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SOCIAL PROTECTION IN PAKISTAN: CONCEPT, SITUATION ANALYSIS AND THE WAY FORWARD

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Social Protection in Pakistan: Concept, Situation Analysis and the Way Forward

By

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Introduction

The significance of social protection, as a crucial element of employment promotion for poverty reduction, has several distinct aspects. First, social protection schemes provide for the maintenance of at least basic levels of income for those whose direct earning capacity is lost or interrupted by reason of such "contingencies" as sickness, injury and disablement, and old age; in addition to the aspect of support to individual beneficiaries, systems of social protection also play a role in maintaining demand for essential goods and services and hence the overall level of employment in the national economy. However, social protection also has a less direct but nevertheless significant aspect in promoting solidarity and social harmony in the workplace, and so enhancing overall productivity.

This paper is divided in five parts. In Part 1, we seek to define the notion of social protection with reference to ILO Standards and international literature. The concept is distinguished from both the prevalent concept of 'social security' as well as the more recent neo-liberal coinage of 'social safety nets.' Thereafter there will be a brief review on the concept and practice of social protection in Pakistan, in the formal as well as informal sectors. Section 2 is in the realm of a situation analysis of social protection instruments currently existing in Pakistan. Quantitative analysis of formal as well as informal social security mechanisms is provided, especially in the context of high and rising absolute poverty in Pakistan. Section 3 presents a more qualitative assessment of both formal and informal schemes. Institutional characteristics of the organisations administering the formal sector schemes are explored with regard to funding, disbursal of benefits and targeting of beneficiaries. Political economy issues of incentive compatibility and exclusion in the design of schemes are also briefly discussed. Section 4 discusses fiscal issues for social protection in the light of projections in the growth trends of the population and the labour force. Section 5 provides policy recommendation with reference to the formal sector schemes in light of the definition of social protection and the situation analysis provided earlier.

1. Definition of Social Protection

The term 'social protection' is used interchangeably with 'social security' in popular discourse and more recently with the neo-liberal coinage of 'social safety nets.' It is important to analytically distinguish the three concepts. While the first two are complementary in terms of their implications (in the sense that social security is a subset of social protection), the concept of social safety nets is not only analytically different but its potential implications are also rather different.

The contemporary operational definition of social security derives its inspiration from the work preparatory to the Social Security (minimum standards) Convention 1952 (102) of the ILO, which lays out three basic forms of security that society is to provide for its citizens as a matter of public policy:[1]

[1] This definition is taken from ILO (2000).

- To offset contingencies arising out of income deprivations, either complete cessation of income earning opportunities or reduction in incomes. The first category would include contingencies such as unemployment, invalidity, old age and the death of a breadwinner. The latter will include categories such as sickness, maternity (or paternity), employment injury, etc.
- Provision of health care

- Benefits for families with children; these will include provision for education as well as child support or other child related benefits.

This basic concept of social security thus addresses three essential features, i.e. those of income protection, health provision and child related benefits. The other important feature of the concept of social security is that it is administered or monitored by the state as part of statutory schemes or programs. The two main components of social security are social insurance and tax financed social benefits. Tax-financed benefits are usually targeted on the needy and are generally awarded on the basis of a means test. Social insurance, on the other hand, is financed by contributions (usually statutory) by the employers and in many countries by the employees as well, and benefits are awarded in the case of a contingency.[2]

The concept of social security, as described above, is incomplete in addressing some structural features as well as contemporary dynamics in developing countries. The two most important structural concerns in developing countries are the existence of a pre-dominant (in terms of employment and also output) unorganized or informal sector and the existence of widespread absolute poverty. Those employed or associated with the informal sector would necessarily fall outside the purview of the statutory provisions, usually administered through registered public and private enterprises. Moreover, since most social security provisions in OECD are provided as part of tax financed schemes, developing countries typically face both fiscal and organizational constraints in arranging for such payments[3] Van Ginekken (2003) further points out that contemporary concern of globalization and structural adjustment in developing countries has resulted in further erosion of the base on which developing countries can deliver social security to a growing number of its populace.

To improve their competitiveness and create a ‘business friendly’ environment, developing country governments are increasingly moving towards flexibilisation of labour markets and labour use. This tendency has resulted in two distinct phenomena. First, technology permitting, work is being farmed out to the unorganized sector where statutory provisions do not apply, especially with respect to social insurance.[4] Second, where work is not being farmed out, employers hire workers ‘casually’ in order to minimize non-salary costs.[5] Both these factors mean that employers will minimize their contributions towards social insurance.

Policies pertaining to improvement in competitiveness will generally reduce the possibility of social insurance for formal sector workers, who in any case are a minority of the workforce in developing countries. Structural adjustment policies adopted by developing countries have increasingly tended to reduce social budgets and privatize public sector units and downsize

[2] For details, see Ginekken (2003).
[3] See Stern (1991) for a detailed account of such constraints in these countries.

[4] See Sayeed and Khattak (2000) for the prevalence of this phenomenon amongst woman workers in Pakistan.
[5] See Standing (1999) for details and cross country evidence.

governments. This policy mix has in turn tended to reduce the number of individuals covered by these schemes as incremental employment is generated in the informal sector, reduce financing for such schemes as social budgets are reduced, and in some cases has also reduced the administrative capacity of the state devoted to social welfare as downsizing of the state sector is carried out.

The inadequacy of the concept of social security for developing countries – which in any case was not large at the best of times – has thus been further compromised by the contemporary policy environment. A broader concept of social protection – one that incorporates concerns of social security – is thus required. Such a concept will also have to complement policies that attempt at addressing poverty reduction in developing countries.

Definitions of social protection vary. What is common to all definitions, however, is that social *security* is seen as a subset of social *protection*. The ILO (2000:29-30) includes non-statutory schemes -such as mutual benefit societies and occupational pension schemes – in addition to statutory provisions. The criterion adopted by the ILO in broadening this definition is that contributions should not be "wholly determined by the market."[6]

Lately, the ILO , as for instance in the work of Van Ginneken (2003), defines social protection with a broader brush given these contemporary concerns. In addition to policies pertaining to social security, "labour protection, labour market policies and social services" are included in his definition of social protection. It may be objected that because of the broad brush that it uses to define social protection, this definition might lose specific policy focus. However, the utility of incorporating other developmental policies within the purview of social protection is that it generalizes the concept so that its relevance in the structural and policy context of developing countries is enhanced. This broader definition potentially addresses concerns raised in the demand for 'Decent Work'as enunciated by the ILO Director General as well as specific concerns of the use of social means for poverty reduction as defined by Dreze and Sen (1991).

Keeping both the structural conditions and the contemporary policy environment in view, social protection is akin to the concept of social income. Standing (2001?) defines social income of individuals and households as:

$$SI= W + CB + EB + SB + PB$$

Where SI is the individual or household's total income. W is the money wage or income received from work, CB is the value of benefits or support provided by the extended family, kin or social community, EB is the benefits provided by the enterprises in which households work, SB is the value of formal social security benefits – this includes old age pensions, social insurance or other subsidies - and PB is private income benefits, through market based insurance and investments.

While some of these categories – such as EB, SB and PB – may not be relevant in the developing country context,[7] the concept of social income provides a useful analytical

[6] By this it is meant that premiums for individuals are not fully risk related but group benefits are based on market costings.
[7] These three components of social income are specific to the OECD context and have minimal relevance in typical low income country conditions where the unorganised sector tends to dominate the employment and production profile.

benchmark to gauge social protection in developing countries against. It incorporates social security benefits, subsidies – whether targeted or generalized – and by looking at work related remuneration, it can potentially comment on returns to labour and thereby on labour market policies.

The concept of social protection has important socio-political implications. First, the provision of social protection is a collective or public endeavour. As Van Ginneken (2003: 5) states, that social protection benefits are those that "society provides to individuals and households – through public and collective measures – to guarantee them a minimum standard of living and to protect them against low or declining living standards arising out of a number of basic risks and needs." This provisioning may be organized and mediated by the state or other non-profit arrangements. The distinguishing feature is that is it not based on market provisioning, which, by definition creates entry barriers on the basis of initial resource endowments. Second, individuals and groups (of the poor and marginalized) nevertheless derive individual rights and entitlements from the public provisioning of social protection.

Distinguishing Social Protection and Safety Nets

It is this notion of collective provisioning with associated rights and entitlements that distinguishes the notion of *social protection* from the neo-liberal coinage of *social safety nets*. Safety Nets in turn have been defined as having the following basic features[8]:

- to prevent the poor from resorting to coping behaviour that undermines their assets.
- to facilitate the acceptance of market based reforms.
- to enable the poor to better manage risk.

The central conceptual difference between the two approaches is whereas the former is rights based,[9] the latter is philosophically based on instrumentalist reasoning.[10] This is best exemplified by the first two defining features of the concept. Preventing the poor from distress sale of their assets – which by definition are meager – can have negative spin-offs for the rest of society. The IMF thus models "transfers and other social safety nets [as] a means to buy political stability and prevent social unrest, such as crimes, revolutions, riots, etc." (Sala-I-Martin, 1996). Safety nets in this sense is a public good which in the long run contributes to economic growth.

This conceptualisation logically implies that in periods of economic boom, when there is full employment and real wages are rising, there is no operational necessity for a social safety nets mechanism, even though there are marginalised groups even in such situations. But since their numbers are small and their ability to create social unrest is minimal, their plight can be ignored. It was precisely such an approach to welfare which was responsible for the high social cost that the East Asian countries had to pay during the recent economic crisis.[11]

That the World Bank so explicitly lists political acceptability for market reforms as a rationale for introducing safety nets brings to the fore the politically expedient rationale for

[8] This definition is taken form the World Bank web site (www.worldbank.org/poverty/safety). Because the World bank has coined the term, it is appropriate to go by their definition.
[9] Where rights are defined as an intrinsic good, which cannot be violated at the altar of expediency.
[10] Instrumentalism is defined as the set of means employed to achieve certain ends. In this context, the ends to be achieved are not freedom from deprivation but the pursuit of economic growth and efficiency. For further elaboration on the definition of instrumentalism and rights see Sen (1990).
[11] See Lee (1998) for a detailed exposition of the social costs of the economic crisis in East Asia.

safety nets. Because safety net schemes in their design are not seen as a right (individual or citizenship), the World Bank itself documents the use of these schemes in electoral cycles as political sops that are either withdrawn or their coverage substantially reduced once electoral or stability concerns are addressed (Subbarao, 1997, Gelbach and Pritchett, 1995).

The definition of safety nets as a risk reducing mechanism diverges from the collective criterion that is central to the social protection approach. Risk management may involve collective provision and transfers but can also be based on mechanisms where individuals or households personally insure themselves against mitigating circumstances.

The two concepts also differ in their approach to protection so far as individual life cycles are concerned. While social protection pays due attention to old-age, maternity and child care benefits, the safety nets concept and its operationalisation concentrates on the existing labour force and to some extent on children. This distinction again goes back to the fundamental rights-instrumentalism divide between the two approaches.

The purpose of drawing this conceptual distinction is not to argue against the efficacy of safety nets. Indeed in extra-ordinary situations – such as severe economic downturns or other calamities- safety nets may be necessary even if a rights based system exists. It is nevertheless important that if sustainable livelihoods are to be secured for the populace at large, their social protection has to be seen as a right.

The Concept and Practice of Social Security in Pakistan

Pakistan's constitution is interestingly one of the few in underdeveloped countries that delineates social security as an explicit citizenship right. Article 38 (d) and (e), (Principles of Policy) of the Constitution of Pakistan states:

The State shall provide for all persons employed in the service of Pakistan or otherwise, social security by compulsory social insurance or other means; provide basic necessities of life such as food, clothing, housing, education and medical relief, for all such citizens, irrespective of sex, creed, caste, or race, as are permanently or temporarily unable to earn their livelihood on account of infirmity, sickness or unemployment; reduce disparity in the income and earnings of individuals.

Unarguably, this commitment of the state towards its citizens remains largely unfulfilled. This is not unexpected for two reasons. First, the resources to fulfil such an ambitious commitment are not there in developing countries, including Pakistan. Second, in a country where higher level constitutional violations are the norm, the sanctity of constitutional provisions which confer rights and privileges to citizens is also minimal.

Social protection in the country has been limited to the state sector and the formal non-agricultural economy. The extension of social protection into the private sector took place in the 1970s as part of populist reforms introduced at the time (see figure 1 for details). While a number of such schemes continue to date, the ambition of gradually increasing coverage to a larger section of the workforce has been watered down over time.

Since the onset of structural adjustment and budgetary crises in the early 1990s, both the non-military state sector and the formal sector have themselves reduced in size and have also reduced benefits to their employees, especially new entrants.[12] The current policy emphasis –

[12] The size of the non-military state sector has reduced from roughly 20% of GDP in the late 1980s to somewhere in the range of 15-17% of GDP in the 2001 (calculated form the *Economic Survey*, various issues).

as outlined in the PRSP – is more on targeted schemes[13] rather than those concerned with employment creation or employment related forms of social protection. The private sector is expected to play a much greater role in the provision of social protection. There are two components of the role of the private sector that is being emphasised by the state. One is the role of private philanthropy (discussed in section 2) that is said to be very large in Pakistan arising out of the practice of penance. The other is the role of the non-profit sector in delivering social services as well as income generating schemes.

Conceptually speaking, therefore, provision of social protection in Pakistan is steadily moving away from social protection as part of citizenship rights. Private and market based provisioning is being emphasised. Except for the armed forces – who enjoy growing and comprehensive social protection – access to social protection from the state is declining for all other segments of the population.

2. The Existing Social Security Base in Pakistan.

Social protection schemes in Pakistan can be classified into three categories. The first category is those that encompass the employed labour force or retirees in the formal sector of the economy. These schemes provide benefits regarding contingencies of sickness, invalidity, maternity, old age, and work related injury. The second category has a broader range and is generic in nature. These are the *Zakat* and Food Support schemes. These schemes are deemed to target those who are outside the ambit of the labour market and are considered ‘poor and indigent’. In this section, we also briefly discuss the contribution of private transfers and informal social security mechanisms that exist in society.

2.1. Social Security Schemes in the Formal Sector

The first social security scheme introduced in Pakistan was the Provincial Employees Social Security Scheme (PSSS) which came into force in March 1967. Initially, this scheme specifically covered workers in the textile industry with the objective of providing protection against contingencies of sickness, maternity, work-related injury, invalidity and death. In 1969, the scheme was broadened with the inclusion of workers from commercial and other industrial establishments having ten or more employees; and later in July 1970, it was re-organised on provincial basis.

Almost a decade later, in 1976, the Employees Old Age Benefit Institution (EOBI) was established as a federal scheme with a specific purpose of providing protection to old age workers against forgone incomes after retirement. This scheme provides benefits of old age, invalidity and survivors pension as well as an old age grant. Its ambit covers formal sector establishments that employ ten or more workers. In June 1997, more than 37000 employers were making contributions for 1.2 million employees, supplemented by a Federal grant of Rs. 1 billion every year (World Bank, 2002: 124).[14] Employers are required to pay 5 per cent of wages to the EOBI. EOBI does not cover organisations that provide ‘equivalent benefits.’ As

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Non-salary benefits are being reduced in the state sector for existing employees and a large portion of new employment is taking place on contract basis. The formal manufacturing and services sector is similarly reducing its non-salary cost through altering the contractual agreement and hiring workers on part time or contractual basis. See Sayeed and Ali (1999) for details.

[13] Even in this category, total expenditure increases from a meagre 0.21% of GDP in 2001-02 to 0.4% of GDP in 2005-06 (*Economic Survey*, 2002-03: 55)

[14] According to GOP (1994), in 1993-94 17000 of the establishments registered under EOBI had ceased to exist. This number is expected to have increased over the years.

such, some of the largest public sector entities, such as WAPDA, PTCL, PIA, Pakistan Railways, all the commercial banks, insurance companies and the armed forces are outside the ambit of EOBI[15]

Permanently employed government servants of the federal or the provincial governments receive pension and other benefits under the bylaws of their respective governments. This is covered under the Government Servants Pension Funds Scheme. The government servants are entitled to receive pension and other benefits such as provident fund, on retirement, at the age of 60 or earlier after 25 years of pensionable service. Government servants that have worked for less than 25 years are not entitled to receive pension[16]. Furthermore, persons employed in government services on contract are not entitled to any social benefits. It is noteworthy that much of the new recruitment in government is on contract (World Bank, 1998). Military pensions however take up a large portion of fiscal resources. In 2000-01, of a total federal government pension bill of Rs. 33 billion, military pensions were Rs. 27 billion. This is in spite of the fact that the size of the armed forces and the federal government is about the same (see Sayeed, 2003).

The Workers Welfare Fund Scheme and the Worker's Children Education Ordinance were initiated in the early days of the Z.A. Bhutto regime. These schemes, detailed below in Table 1 provide for education, matrimonial and housing related benefits to workers in the formal sector.

[15] Similarly those large-scale private sector enterprises that have their own arrangements for providing social benefits to their employees only pay for pension benefits to the EOBI and not other benefits.
[16] In case, if a government servant dies before 25 years of pensionable service, then only the widow is entitled to receive pension and other benefits.

Table.1-Social Security schemes in Pakistan

Scheme	*Starting Year*	*Benefits*	*Eligible*	*Coverage*	*Funding*	*Comments*
(1) Provincial Employees Social Security Scheme (PSSS)	1967	Medical care for insured workers and their main dependents Cash benefits for loss of earnings through sickness, maternity and employment injury	Workers of industrial and commercial establishments with 10 or more employees. These employees must be drawing wages up to Rs. 3000 per month	Between 0.55-0.6 million workers and their families (1994)	Financed exclusively through the contributions of employees at 7 percent of the wages of secured workers	Until 1969, the scheme was only limited to textile workers. Later, workers of industrial and commercial establishments were included.
(2) Employees Old Age Benefits Institution (EOBI)	1976	Old age pension Invalidity pension Survivors' Pension Old age grant	Workers employed by industrial, commercial, and other establishments with 10 or more employees irrespective of their wage.	1.2 million workers	The scheme is financed by the employers at 5% of the wages of insured workers with a matching contribution of 5% from the Federal Government	In principle, it is compulsory, but employers have to submit names of workers. Since employers tend to underreport the number of workers, workers who become eligible is based on the employers whims.
(3) Government Servants Pension Fund	1954	Old Age pension Provident Fund	All government servants after retirement (60 years of age) of at least 25 years of service	N.A.	The Old Age Pension is financed through government expenditures Provident fund is deducted at source from the monthly salary of the employees. The deduction rate is 8%.	Compulsory

(4) Public Sector Benevolent Funds and Group Insurance	1969	Benefit grants Group Insurance Benevolent Fund	All public sector employees	Total number of beneficiaries was 19,242 till June 1993	Benevolent Fund is deducted at source from the monthly salary of the employees Group insurance is financed by monthly contributions of the employees	Compulsory
(5) Workers Welfare Fund (WWF)	1971	Provision of residential plots and housing facilities Provision of income generating goods Jahez fund	Workers of those establishments that are registered with the fund	So far, 58,000 residential plots and 14,000 houses have been received by beneficiaries	The fund is financed by the contributions of the registered establishments. The present rate is 2% of the assessable company income. Workers also contribute under the Workers Participation Fund	Similar to the EOBI
(6) Workers Children's Education Ordinance	1972	Free education to one child of every worker up to Matriculation and thereafter in a polytechnic or vocational training institution	Workers in all establishments employing 10 or more employees doing skilled, unskilled, manual and clerical work	X	The employer contributes Rs. 100 as education cess to the provincial government.	Similar to the EOBI

Source: Beall et.al. (1995), GOP (1994), ILO-SAAT (1996).

Table 1 highlights some important shortcomings of the existing social security system in Pakistan. The two general social security schemes: PSSS and EOBI, which are the most comprehensive schemes in Pakistan, do not cover workers from the agriculture sector, the informal economy and those in the formal sector who are either employed temporarily/ through contractors or in establishments with less than ten workers.[17]

The agriculture sector which constitutes 48.4% of the labour force in 2001[18], is not only excluded from the social security net but none of the existing laws pertaining to protection of workers in terms of working conditions, conditions of employment, health, and safety at workplace are applicable to it.[19] Similarly, construction, transport, and wholesale & retail sectors - which are pre-dominantly informal in character - collectively employ approximately one fourth of the labour force but have no social protection arrangements. Workers in the construction and transport sectors – where more than 4 million workers are employed – are particularly vulnerable to accidents and work related injury. Since employment is without any legal contractual arrangements and since workers are hired on daily wages through informal means, the employers have no legal responsibility to provide protection in terms of life insurance, disability, medical benefits or pensions.

On a similar note, those that are self-employed in the informal sector and face tremendous uncertainties in terms of incomes are also excluded from any social benefits at all. According to the 1999-2000 *Labour Force Survey* estimates, the total number of self-employed were 15.3 million, which constituted a substantial 42.1 per cent of the total labour force in the country.

On aggregate, therefore, the EOBI and PSSS cover only 9 % of the non-agricultural labour force. Since much of the incremental employment in the economy is being generated in the informal sector (See Sayeed and Ali, 1999), the coverage of these two institutions, as a proportion of the labour force, is estimated to be declining over the years.

Generic Welfare Schemes

The major social safety schemes in Pakistan are the systems of Zakat and Bait-ul-Mal. The beneficiaries of these schemes though different in nature, their purpose is similar; i.e. providing financial assistance and rehabilitation of the poor, needy, and the destitute. A brief analysis of these is presented below.

Zakat

The Zakat system is the most comprehensive and well-established official social safety net of the country in terms of available resources and organisation. The system was introduced in 1980 under the Zakat and Ushr Ordinance. The objective of this ordinance is to assist the needy, indigent, and the poor (termed as *mustahiqeen*) by providing them with financial assistance from taxes levied on those who possess wealth (*sahib-e-nisab*). Zakat funds are collected as a tax at source from bank

[17] For details and analysis on various categories and segments in the labour market, see Gazdar (2003).
[18] Importantly, the share of family workers constitutes approximately 72.5 percent of the labour force employed in agriculture. The status of these workers has not been recognised under the various tenancy laws of the country.
[19] See Sayeed and Ali (1999).

accounts, saving certificates and share dividends. In 2002-03, Rs. 5.1 billion were collected as Zakat. It is estimated that 50 % of this revenue is collected through saving bank accounts and about 16 % from fixed deposits[20]. This collective revenue is received by the Central Zakat Council (CZC) which has different procedures for the disbursement of funds[21].

Zakat is perhaps the only truly redistributive transfer mechanism administered by the GOP. However, the aggregate transfer amounts to 0.2 per cent of GDP. As of now, the number of beneficiaries are 1.7 million, which is less than 4% of those officially below the poverty line.[22]

Assuming that all the benefits reach the targeted population,[23] their value is meagre. The Local Zakat Committees give two main types of support: A monthly subsistence allowance and a rehabilitation grant. The amount of monthly allowance for each *mustahiq* is Rs. 250 for each beneficiary with an additional Rs. 50 for each child[24]. On the other hand, the rehabilitation grant is up to Rs. 3000 only. Once a rehabilitation grant is given to the beneficiary, the name is struck off from the list of persons receiving the monthly subsistence allowance. Furthermore, the instances of irregular payments are a common phenomenon, with households not receiving payments in time. According to the World Bank (2002:108) even if all Zakat proceeds go to the poorest quintile of the population, its income will be augmented by a mere 2%.

Bait-ul-Mal/ Food Support Programme

Pakistan Bait-ul-Mal was established as an autonomous body in February 1992 under the provisions of the Pakistan Bait-ul-Mal Act of 1991. The objective behind establishing this institution was to provide assistance to those groups of people that for certain reasons have been excluded or are not eligible to receive zakat. This includes the minorities and certain sects of Muslims. Furthermore, the area of coverage was increased and people from all over the country including the Northern Areas and Kashmir were included.

The operations of the Bait-ul-Mal are primarily financed from the grants of the federal government. It also receives small grants from the central zakat fund, and provincial and local governments. There is also a provision of funding from local authorities, national organisations, international agencies, and voluntary donations.

Like the National Zakat Foundation, Bait-ul-Mal funds are also available to non-governmental organisations and voluntary agencies, which are involved in community-based welfare projects.

The Bait-ul-Mal mainly provides two types of benefits: the Individual Financial Assistance (IFA) scheme and the Food Subsidy Scheme (FSS) which has been

[20] The rest presumably comes from dividend income on shares.
[21] A portion of Central Zakat Fund is retained by the Central Zakat Council, which is invested on a non-interest basis.
[22] Both figures taken from the *Economic Survey*, 2002-03,p 54.
[23] See Section 3 for details in targeting problems of the zakat mechanism.
[24] Sufficient wheat flour to feed a family of eight for a month costs roughly Rs. 900-1000 in 1999-2000 prices.

renamed as the Atta Subsidy Scheme (ASS). In 1997-98, the IFA disbursed Rs. 14 million to about 5000 beneficiaries while the ASS provided monthly cash stipends of Rs. 200 for about 240,000 families. The major initiative of the Bait-ul-Mal was the food stamp programme, in which Rs. 395.9 million were disbursed. This scheme, however, has been abandoned since 1994. Because resources for this scheme come directly from the budget, it is sensitive to the fiscal space available and governmental priorities (World Bank, 2002: 109)

According to the Economic Survey, in 2001-02, 2.2 million individuals benefited from the food subsidy scheme. The coverage – both in terms of the number below the poverty line as well as those in the poorest quintile – is exceptionally low. That 2001-02 was a good fiscal year for Pakistan and yet the coverage through this scheme was low, goes to show that governmental priority towards poverty alleviation and social protection is low.

Public Works Programmes

There is a long history of public works programmes in Pakistan that provide temporary employment to workers through labour intensive construction projects in the public sector. Called the Khushal Pakistan Programme (KPP) since 1999, it was known as the People's Works Programme and the Tameer-e-Watan Programme in the tenures of the PPP and PML governments respectively.

In recent years, employment generated by KPP has varied from 0.4 million in 2000-01 to 0.27 million in 2001-02 and 0.3 million in the first six months of 2002-03. The quantum of employment generation given high rates of unemployment and poverty is thus miniscule. It is also not clear whether targeting takes place on the basis of infrastructure priorities or on the basis of poverty/unemployment priorities.[25] It is also not clear from the information provided as to the duration of employment provided according to this scheme. Financing for public works comes from the Public Sector Development Programme (PSDP). Because of the fiscal crisis since the early 1990s, the share of PSDP as a proportion of GDP as well as government expenditure has consistently declined. This is also indicative of the fact that public investment and social protection through public works takes low priority in government spending.

Microfinance

Microfinance has become a popular instrument in poverty alleviation the world over. Its greatest virtue is considered to be its potential for financial sustainability and in some ways self-targeting of the disadvantaged sections of society. Usually associated with activities of the non-profit sector, microfinance has been taken up as an important part of GOP's poverty alleviation strategy. The GOP sponsores micro-credit schemes through three different institutions – the national and provincial Rural Support Programmes (RSPs), the Pakistan Poverty Alleviation Fund (PPAF) and the Microcredit Bank. In 2001-02, loans worth Rs.1.2 billion were provided through the micro finance system to 150,000 beneficiaries. By 2005-06, the draft PRSP envisages

[25] This problem is envisaged to be resolved through the devolution programme where funds are to be distributed on the basis of a weighted index which factors in backwardness and the poverty profile of the district also. This only partially resolves this problem as the weighting in PFCs is still heavily biased towards non-needs based criteria.

this amount to go up to Rs.13 billion. GOP appears to have prioritised microfinance as the principal instrument of its poverty alleviation strategy.

The obvious attraction of microfinance, from a governmental perspective, is that over time it becomes self-financing. In addition, the basic institutional innovation of microfinance is that instead of individual collaterals, it works on the basis of social collateral provided by the community. It thus creates access to formal credit markets for those hitherto excluded. Whether microfinance strictly falls in the realm of social protection is debatable. At a conceptual level there are three areas that arguably diverge from the criteria of social protection. First, by providing credit at market interest rates (with appropriate risk weighting), it can potentially incorporate the lower distribution quintiles of the population within the fold of the formal credit market. By extending the formal credit market to a broader section of society, microfinance works in reducing the extortion associated with informal credit markets. But, because of its market based nature, it diverges from the essential principle of social protection as a rights based and socially determined transfer of resources to those in need. Second, because of the emphasis on financial sustainability of microfinance schemes, programmes tend to lend to the not-so-poor in society (Morduch, 1999). Its targeting mechanism is thus insufficient, especially in a situation where absolute poverty rates are high, as they are in Pakistan presently. Third, because it is directed exclusively towards the employable, it can at best be only a subset of those who ought to be covered by social protection.

Moving away from conceptual problems associated with microfinance, it is important to look at empirical realities with reference to its relevance to social protection. Surveys on existing microfinance schemes demonstrate that for an overwhelming number of microfinance programmes, subsidisation continues for a much longer time that envisaged. More importantly, there is evidence to suggest that a large part of microfinance goes into consumption smoothing rather than asset creation.[26]

Both these outcomes, in fact have important implications so far as micro-credit as a tool for social protection is concerned. If microfinance schemes continue to be subsidized, it points to two important conclusions. First, that if this subsidization continues because targeting is done towards the poor, then are there better and more encompassing ways of subsidizing the poor. For instance, the same resources devoted to public works can yield more beneficiaries per unit of resources spent than the system of loan hand outs. Second, if the target group is the not-so poor, then apart from the problem of not targeting for the poor because of financial sustainability concerns, it may be also due to the structural make up of communities. Microfinance practitioners have assumed *a priori* that rural and poor communities are stable and harmonious.[27] To the extent that they are not, it is unlikely that benefits of microfinance will reach the less powerful segments of society, who in turn are often the poorest.

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[26] See Morduch (1999) for a comprehensive survey on the outcomes of major microfinance schemes internationally.

[27] If the village community (or any other unit of local agglomeration) is divided along strong class or caste lines and the distribution of power is skewed in the favour of one group against another, then there may be a situation of resource capture by the more powerful segments of the community. See World Bank (2002) and Gazdar (2003) for evidence of such segmentation in rural communities existing in Pakistan.

If resources devoted to microfinance are used for consumption smoothing, this unintended outcome of microfinance tends to fulfil some criteria of social protection to the extent that it goes towards meeting contingency needs of the populace. However, it still does not fulfils the rights based criterion

The ultimate utility of microfinance with respect to social protection appears limited. If, as appears to be the case, there is a large degree of subsidization that goes into these programmes, then a similar level of subsidy can be channelled through public works programmes. The impact in terms of social protection in this case will be greater. To the extent that the innovation of group collateral is useful, it can be used for providing other risk mitigating mechanisms such as health insurance and contingency insurance (discussed in section 5).

Table 2: Share of beneficiaries of state-sponsored Social Security Provisions Compared with the Population Below the Poverty Line

	Beneficiaries (millions)	**Proportion of the Poor Covered by Government Schemes (%)**
	2000-01	**2000-01**
Food Support Programme	1.137	2.478
Zakat	0.930	2.028
EOBI	0.100	0.219
Micro Credit	0.048	0.105
Temporary Employment (KPP)	0.401	0.874
State Land Distribution	0.014	0.031
Total	2.631	5.737

Source: Economic Survey 2002-03

2.2. Informal Social Security Mechanisms

Informal welfare transfers predominantly take three forms. First, private provision of zakat and *sadqa* are commonplace in a Muslim society such as Pakistan. Second, in relatively underdeveloped societies, familial, kin and *biradari* based linkages act as support mechanisms in times of distress. Last, given the paucity of formal social protection mechanisms, networks of patronage and corruption provide social security through state resources – either through jobs in the public sector[28] or through specific demands on land, quotas or licenses. Are these informal mechanisms sufficient and sustainable? We shall briefly discuss the three mechanisms in terms of their magnitude and their sustainability.

According to a survey carried out in 1998, the extent of charitable giving was estimated to be Rs. 41 billion or 1.25% of GDP. This amount is substantial given that official transfers, both budgetary and non-budgetary in 2001-02 amount to Rs. 18.9

[28] Jobs in the public sector are considered informal social security in Pakistan as these are permanent jobs with pension, gratuity and other perks attached to them.

billion or 0.6 of GDP.[29] About two thirds of this philanthropy was given directly to individuals. The remaining one third of the philanthropy went through organizations, of which 94% was given to religious institutions and causes.

No direct evidence about targeting is available from the Aga Khan Foundation (AKF) survey. According to the 1998-99 PIHS, net transfers to the lowest three deciles was 9.6 % of their total expenditure. This share reduces to a mere 0.89% of total expenditure if remittances are deducted from these transfers. However, World Bank (1995) has estimated transfers across different income groups based on the 1991 PIHS data. Their analysis reveals that 40% of those belonging to the upper two quartiles transfer resources to 48% of those in the lowest quartile. These transfers were substantial in that they financed 49% of the consumption of recipient households. It is unlikely that such divergence would have occurred in the span of a decade. A more detailed exercise on the PIHS data is thus warranted to reconcile this inconsistency.

Table 3: Average share of Net income received, as Zakat, Ushr and Remittances etc in total expenditure

	DECILES	
	Lowest (30%)	**Upper (70%)**
NET RECEIPT FROM COMMITTEES	-0.03	0.22
NET REMITTANCES WITHIN PAKISTAN	6.29	4.01
NET REMITTANCES FROM OUTSIDE PAKISTAN	3.71	2.98
NET RECEIPT FROM INSURANCE	-0.21	-0.30
NET INCOME IN CASH FROM ZAKAT	0.16	0.07
NET GIFTS ASSISTANCE	0.22	0.21
INHERITANCE MARRIAGE DOWRY	0.77	0.90
NET GIFT ASSITANCE RECIVED IN KIND	0.22	0.11
NET TOTAL TRANSFER	9.58	6.38

Source: PIHS 1998-99

Provision of social security through social networks –such as familial, kin and biradari – operate in a multiplicity of forms. Strong social networks are an important source of social protection in Pakistan. In the context of the labour market, Gazdar (2003) has shown that segmentations in the labour market operate along lines of the above mentioned parochial networks. Such networks provide employment, provide food and shelter to the unemployed[30] and the newly migrated worker as well as lump sum help at times of marriage, death or illness. Given such forms of labour market segmentation and social hierarchies, those fortunate enough to belong to the 'right' groups will get better and more adequate social protection that others. While it is not possible to disaggregate the information in the AKF survey with regard to intra-network transfers – though this category might be a subset of total philanthropic transfers - one would expect a number of such transfers to take place more intangibly than cash or in-kind transfers.

That informal social protection arrangements are more prevalent than state-mediated or formal arrangements does not come as a surprise. The question to ask is whether such arrangements are sustainable and effective forms of social protection and

[29] Calculated from the *Economic Survey*, 2002-03.
[30] These networks are critical in managing labour mobility across regions.

poverty alleviation? At first sight, the fact that absolute poverty has increased substantially in the last decade goes to demonstrate that this is not a sufficient measure.[31] More fundamentally, those who are categorised as 'socially excluded' do not have the resources or opportunities to provide sufficient protection to their caste or group.[32] That Pakistani society is divided along parochial lines implies that any non-parochial arrangement, whether market or state driven, has little chance of success. The creation of non-parochial social protection measures will have to be underpinned by social and political reform based on non-parochial identities and symbols.

3. Qualitative Assessment of Existing Social Protection Mechanisms in Pakistan

The previous section demonstrates vividly that formal social protection measures fall far short of providing an effective social protection cover. Besides the lack of coverage, all these schemes are plagued with ineffective targeting as well as corruption and embezzlement on the part in their operations. In this section we will qualitatively assess both the directed and non-directed schemes. We will first provide some design-wise shortcomings of the schemes and then provide some clues to the underyling problems that plague effective targeting mechanisms.

Design Failures

With regard to the directed government social security schemes, the most important design failure is that funding responsibility has been placed entirely on the employer. The principal common to most social security systems that workers should contribute towards their social benefits has not yet been accepted in Pakistan.[33] Because employees are not made to contribute towards their own benefit, no sense of ownership of the schemes amongst workers has been created.[34]

Corruption and embezzlement within both the PSS and EOBI schemes have frequently made headlines in national newspapers. Specifically with regard to the EOBI, a number of scandals pertaining to embezzlement of large sums of money have come to the fore in the last few years.[35]

Other impediments in the design feature of the schemes are listed briefly:

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[31] It may be the case that had these informal networks not existed, poverty may have been even more acute. The point however remains that they were not able to arrest the trend of increasing poverty or reverse it.

[32] The socially excluded will consist of religious minorities (the Christians in Punjab and *kohli* and *bhee*l Hindus in Sindh), lower caste groups (particularly the kammis in the Punjab). See DFID (2003) for details and analysis on social exclusion in Pakistan.

[33] The only exceptions to this trend are the provident fund, benevolent fund, and contributions in the Workers Participation Fund of the Workers Welfare Fund.

[34] Although the deductions done by employers do impact on the total wage of employees, because it is not a deduction from the nominal wage, it is not perceived by the employees as such.

[35] See Maleeha Qureshi, "Financial Scam in EOBI," *The News*, Sept 25, 2003 for a detailed investigative report on corruption and embezzlement in the EOBI.

- There is no provision for the preservation or transfer of pension rights on termination of employment. This weakness has been particularly exposed by the privatisation process. Since workers do not contribute to these pension funds, there is no basis for the payment of a lump sum in lieu of pension rights.

- Pension rates are extremely low even in nominal terms.[36] As the rates are fixed in nominal terms and are adjusted with a considerable lag – often three to five years – their real value has been consistently declining.

- Since the general schemes are exclusively employer based, many unprofitable public sector industrial units have defaulted in payments. These defaults result in problems to the beneficiaries in receiving benefits and total resources of the scheme in question also.

- High administrative costs.

Targeting Problems

Targeting based on means testing is the prevalent form of social welfare schemes in the case of zakat distribution as well as Baitul Maal schemes. Both these schemes do not have any transparent and accountable method for targeting.

Distribution of zakat is done through an elaborate bureaucratic structure. The Central Zakat Council (CZC), a wing of the Ministry of Finance, prepares the annual budget and funds are disbursed to the Provincial Zakat Councils[37]. The Provincial Zakat Councils release funds to the Local Zakat Committees[38], according to the policy framework laid down by the Central Zakat Council. The District and Tehsil Zakat Councils, whose primary functions are administrative, supervisory, and coordinating in nature, monitor the utilisation and disbursement of funds received by the Local Zakat Councils. The Local Zakat Councils, which function at the lowest level, are responsible for the identification of the *mustahiqeen* and the disbursement of funds for direct assistance.

Another function of the Central Zakat Council is to allocate funds to the National Zakat Foundation (NZF). The NZF provides grant to the non-governmental organisations (NGOs) registered under Voluntary Social Welfare Agencies (Registration and Control) Ordinance 1961, for institutional rehabilitation of the indigents, widows, orphans, and disabled persons. During July-March 1998-99 period, a total of 0.35 million beneficiaries were served through National Zakat Foundation funded projects in health, vocational training, and special education. Mosque schools (deeni madraris), public hospitals, and vocational training institutes are some of the

[36] The minimum pension rate is Rs.675 per month.
[37] Provincial disbursements are based on the population criterion. However, according to SPDC (1999) this criterion is not usually followed.
[38] Local Zakat Committees receive 60% of the total funds available to the Provincial Zakat Councils.

other recipients of the zakat fund with a total share of 40% in the provincial zakat fund.[39]

Moreover, there is no documented, institutionalised mechanism for the distribution of zakat funds. To identify the beneficiaries in villages and neighbourhoods, the Local Zakat Councils rely on individuals known to them, who are better off, more articulate and literate members of the community. Usually the beneficiaries are those who are already involved in patronage relationships with the committee members. Decisions about who should or should not receive benefits are not guided by the eligibility criterion but by local power relationships.[40] This has led to resentment and ill feelings in the communities[41]. Similarly, the control of locally influential persons who use these funds to further their own political interests has been noted (World Bank, 1995).

There is no specific information with regard to targeting of the Baitul Maal/food support programme. The programme is known to be cumbersome and linked to the zakat disbursement programme in the sense that that application form for this scheme has to be attested from three individuals, including a local zakat committee member before it is processed (SPDC, 1999). World Bank (2002: 109) also considers the targeting mechanism to be less than sufficient.

Targeting and Governance

Targeting of social security programmes has to contend with the problem of moral hazard everywhere. In developing countries generally, the problem of bureaucratic malfeasance further compounds the issue. Whereas the moral hazard problem can be mitigated through appropriate institutional design and improvements in information flows,[42] the problem of political interference and bureaucratic malfeasance is the most relevant for a country like Pakistan. The generic problem of effective governance in Pakistan impinges on effective targeting also. In Pakistan, the problem is generally perceived as that of political patronage, the rule of law and elite domination of the political process. Without getting into the nuances of this rich and varied debate, the central issue with regard to targeting is the bureaucratic incentive structure. Even in a society where there is incentive for political patronage – as there is in Pakistan – a rules-based and accountable bureaucracy can mitigate a number of problems associated with targeting. Commentators have pointed out problems with bureaucratic management in Pakistan that inhibit the institution of a rules-based bureaucracy.[43] Unless effective bureaucratic and judicial reforms are instituted in the country, even with better policy design and information flows, targeting of social protection schemes will remain ineffective.

4.Demographic Projections, Macro-economic Trends and Social Protection

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[39] SPDC (1999)

[40] See Bealle et.al (1995).

[41] In a survey conducted in Kasur, Punjab, one widow clearly expressed her feelings about the Zakat system. She said " *The Zakat system cannot be improved because the people who run it enjoy the authority to control the money of widows, and put it in their own pockets."* (Bealle et.al, 1995).

[42] See Standing (1999) for detailed accounts and innovative ways of resolving the moral hazard problem in social protection schemes.

[43] See Cheema (2002), Shafqat (1999) and World Bank (1998) which identify a number of institutional and political economy constraints to bureaucratic reform in Pakistan.

Pakistan's population growth rate till recently has been one of the highest in the world. As we see in the table below, it is only recently that this growth rate has declined to 2.15 % per annum.[44] This high growth means that the population profile is tilted towards the younger population. According to the 1998 Census, 53.5% of the population was below the age of 19 years and roughly 7.4% of the population was between the age of 10 and 19 yrs. Assuming a constant labour force participation rate, the labour force is expected to grow at roughly 7% per annum in the near future. Considering that there has been little structural change across the type of employment generated, the actual quantum of those working in agriculture, as well as self employed workers and unpaid helpers, is going to increase in the near future.

Table 4: Trends in Population Size and Rate of Population Growth: 1947-2001

Census Year	Population (millions)	Average Annual Growth (%)
1947	32.5	-
1951	33.7	1.8
1961	42.8	2.4
1972	65.3	3.6
1981	84.2	3.1
1998	132.4	2.7
2001*	142.5	2.15

*Estimate based on surveys conducted by the National Institute of Population Studies (NIPS)
Source: *Economic Survey 2002-03*

The above described population and labour force profile demonstrates that in the absence of structural change in the labour and product markets, formal sector social protection will keep declining. Moreover, given the evidence that capital intensity in the formal sector is increasing and the share of government is shrinking, the miniscule share of those who enjoy social protection is going to further decline.

At the macroeconomic level, three elements can mitigate this situation. First, if there is a significant growth stimulus in the economy, then both employment creation will increase and revenues to finance social protection measures, which also include increasing social sector spending, will increase. Given the stabilization straight jacket prevalent at present – indicated by the fact that in spite of a significant improvement in both internal and external fiscal balances – fiscal deficit reduction remains the single macroeconomic indicator that determines all macroeconomic policies – will need to be broken. Haq (2003) demonstrates that fiscal pump-priming of up to 1.5 % of GDP for the next two years can play an important role in growth revival. Second, it will also help if allocative decisions on the investible surplus keep employment creation in the short and medium run as the benchmark. This will require some level of state intervention in channelling investment resources.[45] In the long run, the state will also have to facilitate productivity growth, both by enhancing the quality of the human capital stock and by creating incentives for the private sector to improve efficiency in non-labour resource use. Third, if governmental commitment to poverty

[44] Considering that the inter-censal growth rate was 2.69%, it is unlikely that in the last 5 years the growth rate would have come down so significantly.
[45] Pakistan faces an interesting conundrum where market liberalization has resulted in higher capital intensity in a labour surplus economy.

alleviation – as enshrined in the PRSP – is real, then it will have to be demonstrated by re-channelling fiscal resources from non-developmental (specifically defence and general administration) to developmental and welfare expenditure. Since much of social development falls within the domain of provinces and local government, one important demonstration of this commitment will be to increase the total share of provincial resources in the divisible pool and to devise appropriate weightage to poverty and social protection concerns in the inter-provincial distribution of these resources.

A note of caution, however, needs to be stated here. While increasing resource commitment to social protection is a necessary condition for improving the state of social protection in Pakistan, it is certainly not sufficient. As discussed earlier, a number of legal, structural and socio-political reforms will have to accompany increasing resource commitment to social protection. These issues are picked up in the next section.

5. Conclusions and Policy Recommendations

That social protection provided by the state in Pakistan falls far short of meeting individual or group needs is evident from the foregoing discussion. This problem has been further compounded by high rates of poverty in the country. The problem has been exacerbated for some, at least, by the trend of economic policies designed to liberalise and stabilise the economy. This policy framework paradoxically sets a considerable challenge to effective implementation of welfare and poverty reduction measures envisaged in the PRSP. In these circumstances, it is unlikely that the current slow implementation of citizenship rights will accelerate noticeably in the near future.

Yet, it is important to make a case for social protection on the criterion of enhancing the social income of individuals and households. It is also important that the meagre resources that are spent on social security reach their intended beneficiaries. This will mean sectoral discrimination – in terms of agricultural and non-agricultural labour force – and the formal and informal sector divide (in the case of EOBI, PSSIs and WWF) should be done away with. Moreover, some innovative methods should be devised to create a generic health and death/disability insurance. Using the definition of enhancing social income as a means to the provision of social security as a benchmark, there are five areas that need to be focused on:

Merge Health and Education Provision with National Programmes

The main benefit provided by the PSSIs and the Workers Education Cess are in the realm of providing health and education cover to families of workers. These services run parallel to the generic provision of health and education to the population at large. There is no need for such duplication. Funds accumulated hitherto by these entities should be handed over to the respective education and health provincial department which are responsible for service provision.

The obvious problem here is that the national service in both these social sectors is under-supplied and inappropriately managed. Both inadequate resource commitments to the social sectors as well as poor cost-effectiveness in the public sector are responsible for this under-supply. With regard to basic education, a much enhanced fiscal commitment is necessary if improved literacy and improvement in the human capital stock is to be prioritised.[46]

Under-supply of health care is perhaps a much more serious matter. Pakistan's health indicators lag far behind those of countries in the region and with similarly placed countries in terms of per capita incomes (Easterly, 2001). The possibility of creating a health insurance scheme based on the principle of social solidarity *à la* microfinance can be the basis for both injecting resources into the health system as well as creating a stake for the people to collectively monitor the provision of health services. It is also empowering to the extent that once a community has a stake in efficient operations of a health related scheme, it can monitor its performance also. Obviously the problem of under-supply of facilities and personnel will require a much larger fiscal commitment on the part of the state. State subsidy in operations will also be necessary; only then can the problem of targeting and supply can be resolved in this manner. The existing Rural Support Programme (RSP) network can be used for this purpose on a pilot basis to gauge the feasibility of this scheme. The success of such a scheme will be contingent on coherence and harmony amongst local communities. As such its success is likely to be uneven across the country, as well as within localities and between individuals.

Pension and Contingency Insurance

Existing schemes for pensions and contingency suffer from a number of problems identified earlier. The problem with EOBI is lack of coverage and insufficiency of pensions provided as well as bureaucratic hassle in obtaining the pension.

Contingency payments through zakat and Baitul Maal are also plagued with targeting and insufficiency of transfers. All these different setups should be merged into something akin to a National Social Security Fund. By doing away with the restriction of EOBI being applicable only to establishments employing 10 or more workers and by abolishing the religious requirements that limit the scope of zakat, it will become applicable to all citizens. The scheme can be based on the issuance of social security cards - as elsewhere in the world – and based a monthly/yearly nominal contribution.

With pensions the targeting problem is easily resolved given the age cut-off. For contingency payments, targeting however remains problematic. The social collateral principle can be applied in this case also to overcome moral hazard problems with regard to targeting. Although the same principle can alleviate some of the problems associated with bureaucratic malfeasance, because cash transfers are involved in this case some bureaucratic reform is a pre-requisite if targeting is to improve.

The most important issue in this case will be the financing of such a social security fund. Presently financing comes from statutory contributions from firms for EOBI, based on a mandatory 5 % deduction of the value of wages that are less than Rs. 3000 per month. There is an incentive for employers to under-declare the number of workers. Also since workers don't contribute directly, they do not know if they are individually registered. Further, there is no ownership on the part of the workers as the deductions are not perceived to have come out of their wages. The employers also complain that collection of these levies is a source of harassment and increases their

[46] Issues of quality of education, medium of instruction and curriculum design also need to be addressed.

transaction costs. Instead, it has been proposed that there should be a flat turnover tax that is charged (both in task force reports as well as interviews). If coverage is to be increased across the board, the state will have to inject a much greater quantum of resources. Such a resource injection can be done as a one-off and then on the basis of actuarial projections, retirement benefits can be provided. Pakistan is fortunate that a relatively small proportion of its population is in the retirement age-bracket. The proportion will, however, increase at a faster rate in the medium to long run. It is thus all the more important that a generalised pension scheme is initiated sooner rather than later.

Expand Public Works

Ideally an unemployment compensation scheme should be introduced. However given the employment profile in Pakistan[47] as well as the possible cost implications, this is an unrealistic option in the short to medium run. Instead the existing public works scheme – named KPP these days – can be considerably expanded. As mentioned above, the scheme employs only a miniscule number of the poor. The existent fiscal space should be employed to considerably expand this programme. Moreover, those employed should be given at least a 3 month contract and paid the national minimum wage. By keeping it at the level of the minimum wage, the public works programme also becomes self-targeting.

Minimum Wage

Wages from employment are an important component of the social wage. Recently the law with regard to the minimum wage was altered to now encompass the entire working population. While the rate of the minimum wage is still below what will be required to pull a household out of poverty, its increased coverage has the potential to protect and/or enhance wage incomes significantly. A survey conducted amongst women workers in urban manufacturing in 1999-2000 demonstrated that two-thirds of these workers were working at less than the minimum wage. [48](Sayeed and Khattak, 2001) Going by this evidence if the minimum wage is implemented in earnest, it can play an important social protection role.[49]

There are, however two issues to note. First, the application of minimum wages will only benefit a small subset of those in need of social protection. By definition, it is only applicable to the category of 'employees' which is only one third of the workforce. The remaining two thirds of the workforce as well as those outside the labour force do not stand to benefit directly from this policy. Second, for the minimum wage to become an effective tool for social protection as well as poverty alleviation it is necessary that it is indexed and revised periodically. Moreover, the

[47] Only one third of the work force is in the category of employees, the rest of the two thirds are either self employed or work as unpaid family helpers. With this employment profile, targeting unemployment will be plagued by moral hazard.

[48] The survey was carried out across large scale, home based and small scale enterprises in all four provincial capitals.

[49] See Sayeed (2002) where it is argued that the implementation of a minimum wage will not necessarily increase cost of employers, if it is seen as an efficiency wage. It is also shown that an increase in the nominal minimum wage does not reduce the real wage of workers in the non-agricultural sector.

minimum wage has to be made applicable across the variety of contractual arrangements that prevail.[50]

Food Subsidy

Although there is a food subsidy scheme in place, its scope and targeting leaves much to be desired. In a country where income poverty is high, a food subsidy goes a long way in enhancing the social wage. Rather than a means-test based targeting scheme as existent presently, a more generic scheme based on ration cards can be introduced. Such a scheme will entail that every household is given a ration-card on which a certain amount of basic food grains can be purchased at a subsidized rate. Such a scheme was operational in Pakistan in the 1970s. Once again this scheme becomes self targeting as only those who wish to obtain subsidized staples will go through the process of obtaining a ration-card and to go to outlets dedicated to this purpose.[51]

Conclusion

This paper has attempted to highlight conceptual issues with regard to social protection as well as the situation that prevails in Pakistan. Recommendations in the last section follow from the concept of social protection outlined, the situation analysis and some basic projections on population, labour force and economic trends.

It is important to reiterate that there are numerous fiscal, administrative and political hurdles in providing an over-all social security cover to the population of a low-income society. This should not, however, obviate from the *need* for providing social protection. As Burgess and Stern (1989, p74) state:

> …the severity and extent of deprivation surely dictate a very prompt response, and whilst intellectual enquiry should inform action, this [the need for social security] may be an outstanding example where we shall have to do our learning by doing.

The fact that social protection is sought informally through parochially based collectivities demonstrates that demand for a non-market based social protection system is present. A system of social protection which is based on citizenship rights has the potential to play an important role in nation-building endeavours as it has the potential to undermine narrowly based ethnic, sectarian, caste and kin identities. While both the coverage and benefits will correspond to the prevailing level of per capita incomes in society, if social protection is prioritised at the policy level its benefits will over time go far beyond that of its immediate goals.

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[50] See Gazdar (2003) for details on application of the minimum wage to non-time wage earners and Sayeed and Ali (1999) for the variety of contractual arrangements across different sectors.

[51] The Utility Stores Corporation's infrastructure can be used for this purpose.

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