy?
2. How do the perceived cultural factors affect the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy?
3. At what degree level the perceived religious factors affect the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy?
4. Is there any perceived economic factors effect that exists on the perceived economic growth of Khyber Pakhtunkhwa in the users of the informal financial economy?

Significance of the study

The present research intends to contribute handsomely towards the existing body of knowledge in terms of providing comprehensive answers to the research questions and to further elaborate the practical implications and significant input in advancing scientific knowledge by testing the hypotheses framed in the study which are not being studied previously. Further, The contribution of this research study in terms of studying the impact of political, religious, cultural, and economic factors on the economic development of Khyber Pakhtunkhwa will generate concrete suggestions and useful recommendations which will be an aid to the existing body of knowledge. Additionally, The current research study also endeavors to provide insight into the size and dynamics of informal finance in the economy and to improve the degree of awareness in all stakeholders associated with the formal and informal financial system. The present aggravated situation of the economy in the country in general and in Khyber Pakhtunkhwa in particular well justifies the need for initiating fresh research efforts to elucidate the diversified problems into the cultural, political, religious, and economic factors into the intimate structure of formal and informal economies and suggestions for its resolute solutions.

The study intends to augment the process of decision-making by elaborating on the peculiar impact of factors affecting the economy of Khyber Pakhtunkhwa province and to measure the differences between users of formal and informal financial systems in terms of its complementary or competitive nature. Hence the study will help suggest viable solutions to the economic problem of Khyber Pakhtunkhwa province by analyzing the impact of political, religious, cultural, and economic factors recorded by formal and informal financial systems.

Literature Review and Hypothesis Development

Theories on Informal Economy

Based on historical perspective, four distinct schools of thoughts emerged to orient the concept of the informal economy:

- The Dualist School of Thought
- The Structuralists School of Thought
- The Legalist School of Thought
- The Voluntarist School of Thought

Each school of thought gives its unique justification and rationale for the reasons behind the informal economy. Though primitive in existence, the informal economy is present in every part of the globe regardless of the state of the economy whether it is developed, developing, or underdeveloped. However, the size of the informal economy varies with the degrees of state strength and economic development in different countries of the world. The Dualist school perspective considers the informal economy as being meant for those activities that are separate from those associated with a formal economy where the marginalized people get their income (Hart & K., 1973); (Sethuraman, 1976) and (Tokman, V., & Ed, 1978).

The Structuralists school of thought considers the informal economy as subordinated micro-level enterprises where workers are supposed to serve to reduce input and labor costs and consequently increase the competitiveness of large capitalists firms (Moser, 1978) (Castells, & Portes, 1989). They argue that the wages being paid to the labor class are low in pursuit of lowering down the overhead expenditure and enhancing the marketability of goods and services.

The third school of thought is known as the Legalist school. This school of thought contemplates the informal economy as being composed of those entities which tend to attempt to save and avoid costs, time, and effort which are otherwise required informal registration of firms who are aspiring to legally transform the status of their assets (De Soto, 2000). According to the legalist school of thought, the informal economy must strive to be competitive in terms of not undergoing the procedural legal approvals for initiating business and economic activities which need financial commitment.

Another school of thought is the Voluntarist school which considers the main theme of the informal economy as associated with informal businessmen whose focus is on avoiding proceedings related to legal registration, taxes but on the contrary to the legalist school of thought, does not blame the lengthy registration procedures as the root cause of all its problems.

Each school of thought solicits different causal theories to support the emergence of the informal economy. The following are the points which make a distinction and concludes the discussion:

- The Dualist school of thought claims that the difference between the two financial systems stems from the disparity available to the common man and

which is attributed to growth rates and differences of various trading opportunities.

- The Structuralists claim that the propelling force behind the informal economy is capitalist growth. They argue that when the forces of the formal economy attempt to cut the labor cost and attain competitiveness, concentration shifts toward the informal economy as a consequence.
- The Legalists claim that the exorbitant and cumbersome legal proceedings related to the formal economy give birth to the emergence of the informal economy to enjoy the liberty and extra gains associated with the informal economy.
- The Voluntarists claim that the cost-benefit calculation is the rationale behind the scene for the emergence of the informal economy. After weighing the cost-benefit ratio, the informal economy gets the attention of the economic players.

The efficiency and quality of state institutions play an important role in transforming underdeveloped countries into developed countries. The strength of state institutions lays in the system of check and balance, transparency, efficiency, accountability with which they serve the clientele for which they have been created. North (1990) argued that only institutions can pave the way for human and material development in any country. He is of the view that the state institutions can work efficiently and effectively and put the economy on the right track of economic development. Countries that are plagued by corruption and malpractices in state institutions can never attain economic development. Acemoglu, Johnson, & Robinson (2005) were of the view that institutions represent economic, political power, and institutions, and the economic development is based on the pursuance of a specific set of policies by the respective governments.

La Porta, Lopez-de-Silanes, & Shleifer (2008) described and concluded some very pertinent sentiments of laws governing states and their impact on economic development. The phenomena have been named Legal Origins Theory (LOT) and it witnessed the diversified socioeconomic outcomes stemming from the different legal patterns in history divided between common and civil laws and looking at its impact on the economic development in different countries. The theory elaborated on how the prevalent laws in European and Socialist countries impacted the quality of governance and subsequently produced different sets of economic development there. The contribution made by the proponents of Legal Origins Theory (LOT) comparative development literature can be summarized as follows:

- The commercial laws prevailing in a country can be used as a proxy for measuring and quantifying the legal rules for investor protection.
- Legal coverage for investor protection varies by legal traditions and common law systems provide more protection to foreign investors in comparison with civil law of the land.
- Literature amply demonstrated with the help of studies conducted in different countries that protection extended to investors tends to create a congenial environment for economic development. Those countries which enacted special laws to protect foreign investors achieved greater economic development and foster the economic environment. Technology transfer and human capital transfer also emerge as a subset of the congenial environment of foreign investment.

The influence of legal systems on economic development is further authenticated by many studies elaborating the impact of civil law on government proceedings in contention with common law which is assumed to give birth to financial corruption, black economy, and higher tendencies towards unemployment (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2002), (Djankov & Shleifer, A, 2002), (Botero, Djankov, Porta, Lopez-de-Silanes, & Shleifer, 2004).

Culture and Perceived Economic Growth

UNESCO (1982) defines culture as “all the specific features, spiritual, material, intellectual, or affective, that characterize a society or human group. Culture includes basic art and literature, way of life, basic human rights, a system of value tradition and religions”. According to Scott (2000) culture amounts to a specific sector of economic activity aimed at impacting the avenues of employment and civic environment. Leadbeater and Oakley (1999) elucidated that five ingredients are indispensable for flourishing the cause of business and economic activity in any place and they are enumerated as:

1. A vibrant education sector
2. A comparatively young population,
3. Small and Medium Enterprise sector on the rise

4. A thriving culture,
5. Place where people can exchange views on diversified avenues.

Sapienza (2014) elucidated that culture and economics move together. When culture flourishes it has an impact on economic development and the same is true for economic development which supports amelioration of culture in any country. Kwon (2005) revealed in his study the effects of culture on economic development in South Korea. The study introduced the concept of transaction cost as an intermediary between culture and economic development. He examined the recent shifts in Korean culture. He found that individualism was higher and saw a decline in teamwork, trust, rule of law. He opined that these factors increase the transaction cost and will have negative effects on savings, investment, and economic development. It will also adversely affect creativity, which is the driving force behind recent economic growth in Korea. Greif (1994) opine that the culture of a region and its historical development greatly influence the economy and economic development in a country. Tsui, & Farh, (1997) compared Chinese and Latin American countries, which are low trust states. The author resolved that inculcating the habits of trust in Chinese culture was easier than that in Latin America. Chinese society is a closed society with little influence on the outer world. Cohen (1998) was also of the view that trust is very important for a Society to grow and achieve economic goals. In most developing countries the trust level is very low and therefore people are hesitant in entering business contracts, which results in fewer startups and lesser economic activities. This creates a vicious circle and ultimately everyone is a loser because of the negative impact on economic development. When there are more economic activities, more employment opportunities will be created, which in turn will produce profits for the investors and tax revenue for the state, and last but not the least, the suppliers will get handsome prices for their deliveries. So a win-win situation will emerge when the trust factor will flourish in any economy.

Tabellini (2010) concluded that culture has a causal effect on economic development. He opined that two cultural traits social capital and confidence in the individuals are strongly correlated with economic development in Europe and other countries of the study. Huntington, (1993) in his foreword compared the economies of South Korea and Ghana. He found that both economies had almost the same GNP; Identical exports of goods and services and received some aid, but after 30 years the South Korean economy grew fifteen times more than Ghana's economy. Healy & Hampshire (2002) studied the role of culture and creativity in the new economy. It claimed that culture and innovation are the main pillars of economic development in the new economy. The author believes that the Internet has changed the world and brought a revolution of creativity and changed the work culture by bringing transparency.

The avenue of exploring the relationship between social values and economic growth has not yet been explored to its fullest extent and the reason behind this lacuna seems to be the exclusion of culture in the modern models for economic growth. In the context of the perceived cultural dimension of the study, the researcher aims at focusing on its relationship with perceived economic growth.

Political Factors and Perceived Economic Growth

The notion of political instability and its fallout in terms of economic crises in the world is thoroughly studied by many researchers (Londregan, John, Keith, & Poole 1990, Alesina, et al., 1996, Campos, Nugent 2002, O'Donnel, 1973. The historic performance and cross-national difference in opinion in the favor of democracy articulated there is a close association of political realizations and economic growth (Barro, 1989; Evans and Whitefield, 1995; Kormendi and McGuire, 1985). The failure of the government is the failure of the economy (Alesina, Ozler, Roubini & Swagel, 1996) as both of them are indispensable for each other. A Government cannot survive without economic development and economic development cannot take place without state support in any case. It is the Government which chalks out policies and regulations to streamline the business proceedings and accord priority to safeguarding business and economic interest of the public at large. Furthermore, a comprehensive growth in private-owned firms is realized in the regime of a political party. In the subsequent year of election 10-15% robust increase in the share prices and comprehensive growth in employment has been noted (Asher and Novosad, 2015).

Ayyagari, Demirguc-Kunt, and Maksimovic (2010) disseminated the pattern of growth and the attached behavior of financing in private firms. A comprehensive performance and growth of private-owned firms in China have witnessed especially opted to manage their financing from informal sources instead of taking loans from formal banks. There were many reasons for this unusual pattern of the business. A comparative look at the reputations and relationship-based financing significantly contributing to the growth of these companies. Though, the financial system

of China is underdeveloped but fast-growing itself in the world. The Chinese model of financial management and corporate finance has done very well in the last two decades. A tremendous amount of economic and financial development in the Chinese hemisphere has taken place. The implications of the informal source of financing are stronger and viable in developing countries than the developed countries. The developed countries have got a very strong financial system based on a complete set of documentation and education plays a vital role in this regard. As the population is almost fully educated, one can easily comprehend the importance of documentation and a formal set of rules and regulations. Broader applicability of informal sources of financing has been realized on agricultural contracts, households, and small entrepreneurial ventures in cities but wide applicability found in rural areas.

Religion and Perceived Economic Growth

One of the most important ingredients in almost every society in the world is a religion that aims at affecting the life of human beings positively. Adding religion to the list of impactful variables on growth and development makes complete sense as it contains a vigorous value system that influences the phenomena of growth and development substantially. In the same vein, religion also plays an important role in framing the decorum of economic corridors in a country. Fanfani (2002) elucidated that all religions harm economic growth and development in a society. Lehrer (2004) studied the role of education as an ingredient in establishing a relationship between religion and economic development. His study revealed that Jews, Christian Protestant, and Christian Catholic communities respectively attain highest school level education and higher the level the education, lower where the fertility rates which eventually resulted in small size of families giving way to making more investment in human capital. Campante, & Yanagizawa-Drott (2013) explained that religion is an important social phenomenon, essentially ubiquitous across human societies. It is thus natural to speculate that it may affect important economic outcomes, such as economic growth – as many have done dating at the very least to Weber's (1905) celebrated work. Young (2009) ascertained that one fundamental aspect that is common to all forms of religion is that they prescribe rules and practices that constrain the economic behavior of followers. These constraints can affect economic growth.

McCleary and Barro (2006) summarized that religious practices impose constraints on the decisions of individuals, we might expect that they would harm output and growth – at least in the short term, leaving aside potential long-run benefits that they might have. They found a negative correlation between religiosity and income at the cross-country and Deaton and Stone (2013) also found a negative relationship between religious practices (e.g. attendance at religious services) and economics. However, as religiosity and religious practices are endogenous and affected by economic growth itself, convincing evidence that there is a causal effect driving these relationships has proved elusive.

Barker (2000) identified that religious influence is often overlooked in economic researches. One of the main reasons why religion is excluded from developing economic theories is that religion is extremely hard to be numbered. Noland (2002) conducted a cross-countries analysis and discovered that religious affiliation is uncorrelated with performance is frequently rejected. The regressions do not yield any significant influence from a specific religion, and the results do not support the notion that Islam is inimical to economic growth. Rather he found out positive correlations between Islamic shares and economic growth, in both cross-country and within-country tests.

In Pakistan, the situation is getting better with time. Pryor (2007) compared the economic systems of Islamic countries with other countries of the same development and also explored the impact of the Islamic system on the economies of Islamic countries. The author concluded that as such there was no specialized exclusive economic system in those countries and therefore it had no impact on the economies of those countries. In another study, Meyer & Lobao (2003) studies the impact of religion and economic hardship on the mental health of the workers. They found that religion had a positive impact on mental health. Religion was found to be a mediator for coping stress and depression and was a support for mental health mainly among female workers. The subject of religion and economic growth needs to be further investigated in terms of handsome empirical work to get more enlightenment on the topic.

Economic Environment and Perceived Economic Growth

The two main elements and segments of a financial system in any economy are its non-formal and formal financial institutions. Further, the financial markets of emerging developing countries are expressed by their duality. This is revealed in the concomitance of formal and informal financial systems which tend to coexist with each other (Aryeetey 2008). Unlike the formal

financial system, the informal financial system includes all legitimate financial undertakings, which are aiming to escape the legal bindings of the regulators (Popiel 2005). As opposed to formal financial institutions, the informal ones are not controlled, directed, taxed, nor documented by governmental authorities. Different governments in the world had tried vigorously to broaden their respective tax nets and bring in all those businesses which evade documentation and taxes.

Hermes, Kihanga, Lensink, & Lutz, (2015) argued that the informal sector is a chief constituent of any emerging country's economy which ought to be funded to realize unrelenting growth. The term 'informal finance' is coined for the type of finance generated by the informal sector. Many expressions were used to label the undertakings of informal finance, such as moneylenders, unorganized, and non-institutional players. Conservative understanding held that such activities encompassed predacious lending or 'exploitative loans'. As a consequence, policies were inclined towards eliminating, policing, or substituting informal financial activities with subsidized credit. It was observed that informal finance activities continued over a long period and seldom involved bulky transactions and at times comparable to banks' activities. For example, "a system that transfers funds made by workforces in the Middle East to relatives living in the Pakistan, India or Philippines- guaranteeing to do so in only a couple of days- can hardly be termed as unorganized". Hawala is the term popularly used for such transactions in countries like Pakistan, Afghanistan, and India. In this arrangement of hawala, one person is supposed to send money abroad with the help of a money dealer. That money dealer is supposed to collect the amount in cash from the sender and take all details of the receiver in another country. The sender then contacts the prospective receiver and asks him to visit the local representation of a money dealer. In this way, both the sender and receiver evade public taxes but assume the risk of default by the payer involved in the process. On the other hand, different terminologies are being used for the same phenomenon in different countries, like in China *fei-ch'ien* is the proper terminology for money transfer, *hui Kuan* is the terminology in Hong Kong for money transfer, *hundi* in phenomenon representing the money transfer in India, *padala* is the world used for money transfer in the Philippines and *phai Kwan* is the substitute of hawala in Thailand (Report, 2003). The reason for its mushroom growth is hidden in its simplicity and great facilitation being offered to the participants of this instrument. The Informal finance in low-income countries can be imagined as spread along a continuum that arrays from spontaneous credits between friends or families, through loans made by dealers and agents, through pawn shops, through unregulated finance companies, and through unfettered credit amalgamations.

It has been observed that the poor population of Pakistan gets its financing needs to be resolved by the country's microfinance institutions. The micro-finance industry in Pakistan is being constituted of Micro Finance Banks (MFBs), Micro Finance Insurance (MFIs), and Rural Support Programs (RSPs). Only a limited portion of these microfinance institutions are regulated by the State Bank of Pakistan which is the custodian of the monetary system in Pakistan. The potential in the microfinance market has been estimated to be 12 percent against the current strength of 3.1 million subscribers with a loan portfolio of 61.2 billion PKR. There is enormous potential in the market for microinsurance institutions to go for credit life insurance and health insurance in terms of growth and consolidation and micro-finance banks are also flourishing when it comes to branchless banking in the country aiming at reducing the gap between access to rural and urban areas. The Government of Pakistan has introduced the Benazir Income Support Program (BISP) to extend financial support to the neediest and poor people in the country. The beneficiaries of the Benazir Income Support Program were asked to open accounts in banks and especially through the network of micro-finance banks in Pakistan. A handsome figure of 1.3 million depositors was recorded in the scheme which led to a tremendous boost in Micro Finance Bank proceedings in Pakistan. (Source: Micro watch, Issue 32, September 2014).

Breman & Jan (1976) argues that the informal sector should be segmented but based on the mode of production so that it will help in making analytical analysis. For analytical analysis, he suggested two approaches: The first approach recommends that it is not possible to avoid the informal sector as they provide a source of income and job opportunities to the poor people. A great money number of people are associated in terms of employees, suppliers, or another stakeholding capacity with the informal financial institutions. Secondly, there should be a linkage between the informal and formal sectors, which will eventually support one another. The government should play a vital role in promoting this relationship (Breman & Jan 1976; Tokman, & Ed, 1978). Further, the study describes characteristics of the informal sector such as they adjust the urban population but with low salaries, exploitation, and unsatisfactory working condition, and less production (Papola, 1981). Germidis (1990) viewed the financial contribution by the informal financial sector to economic growth and development to be very significant and he estimated the proportion of rural credit in developing countries to range between 30 and 80 percent. Hence it is

amply demonstrated that without the informal economy, the state of economic development cannot be safeguarded and will remain elusive.

Chen (2006) claim that the former description shows the informal sector has an unlimited capacity for expansion and growth. The informal sector has no restriction on entry and ensures a more equal distribution of return. Berman (1976) does not agree with this description of the informal sector and he describes that the informal sector is controlled by social and communal bonds, which makes it difficult for the new entrants to enter the market (Breman & Jans 1976). He categorizes the urban population into a few major segments: Labor elite, bourgeoisies, sub proletariat, and paupers. Labor elite are secure from both union side and regulations as well. Breman argues that sub proletariat can unite based on class and can be an innovative workforce. Groups within sub proletariat have rivalry and conflicts as they are fencing one another domain, this issue further breakdown classes. The arguments by Breman indicate the need for a model that can relate rural dominated societies to the formal sector. The researcher has proposed new possibilities of enhancing linkages between the informal and formal sectors, which is productive for scholars and policymakers. He argued the collaboration between the formal financial system and the informal financial system is the only way out to secure economic development for the society at large on an enduring basis. The tremendous potential present in the informal financial system being prevailed predominantly in the rural areas has a lot to offer to regulators and policymakers to tap the opportunity and design products and services comparable to the needs and requirements of the rural population.

Current Status

The recent years saw a refocus on the informal sector economy in almost all countries of the world. Horn (2009) opines that the reason for the renewed zeal in studying the informal sector economy is attributed to the enormous increase in employment during the economic slump in the informal sector.

In the light of the present study, it is worth mentioning that the economy of Khyber Pakhtunkhwa Province in Pakistan has been tremendously shattered by the war against terror due to its front runner status in the scenario. Alongside conceding heavy human losses, a significant amount of infrastructure has also been destroyed by the terrorist activities initiated vigorously by terrorist organizations like TTP (Tehreek-i-Taliban Pakistan) and Jamiatul Ahrar (JA), etc. The already shrink sort of financial resources for the people of Khyber Pakhtunkhwa went further in jeopardy after these agonizing years of war against terror. As political, cultural, religious, and economic factors in the formal and informal sectors impact the economic development significantly on the one hand and establish strong linkages with poverty alleviation on the hand therefore increased focus on the phenomena becomes indispensable.

Conceptual Framework

Based on the aforementioned literature review, the following model is proposed to ascertain the influence of political, cultural, religious, and economic factors on the economic growth of Khyber Pakhtunkhwa.

Furthermore, the study will also compare the effects of users of formal and informal institutions in KP Province.

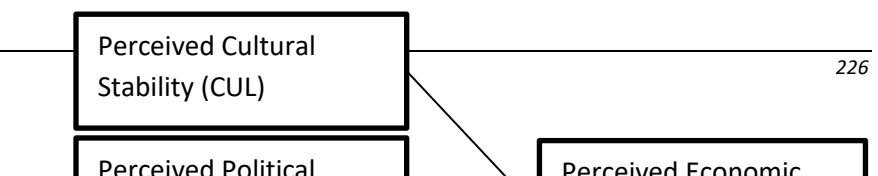


Figure 1: Conceptual Framework

Hypotheses of the Study

- H1: There is a significant impact of political factors on perceived economic growth in KP Province.
H2: There is a significant impact of Religious factors on perceived economic growth in KP Province.
H3: There is a significant impact of cultural factors on perceived economic growth in KP Province.
H4: There is a significant impact of economic factors on perceived economic growth in KP Province.

Research Methodology

The dimension of inconsistent estimates and incorrect inferences are often emerge from endogeneity bias which sometimes results in false conclusions and inappropriate theoretical interpretations Ullah et al. (2018). According to Ullah et al. (2020) elucidated that empirical research often confronts endogeneity issues and are now properly addressed in academic circles. Combating such issues effectively and efficient use of proper estimation techniques are considered vital quality benchmarks in the publication process.

The population for this research study is managers who are money dealers and lenders in private sectors, Small & Medium Enterprises (SME's), and scheduled commercial banks in the public and private sectors in the Province of Khyber Pakhtunkhwa. Responses received from them have been gauge to record the impact of cultural, political, religious, and economic factors on the perceived economic growth at Khyber Pakhtunkhwa through the formal and informal financial sector. Five hundred (500) subscribers have been taken from informal financial sectors as a sample. Three hundred and sixty-nine (369) firms responded and a total of three hundred and nine were found valid hence the response rate came to 61.8 %. Further, this research study used snowball sampling and convenience sampling methods during the present research.

Instrument Items

Perceived Political Stability

Perceived Political Stability (PPS) measures the perception of the respondents about the political situation prevailing in the province. The purpose of this factor is to understand the level of political stability in the province of Khyber Pakhtunkhwa. The scale is developed based on the work of Muermann, Mitchell, & Volkman, (2006), Yahyazadehfar, Zali, and Shababi (2011), Akongdit, (2013)

Table 1: Scale Items for Perceived Political Stability

Scale Statements for Perceived Political Stability

I think KP is a politically stable province

I think KP has political harmony

I think the people of KP has high political tolerance

People of KP are well aware of their political rights

People of KP are very sensitive and they show aggression on public issues (reverse question)

People of KP do not like the policy of agitation in all respects

People of KP have strong political bondage with their parties

People of KP has freedom of speech at any point of discussion

People of KP has freedom of choice

Perceived Cultural Stability

Perceived Cultural Stability (PCS) measures the perception of the respondents about the cultural situation prevalent in the province. The purpose of this factor is to understand the level of cultural stability in the province of Khyber Pakhtunkhwa. The scale is based on the work of Cochran (1960), Franke, Hofstede, and Bond (1991), Casson and Godley (2000), Weber, Christopher and Hsee (2000), Grinblatt and Keloharju (2001), Saleh (2006), Aregbeyen, & Mbadiugha (2011)

Table 2: Scale Items for Perceived Cultural Stability

Scale Statements for Perceived Cultural Stability

I think the people of KP are strongly connected to their culture

People of KP do honor their cultural values

People of KP will not like anything that against their culture

People of KP do follow their cultural conventions in their routine course of life

Perceived Religious Affiliation

Perceived Religious Affiliation (PRA) measures the amount of religious affiliation of the respondents in the province. The purpose of this factor is to understand the level of religious affiliation in the province of Khyber Pakhtunkhwa. The scale is based on the work of Canepa and Ibnrubbian (2014), Eid and EL-Gohary (2015).

Table 3: Scale Items for Perceived Religious Affiliation

Scale Statements for Perceived Religious Affiliation

People of KP are strongly linked with religion

People of KP always give priority to religious directives in their decision making

The choices of financial option in KP are always guided by religious sentiments

People of KP always interested in Islamic kind of investment options and decisions

People of KP will not accept any financial policy which is against Islamic ideology

Perceived Economic Environment

Perceived Economic Environment (PEE) measures the perception of the respondents and their assessment of how well is the economic environment of the province. The purpose of this factor is to understand the wellness of the economic environment prevalent in the province of Khyber Pakhtunkhwa. The scale is based on the work of Nagy and Obenberger (1994), Muermann, Mitchell, & Volkman (2006), Qureshi, Kashif ur Rehman, and Hunjra (2012), Al-Ajmi (2009), Burke, Clarke, Barrow, and Molian (2008), Sheikh, (2010), Yahyazadehfar, Zali, and Shababi (2011),

Table 1: Scale Items for Perceived Economic Environment

Scale Statements for Perceived Economic Environment

KP is economically more stable in the country

KP has more employment opportunities than other parts of countries

People KP are more economically well-off than other parts of the country

KP economy is not under the inflationary pressure

People of KP are self-sufficient in the provision of goods and services than other parts of the country

Labor is easily available for work

People of KP are self-sufficient in capital adequacy for desired investments

Perceived Economic Growth

The last factor that the subjects in the study responded to was Perceived Economic Growth (PEG). This is the ultimate criterion variable in the study. PEG measured the perception of the respondents about the economic growth in the province. The purpose of this factor is to understand the perception of economic growth in the province of Khyber Pakhtunkhwa. The scale is based on the work of Lewis (2013) and Kuznets (2016).

Table 2: Scale Items for Perceived Economic Growth

Scale Statements for Perceived Economic Growth

People of KP are progressing over the years

The production capacity of KP is progressing over the years

People of KP has progressive infrastructure over the years

People of KP has an extensive choice as a consumer over the years

The production wheel in KP has expanded over the years

Business in KP has been expanded over the years

Data Analysis

Two types of analysis have been performed for this research study, profile analysis of the research respondents, and statistical analysis. The following statistical tools have been used to analyze the data:

- Descriptive Statistics
- Correlation Analysis
- Structural equation modeling

The Smart PLS and SPSS Version 19 has been employed in the research study for analysis and presentation purposes.

Age of the Respondents

Respondents in the study were asked to provide information about their age. Age was categorized into different groups that are Below 30, 31-40, 41-50, and 51-60. The majority of the respondents were middle-aged belonging to the age group between 31 to 40 (122, 39.5%) while the least number of respondents were in the age group between 51 to 60 (26, 8.4%). The number of respondents in each age group and their respective percentage is shown in the following table.

Table 6: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
below 30 Years	98	31.7	31.7	31.7
31-40 Years	122	39.5	39.5	71.2
41-50 Years	63	20.4	20.4	91.6
51-60 Years	26	8.4	8.4	100.0
Total	309	100.0	100.0	

Education of the Respondents

Respondents in the research study were asked to provide information about their level of formal education. Education was categorized into different groups that are Secondary School or 10th Grade, Higher Secondary School Certificate or 12th Grade, Bachelors or 14th Grade, Masters or 16th Grade, and above 16th Grade. The majority of the respondents were holding a Master's degree as they constituted 42.7 percent of the total study respondents. The number of respondents in each education group and their respective percentage is shown in the following table.

Table 7: Table Education of the Respondents

Educational Qualification	Frequency	Percent	Valid Percent	Cumulative Percent
Secondary School	12	3.9	3.9	3.9
Higher Secondary School Certificate	16	5.2	5.2	9.1
Bachelors	112	36.2	36.2	45.3
Masters	132	42.7	42.7	88.0
Above Masters	37	12.0	12.0	100.0
Total	309	100.0	100.0	

Gender of the Respondents

Respondents in the research study were asked to provide information about their gender. The majority of the study respondents were male (242, 78.3%) while the study had a total

of 67 (21.7%) female respondents. The number of respondents in each gender group and their respective percentage is shown in the following table.

Table 8: Table Gender of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	242	78.3	78.3	78.3
Female	67	21.7	21.7	100.0
Total	309	100.0	100.0	

Occupation of the Respondents

Respondents in the study were asked to provide information about their occupation. The occupation was categorized into different groups that are Government Employed, Private Employed, and Self Employed. The majority of the respondents were employed in a private organization (147, 47.6%) followed by government employees (84, 27.2%) while a total of 77 (24.9%) were self-employed. The number of respondents in each occupation category and their respective percentage is shown in the following table.

Table 9: Table Occupation Type

		Frequency	Percent	Valid Percent	Cumulative Percent
	Government employed	84	27.2	27.3	27.3
	Private employed	147	47.6	47.7	75.0
	Self employed	77	24.9	25.0	100.0
	Total	308	99.7	100.0	
Missing	System	1	.3		
Total		309	100.0		

Partial Least Squares (PLS)

Reliability Analysis

Each of the factors in the revised model is evaluated for reliability. Reliability in the present study is assessed using Cronbach Alpha and Composite Reliability. Reliability analysis was conducted to determine the internal consistency of each construct. The results of the Alpha and Composite Reliability are shown in the following table. The alpha of the constructs in the present study ranged between .762 and .854 while CR values ranged between .841 and .890. Results indicate that the reliability of all the constructs is well above .70 which indicates good reliability is attained.

Table 10: Reliability analysis of the constructs

	Cronbach's Alpha	Composite Reliability
Perceived Cultural Stability	0.788	0.853
Perceived Economic Environment	0.834	0.877
Perceived Economic Growth	0.854	0.890
Perceived Political Stability	0.762	0.841
Perceived Religious Affiliation	0.821	0.865

Construct Validity

Construct validity is determined once convergent and discriminant validity is established.

Convergent Validity

One of the two forms of validity established in the present study is convergent validity. Convergent validity is established when the concepts that should be related to each other are related. Statistically, convergent validity is established if an AVE of .50 or greater is achieved for the constructs. Based on the factor loadings, convergent validity was calculated. The results indicate that AVE for all the constructs in the present study was found to be over the recommended value of .50. Hence, convergent validity was established. The following table shows the AVE value for each of the constructs in the present study.

Table 11: AVE for constructs

	Average Variance Extracted (AVE)
Perceived Cultural Stability (PCS)	0.595
Perceived Economic Environment (PEE)	0.545
Perceived Economic Growth (PEG)	0.575
Perceived Political Stability (PPS)	0.514
Perceived Religious Affiliation (PRA)	0.567

Discriminant Validity

Discriminant validity determines the extent to which sufficiently distinct constructs are not strongly related to each other. Discriminant validity in the present study is established through three different techniques

1. Fornell-Larcker Criterion
2. Cross Loadings Analysis
3. Heterotrait-Monotrait Ratio (HTMT)

Using the Fornell-Larcker criterion, discriminant validity is established if the square root of AVE for each construct is greater than the inter-correlations of other constructs. The following table compares AVE square roots and inter-construct correlations. The results indicate that the square root of AVE of each construct is greater than other inter-construct correlations. Hence, discriminant validity is established.

Table 12: Fornell and Larcker Criterion

Constructs	PCS	PEE	PEG	PPS	PRA
PCS	0.771				

PEE	0.027	0.738			
PEG	0.162	0.386	0.758		
PPS	0.154	0.446	0.345	0.717	
PRA	0.613	0.190	0.228	0.347	0.753

The next method is the cross-loadings. The cross-loadings table below reports details of correlations among each scale. This table is a complete frame of discriminant validity and convergent validity as it reports on factor loadings of all indicators; this should be greater than the constructs of them than any other factors (McLure Wasko & Faraj 2005). The results indicate that all the factor loading of measurements is greater than their cross-loadings. Additional support for discriminant validity was obtained through the assessment of cross-loadings. Since, the diagonal loadings were significantly greater than the off-diagonal loadings in the corresponding rows and columns (Hulland, 1999).

Table 13: Cross Loadings

	PCS	PEE	PEG	PPS	PRA
PCS1	0.881	0.064	0.183	0.203	0.535
PCS2	0.819	-0.049	0.119	0.055	0.450
PCS3	0.706	-0.012	0.078	0.039	0.507
PCS4	0.658	0.073	0.061	0.128	0.426
PEE1	-0.016	0.730	0.231	0.445	0.132
PEE2	-0.035	0.772	0.205	0.312	0.149
PEE3	-0.123	0.838	0.260	0.347	0.027
PEE4	-0.030	0.732	0.349	0.222	0.115
PEE5	0.062	0.701	0.188	0.246	0.123
PEE7	0.204	0.641	0.357	0.384	0.248
PEG1	0.185	0.344	0.762	0.295	0.188
PEG2	0.138	0.278	0.813	0.306	0.153
PEG3	0.148	0.279	0.789	0.276	0.180
PEG4	0.000	0.386	0.753	0.321	0.112
PEG5	0.146	0.202	0.747	0.200	0.225
PEG6	0.145	0.199	0.677	0.089	0.218
PPS1	0.168	0.289	0.254	0.757	0.309
PPS2	0.048	0.350	0.218	0.681	0.073
PPS3	0.055	0.335	0.261	0.751	0.176
PPS4	-0.022	0.338	0.228	0.750	0.158

PPS8	0.272	0.289	0.266	0.638	0.482
PRA1	0.606	0.054	0.195	0.243	0.840
PRA2	0.490	0.104	0.191	0.332	0.860
PRA3	0.464	0.228	0.223	0.246	0.809
PRA4	0.370	0.224	0.045	0.279	0.634
PRA5	0.313	0.303	0.055	0.353	0.578

HTMT is an estimate of the correlation between the constructs. Its interpretation is straightforward. Using the HTMT as a criterion involves comparing it to a predefined threshold. If the value of the HTMT is higher than this threshold, one can conclude that there is a lack of discriminant validity. The exact threshold level of the HTMT is debatable; Some authors suggest a threshold of 0.85 (Kline, 2011), whereas others propose a value of 0.90 (Teo, Srivastava, & Jiang, 2008). The table below shows that the estimates do not exceed the recommended values. Hence, discriminant validity is established.

Table 14: Heterotrait-Monotrait Ratio (HTMT)

	PCS	PEE	PEG	PPS	PRA
PCS	-				
PEE	0.145	-			
PEG	0.190	0.406	-		
PPS	0.220	0.555	0.401	-	
PRA	0.734	0.290	0.234	0.474	-

Regression Results

The results of the analysis for users of the informal financial system show an R2 value of .433. This shows that 43.3% change in perceived economic growth can be accounted for perceived political stability, perceived cultural stability, perceived economic environment, and perceived religious affiliation in the users of the informal financial system. The model with R2 value is shown in the figure below

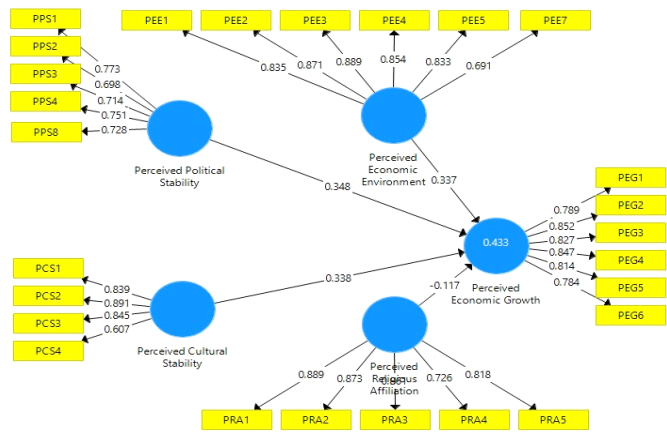


Figure 1: Structural Model with Explained Variance: IFS

In addition to evaluating the R2 value for the formal financial system, the change in the R2 value when a specified independent variable is omitted from the model can be used to evaluate whether the omitted construct has a substantive impact on the dependent variable. This measure is referred to as the f2 effect size (Hair Jr, Hult, Ringle, & Sarstedt, 2013).

The results show that the removal of perceived cultural stability, perceived economic environment, and perceived political stability have a small effect on the dependent variable (perceived economic growth), while perceived religious affiliation will have a negligible effect. The effect size is shown in the following table for users of the informal financial economy.

Table 15: Effect Size for Independent Variables for IFS

Constructs	Effect Size (f2)
Perceived Cultural Stability	.117
Perceived Economic Environment	.112
Perceived Political Stability	.120
Perceived Religious Affiliation	.010

The results of hypotheses tests for users of informal financial system revealed a significant impact of Perceived Cultural Stability ($t = 3.433, p < .005$), Perceived Economic Environment ($t = 3.398, p < .005$), and Perceived Political Stability ($t = 4.020, p < .001$). Perceived Religious Affiliation ($t = .854, p > .05$) had an insignificant impact on Perceived Economic Growth. The results are summarized in the following table and diagram for users of the informal financial economy

Table16: Hypotheses Testing for Informal Financial Economy

	OS	STD	T	Sig
Perceived Cultural Stability -> Perceived Economic Growth	.338	.099	3.4	.001
Perceived Economic Environment -> Perceived Economic Growth	.337	.099	3.3	.001
Perceived Political Stability -> Perceived Economic Growth	.348	.087	4.0	.000
Perceived Religious Affiliation -> Perceived Economic Growth	-.117	.137	.85	.393

Discussion and Conclusion

This study intends to contribute to the literature by covering the gaps like say, for instance, it is the first attempt to examine the perceived effect of different factors on economic growth particularly in the context of Pakistan. The results of the analysis showed that 43.3% change in perceived economic growth can be accounted for perceived political stability, perceived cultural stability, perceived economic environment, and perceived religious affiliation in the users of the informal financial system. The study results found similar to previous studies like (Mason, and Harrison, 2017; Klapper, Lusardi, and Van Oudheusden, 2015; Ikasari, Sumransat, Eko, and Kusumastuti, 2016; Polese, William, Horodnic, and Bejakovic, 2017) it is because besides other factors financial literacy is one of the main cause that pushes the users to go for the informal mode of financing. Similarly, other economic factors like perception about tax burden and especially after a recent change in the government lead a significant aid of the informal sector in perceived economic growth. Further, results also found contradictory (Taiwo, Agwu, and Benson, 2016; Maridal, 2013, Ciobanu, and Bahna, 2015) it once again tends to be in the favor of the researcher argues that perceptual studies in the context of economics factors must be ascertained to depict the actual outcome. Hence, from the discussion, it's revealed that socioeconomic factors of the study are contextual and possess a diverse influence on perceived economic growth.

From the above-stated discussion, the conclusion can be drawn that the majority of the results were supported by the previous studies (Zulfiqar, Chaudhary, and Aslam, 2016, Upreti, 2015, Braunfels, 2014, McKernan, Pitt, and Moskowitz, 2004) like to say for instance there is a

significant impact of Perceived political stability, Perceived economic factors have been found on Perceived economic growth. Similarly, a significant difference in Perceived economic growth across informal users has also been revealed by the results. On the other side, there is an insignificant influence (Ciobanu, and Bahna, 2015, Eum, 2011) of Perceived cultural factors, Perceived religious factors have been accounted on Perceived economic growth. Difference between Perceived political stability, Perceived economic factors, perceived cultural factors, and perceived religious factors also found insignificant across the users of informal financial systems. However, the blend of the results was also linked with present political, cultural, religious, and economic factors, and the said results were discussed with more implications at KP province, many of the results found satisfactory in compliance with reality and this was also the ultimate aim of the researcher to represent the true picture of the KP and proposed viable solutions for it.

Limitations

Every research study is subjected to many assumptions and limitations and this study is no exception. There are a few limitations associated with this study. In the first instance, the assumptions of the study will be discussed. Several assumptions accompany this research study. First of all, the study assumed that the respondents in the sample population has answered the survey questions very truthfully, unbiased and without any fear in line with their best ability. However, there are chances that the respondents may have responded in terms of social desirable answers (Krumpal, 2013); (weigold, weigold, & Russel, 2013). Secondly, the sample representing the total population is assumed to be fully representative of the people associated with formal and informal financial systems in KP Province. All respondents are assumed to be literate enough to understand at least the know-how of responding to any such questions and its importance. In the light of the current scenario, the assumption will not be practical to assume all people residing in the Province are supposed to be academically qualified. However, they are supposed to be proficient in understanding the language of the questions being asked from them and quite capable of understanding the modalities involved.

The limitations of this study are centric to its methodological issues like the demographics, sample size, and research design. First to discuss the last aspect, since the research data is constrained to time and it has been collected in a sphere of three months only, the data represent a limited timeframe. There is a possibility that the population leftover from this study if contacted, may have been able to have contributed in a better way than the current respondents so it constitutes a limitation of the study. On a similar note, different people possess different intelligent quotient (IQ) levels and it leads to different capability levels among people. Some people are quite sharp at understanding and comprehending issues, some possess mediocrity in understanding, and last but not least, some people are not at all good at comprehending new phenomena.

The larger size of the study sample increases the statistical strength of the data and on the contrary, a smaller one decreases the same in size or overall effect, similarly score range is accordingly restricted and limited variability (Faul, Erdfelder, Lang, & Buchner, 2007). As for as demographic attributes of the study respondents are concerned, it is worth mentioning that the study concedes a drawback of having all respondents from KP Province only and the rest of the country has not been considered for data collection due to time and financial constraints. So it also constitutes a limitation because it may have been possible to get better responses from countrywide study respondents.

Furthermore, the study is limited to the evaluation of how different factors impact the perception of economic growth and the comparison of the factors and economic growth between formal and informal systems. Future studies may evaluate the impact of formal and informal systems on economic growth and how they both may be linked to each other.

Policy Recommendations

Since the previous one decade, Pakistan and especially KP province faced drastic changes in a political, cultural, and religious environment that ultimately cause economic environment as well as KP economy on both formal and informal sector. Therefore, it is suggested that policymakers or practitioners should have to work out the laws governing harmony in a cultural and religious environment, and as well as Govt. of KP should strive to make the political

environment less panic because the notion of change indeed changes the perception of the people of KP. Once a strong coherence between the variables like political, cultural, religious, and economic environment is buildup the economy of KP will start flourishing.

While looking toward the regression results there is a large magnitude effect that exists by the perceived political, cultural, religious, and economic environment on the economy of KP in the context of informal rather than the formal financial system and same with the comparative results between the formal and informal financial system. Hence, it is recommended that Govt. should have to take the steps to channelize the informal setups into the mainstream of the economy by bringing industrial and taxation reforms so that the fruits from the formal financial system can be maximized.

Recommendations for Further Research

First, the research study intended to focus on people's perspective about the formal and informal financial system, the future researcher can investigate the strategic orientation towards firm performance in formal and informal financial setup. Secondly, the future researcher should take into consideration the possibility of including greater clientele in the data collection process. The future researcher should also concentrate on broadening the scope of the study by including institutions like 'not-for-profit' organizations. For data collection, apart from the survey method, other data collection techniques shall also be relied upon. Third, the present research study concentrated on only one Province; Khyber Pakhtunkhwa in this study with a focus on big cities, the future researcher should include other provinces of Pakistan also along with concentration to get data from smaller cities of Pakistan to overcome this sort of limitation.

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