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Social Protection in Pakistan

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Abstract

The past decade has seen a renewed emphasis on social protection in Pakistan. This paper maps the existing social protection schemes in Pakistan, both, at the federal and provincial levels, and provides a critical appraisal of the schemes based on evaluations conducted in the recent past. Since Cash transfers, through the Benazir Income Support Programme has emerged as the biggest and the most far reaching social assistance scheme in the country, special emphasis is paid to its impact. The literature on social protection in Pakistan has thus far not evaluated the impact of social protection on labour market dynamics. This paper attempts to fill that gap by using national data sets to estimate the impact of social protection on labour force participation, wages, incomes, the decision to migrate and formalization. Based on this evaluation, the paper concludes by laying out recommendations across fiscal and schematic dimensions.

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I. INTRODUCTION

The past decade has seen substantial emphasis on social protection in Pakistan.Since 2008, the country has witnessed a significant increase in fiscal outlays on social protection, and a national poverty registry has been created to effectively deliver social protection. Whether Pakistan will build on its achievements will depend on a number of economic, fiscal, and political variables. This paper attempts to contribute to this discourse in two ways: first, by assessing existing social protection schemes, based on evaluations undertaken in the recent past, we recommend further rationalisation of the social protection map; and, second, by exploring the impact of social protection instruments on labour market dynamics. By doing so, we attempt to fill an important gap that has hitherto existed in the literature on social protection in the country.

In order to set the context for locating social protection in the larger social and human development milieu, in Section 1.1 we provide a brief overview of Pakistan's position in terms of poverty indicators, and a comparative assessment of its standing on social indicators in the South Asian region. Section 1.2 then provides an overview of the historical trajectory of social protection. Section 2 maps the social protection instruments at both federal and provincial levels. This mapping covers the gamut of operational social insurance and social assistance schemes; wherever possible, it provides the fiscal outlays, design features, and the number of beneficiaries of each scheme. In Section 2.2, we survey the evaluations of these schemes in the literature. Section 3 analyses the impact of social protection on the labour market. Based on existing national data sets, we assess the impact of social protection on labour force participation, wages, and incomes and the decision to migrate. Section 4 lays out recommendations on the way forward, based on the foregoing assessment.

1.1. Social and Human Development Overview: Pakistan

This overview is over three inter-related dimensions. First, we discuss issues surrounding poverty rates and estimates. Then, we contextualise social development in Pakistan with respect to other countries in the region. Last, we compare Pakistan's progress with respect to the Millennium Development Goals (MDG).

i. Poverty

Based on the official poverty line of 2,150 calories (per day per adult equivalent), the Household Income and Expenditure Survey (HIES) provides official poverty estimates in Pakistan. According to these estimates, head count poverty in Pakistan demonstrates a fluctuating trend over the past two decades. Head count poverty based on this measure was 26.11 per cent in 1990-91, and increased to 34.5 per cent in 2001-02. Since the beginning of the 2000s, poverty has consistently decreased to 21 per cent in 2005 and then to 12.4 per cent in 2010-11. Figures for 2005-6 and 2010-11 are, however, contended; as a result, the poverty estimates for 2010-11 have not been officially released. The cause of disagreement is that poverty reduction from the previous estimate of 2000-01cannot be so swift, and the 2010-11 figures are problematic because growth rates since 2008 have been low.

By using different methodologies, researchers have come up with alternative and more plausible figures on poverty for the 2000s. Jamal (2011) has shown that head count poverty was around 38 per cent in 2010-11. Malik et al. (2013) tweaked the official methodology by using actual survey prices rather than the GDP deflator on the same data set. This yielded significantly different results for 2010-11, with head count poverty at49.1 per cent in the aggregate and 39.1 per cent for urban and 54.0 per cent for rural areas respectively.

ii. Social and Human Development

Table 1 provides comparable data on select social indicators across South Asia. The indicators chosen across education, health, and nutrition provide a bird's eye view of the most salient aspects of social and human development. The choice of countries across South Asia is based on the criteria of broadly similar range of per capita income that they belong to and on the shared and similar institutional histories of these countries.

We see in Table 1 that Pakistan does as well (or as badly) on life expectancy, maternal mortality, and stunting as other countries in the region. The only indicator on which Pakistan appears to do betterthan most countries is sanitation. On all education-related indicators, Pakistan's performance lags behind that of the rest of South Asia. The gap on literacy among males is not much, and Pakistan performs better than Bangladesh; but, on female literacy, Pakistan and Nepal lag significantly behind India and Bangladesh. More worrying is that net enrollment rates for Pakistan lag behind all countries of South Asia, and that the lag is much more pronounced for girls.

Table 1: Social Indicators for South Asia (Data for 2012 Unless Specified Otherwise)

Indicator	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
Life expectancy at birth, male (years)	69.5	67.6	64.5	66.9	65.6	71.1
Life expectancy at birth, female (years)	71.1	68.2	68	69.1	67.3	77.2
School enrollment, primary (% net)	91.5 (2010)	90.6	93.3 (2011)	97.4	72.5	93.8
Ratio of female to male primary enrollment (%)	106.3 (2011)	101.8	102.3 (2011)	108.4	87.2	99.6
Literacy rate, adult total (% of people ages 15 and above)	58.8	52.8 (2005)	62.8 (2006)	57.4 (2011)	54.7 (2011)	91.2 (2010)
Literacy rate, adult male (% of males ages 15 and above)	62.5	65 (2005)	75.2 (2006)	71.1 (2011)	67 (2011)	92.6 (2010)
Literacy rate, adult female (% of females ages 15 and above)	55.1	38.7 (2005)	50.8 (2006)	46.7 (2011)	42 (2011)	90 (2010)

Indicator	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
Mortality rate, infant (per 1,000 live births)	34.9	31	42.9	33.4	70.6	8.5
Mortality rate, under-5 (per 1,000 live births)	43.4	38	55	41.3	87.8	10
Maternal mortality ratio (modelled estimate, per 100,000 live births)	170 (2013)	120 (2013)	190 (2013)	190 (2013)	190 (2013)	29 (2013)
Malnutrition prevalence, height for age (% of children under 5)	41.4 (2011)	33.6 (2010)	47.9 (2006)	40.5 (2011)	43 (2011)	19.2 (2009)
Malnutrition prevalence, weight for age (% of children under 5)	36.8 (2011)	12.8 (2010)	43.5 (2006)	29.1 (2011)	30.9 (2011)	21.6 (2009)
Modern sanitation facilities (% of population with access)	57	46.9	36	36.7	47.6	92.3

Source: World Development Indicators, World Bank,various issues

Pakistan's human development profile is not very encouraging either. In 2012, Pakistan was ranked 146th in terms of the UNDP Human Development Index (UNDP, 2013). Pakistan is also lagging behind in terms of fulfillment of the Millennium Development Goals (MDGs). According to the National MDG Report 2013, out of 34 MDG indicators, only three have been achieved, six are on track and a staggering 25 are off track (Pakistan MDG Report, 2013, pp. 14).

1.2 Brief Historical Perspective on Social Protection in Pakistan

The Pakistani state did not prioritise social protection in the first 20 years of its existence. A food rationing scheme that existed from before independence was continued. The only new initiative in the 1950s was the establishment of a pension fund for government servants. It was in the wake of strong economic growth in the early 1960s, and the inequality that it generated therefore, that demand for social security emerged. The then government responded by introducing two social insurance schemes. One was the Employees Social Security Scheme, introduced in 1967.[1] A group insurance for public sector workers was also initiated in 1969.

The 1970s brought about a strong dose of quasi-socialist populism in Pakistan. This prompted the initiation of a string of social insurance schemes in the formal economy. Given the emphasis of the time, these schemes were directed towards employees in firms that employed ten or more workers. The thrust was the redistribution of profits towards the welfare of workers employed in those enterprises. Since social insurance by its very nature is contributory, and employers were to contribute in these cases, the fiscal burden was minimal.[2]

In the 1980s and 1990s, emphasis shifted from social insurance schemes to social assistance. The Islamic-oriented ZiaulHaq Government introduced the Zakat Scheme. The assistance was to be provided to Mustahiqeen, based on a religious edict.[3]The financing for this assistance was to come from a religiously mandated tax for this purpose. There was thus no direct fiscal impact of this social protection intervention either. In the early1990s, the then government of Prime Minister Nawaz Sharif initiated the Pakistan BaitulMaal (PBM) social assistance scheme. This scheme has a similar mandate as Zakat, with the difference that it is not limited to any religious mandate and is open to all those citizens deserving of social assistance. This was also the first scheme that was financed entirely through the revenue pool of the state. The initiation of the PBM also coincided with a significant shift in economic policy in the country. This was the time when the government of Pakistan introduced far-reaching reforms aimed at liberalising, deregulating, andprivatising the economy.[4]

It was in the early 2000s that a concerted thrust towards social protection was initiated in Pakistan. In 2007, theMusharraf government announced the first social protection policy, whichwas led initially by donors.[5] The focus of the policy was the mitigation of risk arising out of poverty, addressing co-variate shocks and social exclusion. Partly based on this thrust created for social protection, and partly because of economic travails created by the volatility in international food and fuel prices, by the time that the transition to democracy took place in Pakistan in 2008, a consensus had emerged among the main political parties on adopting a major social protection programme.[6] It was in this context that the newly elected government of the Pakistan People's Party initiated an unconditional cash transfer programme targeted at women of the poorest households—the Benazir Income Support Programme (henceforth BISP)—at the federal level in 2008.[7] In 2007, before the BISP was launched, the total annual outlay on social assistance was PKR 11 billion (US $ 183 million). The sum allocated for the BISP in 2008, its first year,was PKR 34 billion (US $ 411 million). This three-fold increase at one go to the fiscal commitment to social assistance has seen steady expansion—PKR 97.8 billion (US $ 960 million) was allocated to the BISP for 2014-15. Gazdar (2011) terms this increase in commitment to social protection a 'paradigm shift'.

While social protection remains concentrated in the realm of social assistance because of the commitment to BISP, social insurance schemes initiated in the 1970s have continued. However, as we shall see in Section 2, their outreach remains limited and there has been little effort at reform. As the present government, in office since June 2013, has its main constituency in the middle class, it has sought to broaden social protection by initiating the Youth Loan Scheme and by distributing laptops among university students.

II. SOCIAL PROTECTION SCHEMESIN PAKISTAN: MAPPINGAND EVALUATION

This section is descriptive in nature. The first two sections provide a broad overview of existing social protection schemes. Since the federal and provincial governments operate their own schemes, it is important to provide mapping for both. Subsequently, we explore the evaluations of social protection programmes in the literature.

2.1 Mapping of Social Protection Schemes at the Federal Level

Table 2 provides a mapping of existing social protection schemes that come under the jurisdiction of the federal government. First, we see that in terms of the number of schemes, as well as allocations and number of beneficiaries, social assistance schemes far outweigh those for social insurance. Moreover, the profile of social assistance is dominated by the BISP. In terms of allocations, the share of BISP is almost 49 per cent of the total social assistance expenditure of the federal government, and 65 per cent of the number of beneficiaries. The share of Zakat and PBM, which are much older programmes than the BISP, has been declining, in both relative and absolute terms. The share of microfinance also appears to have been stagnating in the recent past. However, some new schemes initiated by the present government—most notably the Prime Minister's Youth Loan Scheme—are expected to grow substantially. The housing scheme has been launched in the fiscal year 2014-15; its success will depend largely on cooperation with provincial governments, as provinces own public land.We also see that barring utility stores, all other schemes are targeted in one form or the other.

Social insurance programmes, as mentioned earlier, have been in place much longer, andall cater to registered enterprises employing ten workersor more. They are thus limited to large and medium scale firms in the formal sector. Since these schemes are financed by employer contributions and payroll deductions, their fiscal impact is limited to administrative expenses and is thus minimal. In fact, in cases where the bulk of financing comes from employers, there is an element of redistribution in the design of these programmes.

Table 2: Social Protection Schemes under the Federal Government

Programme	Targeting Mechanism	Budget	Beneficiaries
Social Assistance			
Benazir Income Support Programme (BSIP)	Targeted	PKR 97.8 billion[8]	5.25 million
Microfinance	Self-targeted	PKR 20 billion[9]	500,000[10]
Pakistan Baitul-Mal	Targeted	PKR 2 billion	1,117,249[11]
Wheat Subsidy	Geographical targeting	PKR 1.1 billion	N.A.

Programme	Targeting Mechanism	Budget	Beneficiaries
Utility Stores	Non-targeted	PKR 6 billion	N.A.
Prime Minister's Low Income Housing Scheme–ApnaGhar	N.A.	PKR 60 billion[12]	500,000[13]
Minimum Wages	N.A.	N.A.	N.A.
National Disaster Management Authority (NDMA)	Geographical targeting	PKR0.067 billion[14]	N.A.
Zakat	Targeted	PKR 4.05 billion	404,124[15]
Prime Minister's Scheme for Provision of Laptops	Targeted	PKR 4 billion	100,000 in 2013-14
Prime Minister's Fee Reimbursement for Poor in Less Developed Areas	Targeted	PKR 1.2 billion	30,000 in 2013-14
Prime Minister's Youth Business Loan Scheme	Targeted	N.A.	100,000 in 2013-14
Prime Minister's Youth Training Scheme	Targeted	PKR 4 billion	50,000 for 2013-14
Social Insurance			
Employees Old Age Benefits (EOBI)	Targeted	PKR 13.1 billion[16]	5,442,870[17]
Worker Profit Participation Fund	Targeted	N.A.	N.A.
Workers Welfare Fund	Targeted	PKR 13.5 billion	N.A.
Compensation to those affected by terrorism	Targeted	PKR 1.4billion	N.A.

Source: Pakistan Economic Survey 2013-14, 2014-15 Budget documents and NSPP (2010).

2.2. Mapping of Provincial Social Protection Schemes

Table 3 provides a detailed mapping of social protection schemes at the provincial level. The most salient observation is that social protection initiatives are mostly concentrated in the provinces of Punjab and Sindh. These two provinces are the most populous and the richest among the four provinces of Pakistan. Sindh and Punjab also happen to be the most urbanised provinces in the country, and rank better than the other two provinces on most composite development indicators.

In keeping with the trend set by the federal government, provincial schemes are concentrated on social assistance; and, within social assistance, the emphasis is on vocational training.

While information on allocations for Sindh is not available, those in Punjab appear to be small. Also, there is no information provided on the number of students enrolled in and graduated from these programmes, nor is any information available on their placement in the labour market. In the realm of social insurance, all provinces operate their respective social security institutes. The funding for these institutes comes from payroll deductions and employee contributions. Across all provinces, these institutes operate hospitals. Sayeed (2004) notes that in the presence of a national health service, where health facilities can be accessed as citizens, there is little utility of providing curative health through this scheme.

Table 3: Social Protection Schemes under the Provincial Government

Programme	Government Level	Targeting Mechanism	Budget	Beneficiaries
Social Assistance				
Rural Support Program for Poverty Reduction	Sindh Government	N.A.	PKR 1.3 billion	N.A.
Grant of State Land to Landless Peasants	Sindh Government	Targeted	N.A.	5,000[18]
Benazir Bhutto Shaheed Youth Development Program (BBSYDP)	Sindh Government	Targeted	N.A.	4,116
Technical Education and Vocational Training Authority	Punjab Government	Non-Targeted	PKR 2 billion[19]	N.A.
Punjab Vocational Training Council	Punjab Government	Targeted	PKR 1 billion[20]	N.A.
Chief Minister's Self Employment Scheme	Punjab Government	Non-Targeted	PKR 2 billion[21]	350,000
Minimum Wages	All Provincial Governments	N.A.	N.A.	N.A.
Social Insurance				
Provincial Employees Social Security Institutions	All Provincial Governments	Targeted	PKR 1.74 billion[22]	56,895

Source: Provincial Budget Documents 2014-15and NSPP (2010)

2.3. Evaluations of Social Protection

i. Social Insurance Schemes

The existing social insurance schemes in Pakistan cater mainly to workers in the formal sector. Sayeed (2004) notes that given the restrictive eligibility criteria of these schemes, they "do not cover workers from the agricultural sector, the informal economy and those who are either employed temporarily through contractors or in establishments with less than ten workers". According to the Labour Force Survey (2011), only 26.2 per cent of the workers employed in the non-agricultural labour force were employed in the formal sector.

Moreover, roughly two-thirds of those working in the formal sector are irregularly employed (NSPP, 2010). Furthermore, benefits that accrue are extremely restrictive also. The largest scheme in terms of beneficiaries is the EOBI, the pension scheme, with more than half a million beneficiaries. Benefits at the level of PKR 3000/month (US $30) are considered too low. Sayeed (2004) also notes that there is no provision of transfer of pension payments if the worker leaves one job and moves to another, as the registration of the worker is through the employer, and also because the worker does not contribute towards the pension.

Benefits from other schemes are also minimal. The Worker's Profit Fund (WPF) provides bicycles and sewing machines to select beneficiaries, while the Worker's Welfare Fund (WWF) provides an educational stipend to one child for higher education. Also, procedures for acquiring even these minimal benefits are arbitrary and non-transparent.

iii. Utility Stores

Utility stores provide the only universal food subsidy in the country. Through over 5,000 outlets, these stores provide essential food items—mainly wheat flour, cooking oil and rice—as well as other essential household items at a subsidy. Because the scheme is universal in character and there is no form of quantitative rationing, the NSPP (2010) notes that "the more entrepreneurial of [the beneficiaries] have the incentive to arbitrage the subsidised goods being sold with the higher prices prevailing in the market".

iv. Social Assistance Schemes

There are three social protection programmes currently in operation in Pakistan. The main form of assistance that all of them undertake is cash transfers. As mentioned earlier, both, Zakat and PBMface a declining profile as far as their budgets are concerned. Both programmes combined have roughly 1.5 million beneficiaries. The declining budgetary profiles of the two programmes are for different reasons. Funds for Zakat come from a dedicated tax imposed on Muslims and deducted through savings instruments (interest on bank deposits and share dividends). In the past decade, a proviso to the law has exempted Muslims of certain sects from deductions on this account. As a result, Zakat collection in 2013-14 was only 45 per cent of what it was in 1998-99. This trend is expected to continue in the future. The PBM, on the other hand, is wholly funded through tax revenues. Since the onset of the BISP, the budget for PBM has consistently declined. It is obvious that there is little interest among successive governments for continuing both programmes.

Zakat and PBM have suffered from two other drawbacks in the course of their existence. First, the benefits provided have been small. Both programmes give PKR 500 per month, which is half the initial benefit that BISP provided. Second, and more importantly, the targeting mechanism for both programmes was arbitrary and prone to large errors. According to World Bank (2013), only 45 per cent of the beneficiaries of the PBM and 42 per cent of the beneficiaries of the Zakat were in the lowest two quintiles; roughly 40 per cent of the recipients are in the top two quintiles.

v. Evaluations of BISP

The BISP is the largest and most developed social assistance instrument in Pakistan. It is an unconditional cash transfer of PKR 1500 a month(between 2008 and 2013, the benefit was PKR 1000/month). It is targeted at women aged 18 and older, and from the poorest households.

Several evaluations have been done of the BISP (OPM, 2014; O'Leary et al., 2011; Nayab and Farooq, 2012; Gazdar and Zuberi, 2014; ICF GHK et al., 2013; and World Bank, 2013). These evaluations have concentrated on two areas: targeting, and impact on food and nutrition improvements of the household.

vi. Targeting

The BISP is provided to the poorest women aged 18 and older. It is thus a targeted programme. There have been two targeting phases of the programme. In the first phase (2008-10), a proforma based on household assets and livelihoods was to be filled out by beneficiaries identified by parliamentarians. These proformas were then verified by the National Database Registration Authority (NADRA) for place of residence, age, marital status, number of children in the household, etc. This system of targeting was arbitrary, in that there was no objective criteria on which the level and depth of poverty at the household level could be assessed. It was also inadequate, because each MP was supposed to identify beneficiaries in their constituency. As such, the scheme was not targeted at the poorest cohort of the population. A poverty scorecard was thus administered in the second phase, to address these shortcomings in the earlier system of targeting. A total of 27 million households were administered the scorecard during this process, and a socio-economic national poverty registry was created.

According to the World Bank (2013), targeting through both the parliamentarians' identification and the poverty scorecard was better than that of PBM and Zakat. In the first phase, 65 per cent of the beneficiaries were in the lowest two quintiles. After the transition to the poverty scorecard, targeting improved considerably, and close to 80 per cent of the beneficiaries were in the lowest two quintiles. The scorecard mode of targeting not only reduced exclusion errors, but also considerably reduced inclusion errors, as less than 10 per cent of the beneficiaries belonged to the richest two quintiles.

According to the Household Income and Expenditure Survey (HIES) for 2010-11, 24.7 per cent of the lowest quintiles, and 16.3 per cent of the second lowest quintile's consumption expenditure, was financed through public transfers. Since Zakat and PBM transfers are minimal, it is likely that a large proportion of this transfer was coming from the BISP.[23]

In terms of the procedure of payments and their regularity, OPM (2014) reports that 75 per cent of the recipients were satisfied with the payment methods. However, the same survey showed that 56 per cent of the recipients were not satisfied with the regularity of payments.

vii. Impact on Food and Nutrition

Since BISP is an unconditional cash transfer, targeted at women of the poorest households, its major impact is likely to be on the nutritional status of the household. OPM (2014) shows that over 80 per cent of beneficiaries prioritised food expenditure from the transfer received. Nayab and Farooq (2014) found a statistically significant increase in food expenditure as a result of the BISP cash transfer. Another qualitative study also indicated that women beneficiaries were able to decide on the uses of the BISP cash transfer, and their choices of consumption expenditure prioritised the quality of food intake of the household and, particularly, the children (ibid). While many beneficiary households were found to be subsisting on ordinary staples (mostly wheat flour), the extra cash provided them an additional buffer of security, and also enabled many to slightly diversify their diets (Gazdar and Zuberi, 2014).

III. LABOUR MARKET OUTCOMES AND SOCIAL PROTECTION

Social protection programmes, in most cases, have a direct or indirect impact on labour market outcomes. Depending on the design and intent of the programme, social protection schemes can impact labour force participation, child labour, the reservation wage, as well as formalisation (or otherwise) of the labour force.In this section, we will mainly concentrate on some of these outcomes for BISP beneficiaries. We take BISP beneficiaries as the benchmark to gauge the impact of social protection for two reasons. One, BISP is the largest social protection instrument in Pakistan, both in terms of resource allocations as well as number of beneficiaries of the working age population it caters to. Second, there is more information available on the socio-economic status of its beneficiaries and their households than on other programmes.

Data for this section has been taken from the Household Integrated Economic Survey (HIES), because it enables us to carry out analysis across income quintiles. Since two-thirds of BISP beneficiaries are in the lowest two quintiles of the population, analysing labour market outcomes for these quintiles will give us the best possible approximation to gauge the impact of social protection on labour market outcomes. For most of this section, we have used HIES data for 2005-06, because that is the last survey before BISP and 2010-11, because that is the latest year for which data is available.

3.1. Labour Force Participation and Social Protection

Economic theory suggests that in competitive market conditions, social transfers reduce labour supply on the margin through increasing the reservation wage. However, this outcome is more pronounced in developed countries, as social transfers are large and employment is generally generated in the formal sector.

Empirical assessments on the relationship between social transfers and labour force participation, however, show a positive relationship for developing countries. Ardington et al. (2007) show that the impact of old age pensions on working age household members is positive in South Africa. Eyal and Woolard (2011) reach the same conclusion, also in South Africa, but with a different social transfer instrument—child support grants to mothers. Similarly, Barrientos and Villa (2013), Barrientos and Sabates-Wheeler (2006) and ILO (2010) demonstrate for Colombia, Mexico, and Brazil, respectively, that the impact of conditional cash transfers on labour force participation have been positive. Apart from enhancing human capital endowments of household members to effectively participate in the labour market, ILO (2010) reasons that social transfers enable recipient households to meet search and transport costs for seeking employment.

Table 4 presents labour force participation rates across gender and across quintiles for 2005-06 and 2010-11. Since women over the age of 18 are beneficiaries of BISP, the most direct impact should be observed in labour force participation in this particular cohort. We see that not only has LFP declined for the relevant cohort—womenin the bottom two quintiles—but there is a secular decline across gender and across all quintiles.[24] This decline thus cannot be attributed to BISP and appears to be caused by factors extraneous to social protection instruments. Most notable is the fact that this was the period when economic growth in the country decelerated considerably.[25]

Literature also shows that participation in the labour force for social assistance recipients tends to decline with school enrollment. Schady and Araujo (2008) estimate an impact of approximately ten percentage points on enrollment for the BDH programme in Ecuador. Filho (2008) assesses the impact of a social security reform on labour participation and school enrollment of children in the 10 to 14 age group in Brazil. Enrollment increased by 20 percent for girls living in the same household as an adult beneficiary. Girls' labour participation rates reduced, but only when the beneficiary in the household was a female adult. It is thus worth investigating further the impact of enrollment on labour force participation in Pakistan.

Table 4: Labour Force Participation across Gender

	2005-06		2010-11	
Quintile highest to lowest	Males aged 15-60 years	Females aged 15-60 years	Males aged 15-60 years	Females aged 15-60 years
1	71.1	10.4	69.3	10.6
2	76.1	17.7	73.1	12.3
3	81.4	23.4	78.1	17.4
4	83.9	28.1	81.8	22.9
5	89.3	35.8	86.2	30.1
Total	79.0	21.5	76.5	17.6

Source: HIES 2005-06 and 2010-11

As such, to further probe the negative relationship between LFP and social protection, we econometrically tested whether declining LFP can be attributed to social protection or to an increase in enrollments through a linear probability model. Since the proxy for social protection is BISP beneficiaries, we only test this model for females in the bottom two quintiles, who fall in the working age (15-60 years).

$$LFP = \beta_0 + \beta_1\, transfers + \beta_2\, enrollment + \mu$$

The dependent variable LFP is for labour force participation. This is a dichotomous variable, which takes a value of 1 if an individual is part of the labour force, and a value of 2 if they are not. The two independent variables are transfers and enrollment. Transfers gives the total value of public transfers that the individual has received in a year. Enrollment is a dichotomous variable, which takes a value of 1 if the individual is currently studying in any educational institution, and takes a value of 2 if she is not currently studying.

The results of the regression are shown in Table 5. The model is statistically significant and explains almost 42 per cent of the variance in the dependent variable. The first predictive variable, transfers, has a negative coefficient as expected. However, the coefficient is small and is not statistically significant. This tells us that the public transfers which an individual receives did not affect labour force participation in the previous month. Thus, BISP cannot be credited for the declining LFP rates.

We find the coefficient of enrollment to be negative. Moreover, the coefficient is statistically significant, which tells us that enrollments have a negative impact on work. Thus, the likelihood of working in the previous month decreases if the person is currently enrolled in an educational institution. To be precise, on average the probability of a woman working or willing to work in the previous month decreases by 0.684 if she is currently studying in an institution, holding everything else constant. This indicates that a rise in enrollments did have some contribution to the declining LFP for females in the bottom two quintiles.

Table 5: Linear Probability Regression Results from HIES 2010-11 Data

Source	SS	df	MS
Model	5.4970705	2	2.74853525
Residual	7.32985258	49	.149588828
Total	12.8269231	51	.251508296

Number of obs =	52
F(2, 49) =	18.37
Prob > F =	0.0000
R-squared =	0.4286
Adj R-squared =	0.4052
Root MSE =	.38677

LFP	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
transfers	1.87e-06	8.78e-06	0.21	0.833	-.0000158	.0000195
enrollment	-.6837747	.1127973	-6.06	0.000	-.9104494	-.4570999
_cons	2.545614	.2301127	11.06	0.000	2.083185	3.008043

i. Social Protection and Labour Force Participation for Children Aged 10-14

Social protection related transfers to the poorest households are also expected to reduce child labour. As we see in Table 6, there is decline in LFP for children aged 10-14 across all quintiles, but the decline is most pronounced in the lowest two quintiles. However, in an environment of a secular decline in LFP, it will be inappropriate to attribute this decline, either wholly or partially, to BISP.

Table 5: Labour Force Participation for Population Aged 10-14 Years

Quintile Highest to Lowest	2005-06	2010-11
1	4.1	3.4
2	7.9	2.8
3	10.9	6.6
4	17.8	7.8
5	21.0	9.0
Total	11.2	5.7

Source: HIES 2005-06 and 2010-11

3.2. Impact of Social Protection on Wages and Incomes

By enhancing the aggregate income of households, social protection benefits are expected to impact the reservation wage of beneficiaries and their households. The data, however, is inconclusive on this. Table 7 shows a comparison of real wages/salaries and real total household incomes by quintiles for 2005-06 and 2010-11. We see that in the aggregate real wages have increased by 7 per cent over the period but household incomes have declined by 4.75 per cent. There are two possible explanations for this seemingly paradoxical occurrence. One, as we saw in the previous section that that the household labour input over the years has declined. Second, only one-third of the labour force is occupationally categorised as ‘employees’ and are recipients of wages and salaries. The rest of the workforce are either self-employed or are engaged as unpaid family helpers.

Table 7: Percentage Change from 2005-06 to 2010-11 in Real Rupees

Quintile Highest to Lowest	Average Monthly Household Income	Wages and Salaries
1	-2.30	6.25
2	-2.54	10.52
3	-7.27	9.41
4	-8.34	7.15
5	-8.76	3.45
Total	-4.75	7.01

Source: HIES 2005-06, 2010-11 and Economic Survey of Pakistan, 2011-12

Data presented in Table 7 also shows that over time income inequality in the country has increased as the highest decline in household incomes and the lowest increase in wages/ salaries has occurred in the lowest two quintiles. So far as the impact of social protection is concerned, this data goes to show that there appears to be no impact on the reservation wage. However, it also goes to show that in the absence of BISP benefits, the decline in household incomes would have been even more pronounced.

3.3. Impact of Social Protection on Migration and Informalisation

Moving on to the relationship of the decision to migrate with social protection, we use data from the Labour Force Surveys (LFS) for 2005-06 and 2010-11. Since the LFS does not provide income and expenditure data, we cannot carry out quintile-wise analysis. In Table 8, we see that aggregate migration levels are quite low as only 10.3 per cent of the population migrated in that year and the pattern appears consistent over time also. Moreover, the tendency to migrate among female participants in the labour force is even less.

Table 8: Migrants among the Labour Force

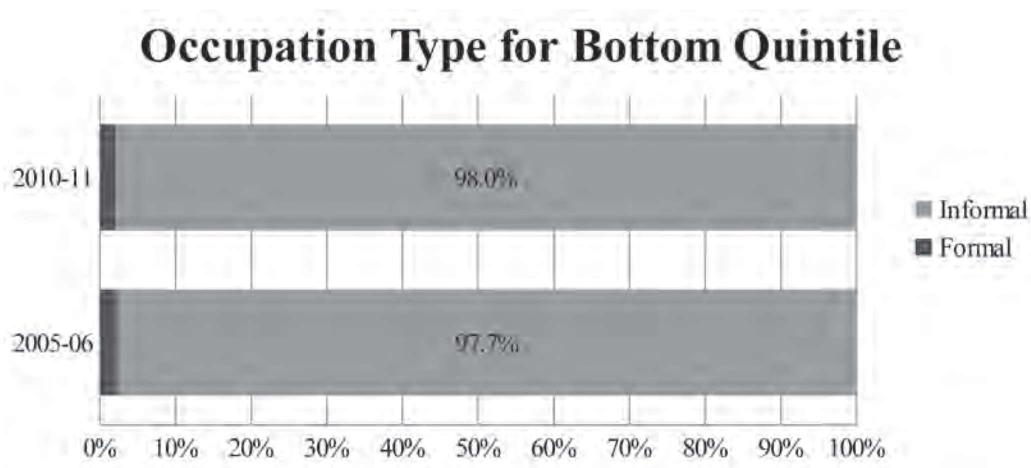
	2005-06	2010-11
Total Migrants as a Percentage of sample population	14.18%	10.30%
Female migrants who are part of the labour force as a Percentage of total migrants	10.93%	9.90%

Source: Labour Force Survey 2005-06 and 2010-11

In addition, using data from HIES, we also examined the effect that social protection could have on formalisation.

As Figure 1 shows, there has been no change as such in formal participation for the lowest quintile over time. The impact of BISP on formalisation or otherwise is thus non-existent. This, however, does not mean that other forms of social protection—mostly social insurance schemes—do not have an impact on the decision to employ formally or informally. However, given data limitations, it is not possible to gauge this impact directly.

Figure 1: Occupation Type for Lowest Quintile



Source: HIES 2005-06 and 2010-11

IV. WAY FORWARD

Fiscal Sustainability

As mentioned above, with the advent of the BISP, spending on social protection in Pakistan has increased manifold. According to Nasim (2014), total social assistance spending in 2012-13 in Pakistan was 0.8 per cent of GDP. However, according to World Bank (2009), between 1996 and 2006, mean expenditure on social assistance in developing and transitional economies was 1.9 per cent of GDP and median expenditure was 1.4 per cent of GDP. Thus, even after enhancement due to the BISP, the expenditure on social assistance in Pakistan is less than half of the mean in the World Bank sample. At first glance, this will suggest that Pakistan should enhance expenditure on social assistance in the short run. However, once this implication is juxtaposed against Pakistan's current macroeconomic travails, a very different picture emerges.

Persistent low growth in the economy, one of the lowest tax-GDP ratios in the developing world and a fiscal deficit in the range of 6-8 per cent of GDP in the last 8 years, has actually made existing allocations for social protection vulnerable. The tendency to reduce social protection transfers when the macro economy is on a downturn can only be resisted if there is genuine political desire on the part of the state to redress adverse distributional outcomes in society. Existing evidence, however, suggests otherwise. Nasim (2014) shows that in 2012-13, when social assistance expenditures were PKR 179 billion(US$ 1.87 billion) (or 0.8 per cent of GDP), subsidies to the non-poor were PKR 358 billion (US$ 3.73 billion) (or 1.6 per cent of GDP). Nasim (ibid.) further shows that 96.1 per cent of the subsidy was for the power sector. Furthermore, 50 per cent of this subsidy went to the richest 40 per cent of the population, whereas the poorest 20 per cent received only 10 per cent of this subsidy.

Going forward, there are two possible scenarios in which social protection expenditures will remain preserved and possibly enhanced. One is where the macroeconomic situation improves and the pressure to reduce social protection expenditure recedes. The other situation is that the government decides to redistribute income. This will entail reducing subsidies to the non-poor and diverting them to social protection targeted towards the poor. The first option, however, is itself endogenous to the second, in that part of the improvement in the macro economy will only occur if subsidies to the non-poor are reduced.

Social Insurance

Except for the pension scheme, other social insurance interventions should be abolished, as these do not give workers perceptible benefits, anddisincentivises employers from hiring workers formally. The pension scheme should be consolidated and made universal, instead of restricting it to workers in formal enterprises. Also, to ensure ownership, some level of contribution from beneficiaries should be included.

Minimum Wage

Pakistan has a national minimum wage, which is periodically revised.[26] However, in its present form, it is not occupationally disaggregated, and does not cater to non-time based employment. For the minimum wage to be an effective mechanism for protecting real incomes of workers, and in creating one element of a social protection floor, the minimum wage needs to be disaggregated to cater to the diversity of employment patterns in the country. As there is no active enforcement mechanism for the minimum wage either, a complaint system at the district level should be created.

Food Security

As mentioned before, the provision of food subsidy through utility stores is hugely inadequate. Quantitative rationing needs to be introduced,by either linking it to the BISP scorecard; it can be given to either BISP beneficiaries or a larger cohort, if resources permit; or issuingration cards and universalising the scheme.

Benazir Income Support Programme

BISP has been an important and successful instrument for social protection. While the transition to the poverty scorecard has been successful, exclusion errors, particularly in the lowest quintile, should be minimised. Moreover, a new scorecard census should be carried out every five years to capture those who have fallen into poverty and to exclude those who have risen out of poverty.

It is also important that the BISP remains an unconditional cash transfer (UCT) for another five years. Once it is established on firm foundations, and the benefits of UCTs are realised, conditional cash transfers (CCTs) can be gradually introduced.

Maternal Health and Nutrition

Pakistan's maternal health and nutrition indicators are particularly alarming. To redress this imbalance, a voucher scheme for pregnant mothers should be introduced, either nationally or in some provinces. Vouchers should be provided at the antenatal, delivery and post-natal stages.

Another area where nutritional security should be enhanced is at the level of school-going children. In the early 2000s, a pilot was done on school meals, but abruptly abandoned. It should be re-introduced with a better design.

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ANNEX 1: NOTE ON ECONOMETRIC ANALYSIS

It must be noted with regard to the econometric analysis conducted in Section 3.1 that the model may not yield the most precise results due to some data restrictions. First, the HIES data has several missing values. Thus, even though there were 183 females who fit our criteria of being in the 15-60 years age group and falling in the bottom two quintiles, 131 missing values mean the regression is run on only 52 observations. Secondly, omitted variable bias is also present, as many other factors may have affected the decision to work in the last month, which due to data restrictions our model does not account for.

There are two other problems commonly found in linear models that have a dichotomous dependent variable. First, the model may predict values of Y (yhat) outside the 0-1 range of a probability. Our model's predicted values, however, do not face this problem. Second, the linear probability model is heteroscedastic by nature. One way to counter these issues is to use a specification that does not assume linearity, such as a probit model. We tested such a model, and found it to yield similar results to our linear probability model.[27] Furthermore, to ensure the validity of our linear probability model, we conducted the Ramsey RESET (Regression Equation Specification Error Test); we found no non-linearity in our model.

Endnotes

1 See details in Section 2.

2 Sayeed (2004) describes the schemes initiated in the 1970s in detail and the context.

3 *Mustahiqeen* translates literally as 'those who deserve.' This includes the widows, invalids and the indigent.

4 For details on the economic environment of the time, see Zaidi (2005).

5 The ILO, Asian Development Bank and DFID were mainly involved in this process.

6 See Gazdar (2011) and Panel of Economists (2010) for the context in which a consensus on social protection was created across the political spectrum.

7 At the same time, the provincial government of Punjab launched its own cash transfer scheme, and the provincial government in Sindh initiated a scheme for transferring land to the landless.

8 Denotes allocation for the period 2014–15.

9 Denotes increase in Gross Loan Portfolio from 2012 to 2013.

10 Denotes increase in active borrowers from 2012 to 2013.

11 Represents beneficiaries in 2010.

12 Denotes budget for 2014–15.

13 Denotes number of households that will potentially benefit when the scheme is completed.

14 Denotes budget for 2010–11.

15 Represents beneficiaries in 2010.

16 Denotes budget for 2012.

17 Denotes beneficiaries for 2012.

18 Denotes beneficiaries for the fiscal year 2009–10.

19 Denotes budget allocation for 2014–15.

20 Denotes budget allocation for 2014–15.

21 Denotes budget allocation for 2014–15.

22 Figure from 2010 - http://www.adb.org/Documents/Reports/Consultant/37008-PAK/vol1/chap2.pdf

23 The only other public transfer is that of pensions. However, it is unlikely that there will be a large number of pension holders from the formal sector in the poorest two quintiles of the population.

24 We checked the Labour Force Survey data for the two reference years and across genders. Quintile analysis is not possible on LFS data. That data set also demonstrated a decline in LFP over the two periods and across genders. This confirms the basic conclusion reached here.

25 Real GDP growth averaged 6.3 per cent between 2004 and 2008, whereas in the 2008-11 period it averaged 2.6 percent.

26 The minimum wage in 2013-14 was 76 per cent of the average unskilled wage (Economic Survey of Pakistan, 2013-14).

27 The statistical significance and the negative relationship of the coefficients of both the independent variables were found to the same with the probit model. We report the linear probability model due its ease of interpretation.

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