Beyond Safety Nets: Provision of Comprehensive Social Security in Pakistan

By Dr. Asad Sayeed and Farhan Sami Khan

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The State Shall ensure the elimination of all forms of exploitation and the gradual fulfillment of the fundamental principle, from each according to his ability to each according to his work --- 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.

**Article 3, (Principles of Policy) Constitution of Pakistan**

Pakistan’s constitution – now in abeyance – is interestingly one of the few in underdeveloped countries that delineates social security as an explicit citizenship right. Unarguably, this commitment of the state towards its citizens remains largely unfulfilled. This is not surprising in a country where basic democratic and fundamental rights are violated with impunity.

**Article 38(d) and (e) (Principles of Policy), Constitution of Pakistan**
Introduction

Over the last decade, the issue of social security has assumed greater importance in Pakistan as relevant indicators unambiguously demonstrate a trend towards increasing impoverishment of the populace. The Economic Survey for the year 1999-2000 shows that the proportion of the population below the poverty line has almost doubled in the last decade and inequality in the distribution of income after having improved over the 1970s and 1980s is today as bad as it was in the early 1960s.¹ The decisive policy shift in favour of liberalisation – initiated in the early 1990s – as well as the country’s increasing international isolation for geo-political reasons have combined to create an environment where impoverishment will continue to intensify.

On its part, the Pakistani state has continued to rely on ‘trickle-down’ from economic growth as the prime-mobile to reduce deprivation in society. While it is true that economic growth is a necessary condition to reduce impoverishment over time, it is certainly not a sufficient condition.² In any case, with economic growth having decelerated substantially in the 1990s, the state has been forced to re-consider its rationale for its passivity on the front of reducing impoverishment and inequities. On the international front also, the sheer weight of evidence against the trickle down concept has given way to the recognition that direct poverty reduction measures will have to be devised. Hence the introduction of ‘poverty alleviation’ and provision of ‘safety nets’ as the new buzzwords that adorn today’s development jargon.

In keeping with this international ‘trend’ and to legitimise its rule, the present military regime in Pakistan has also earmarked Rs.21 billion for ‘poverty alleviation.’ There are problems of magnitude as well as sustainability with such initiatives. First, the amount devoted for the purpose is precious little given the fact that roughly 44 million people are below the poverty line. As such, resources devoted to poverty alleviation amount to a mere Rs.39.70 per month per poor person. Clearly alleviating poverty is not a priority with this government. Second, such ad-hoc measures are not in consonance with the inherent rights of a citizen where security of livelihoods and basic needs is guaranteed.

This paper thus argues for the provision of comprehensive social security as the only means to reduce impoverishment in a sustainable manner. The paper is divided in four parts. The first part of the paper distinguishes the concept of social security from the current fad of social safety nets. The second part of the paper examines existing formal and informal social security provisions in Pakistan. It is seen that not only are social security instruments narrow in scope but socio-economic changes in the recent past have meant that their coverage will further decline. The third part of the paper focuses on the feasibility of providing certain social security instruments to the formal as well as the informal sectors The issues of (dis)incentives to work and the availability of resources are then examined to gauge the feasibility of transparent provision. Lastly, the pre-requisites and existing constraints in providing broad-based social security in Pakistan are outlined.

¹ Those below the poverty line have increased from 17% in 1987-88 to 33% in 1998-99. Whereas 6.4% of national income went to the poorest 20% households in 1963-64, in 1996-97 only 7% of national income went to the poorest 20%. (Economic Survey 1999-2000)
² Theoretically as well as empirically it has been shown that high economic growth can be accompanied with increasing impoverishment. See Kanbur and Squire (1999).
Social Security and Social Safety Nets: Conceptual Distinction

Since the demise of the ‘golden age’ of the welfare state and the concomitant rise of neo-liberalism, social security (henceforth SS) – as a concept – has been effectively replaced by the neo-liberal coinage of social safety nets (henceforth SSN). Often one is construed to mean the other. While there may be some operational overlap between the two, there are fundamental conceptual differences between the two.

SS is described by Geinneken (1999, p51) as having four basic elements:

The first element...establishes that people derive their individual rights from social security. The second element defines the social element of social security, i.e. that it is provided through public or collective arrangements. The third elements makes it clear that social security aims at protection, and that its role should not be confused with policies for the promotion of employment and social services. Finally ... social security is not concerned only with cash benefits and benefits in kind but also with --- basic needs, such as [medical care], education, housing and nutrition.

The most important definitional issue with regard to social security is that it is predicated as an individual and citizenship right. As a corollary of the first principle, the second element enunciates its collective nature. Rather than securing oneself against future contingencies – as through risk insurance of different hues – its right base makes it a societal responsibility through income transfers. This may be done entirely through tax transfers or it may be accomplished through group insurance where at least two of the three protagonists – government, employers and workers – participate. The last definitional element enunciated above is based on the concept of basic needs. As such the above list of ‘basic needs’ are to be seen not merely as public goods in the economistic sense but as citizenship rights in a civilised society.

Safety Nets on the other hand have been defined as having the following basic features:

- 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, the latter is philosophically based on instrumentalist reasoning. 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. Sala-i-Martin (1996) has modeled “transfers and other social safety nets [as] a means to buy political stability and prevent social unrest, such as crimes, revolutions, riots, etc.” It is in this sense a public good and in the long run contributes to economic growth.

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5 The welfare state was first conceived as part of the ‘new deal’ in the US in the aftermath of the Great depression and was the bedrock of the new social contract in war-ravaged Western Europe.

4 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.

5 Where rights are defined as an intrinsic good, which cannot be violated at the alter of expediency.

6 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).
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 welfare system, 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.\(^7\)

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 SSNs. Because SSN 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 in SSN diverges from the collective criterion that is central to the SS 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. In fact, this movement from the collective to the personal was propagated by the Thatcher regime for reducing state-provided health and housing services in Britain in the 1980s.

The two concepts also differ in their approach to protection so far as individual life cycles are concerned. While the SS approach pays due attention to old-age, maternity and child care benefits, the SSN approach and indeed 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 that SSNs are unnecessary in all circumstances. Indeed in extra-ordinary situations – such as severe economic downturns or other calamities-SSN instruments 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 security has to be seen as a right.

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 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 Baitul Maal 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.

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\(^7\) See Lee (1998) for a detailed exposition of the social costs of the economic crisis in East Asia.
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 people 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. Presently the total number of establishments registered with the institution is 42,949.\(^8\) EOBI does not cover organisations that provide ‘equivalent benefits.’ As such some of the largest public sector entities, such as WAPDA, PTCL, PIA, Pakistan Railways, all the commercial banks and insurance companies are outside the ambit of EOBI\(^9\).

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\(^10\). 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).

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 in Table 1 provide for education, matrimonial and housing related benefits to workers in the formal sector.

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\(^8\) 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.

\(^9\) 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.

\(^10\) In case a government servant dies before 25 years of pensionable service, then only the widow is entitled to receive pension and other benefits.
<table>
<thead>
<tr>
<th>Scheme</th>
<th>Starting Year</th>
<th>Benefits</th>
<th>Eligible</th>
<th>Coverage</th>
<th>Funding</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Provincial Employees Social Security Scheme (PSSS)</td>
<td>1967</td>
<td>Medical care for insured workers and their main dependents, Cash benefits for loss of earnings through sickness, maternity and employment injury</td>
<td>Workers of industrial and commercial establishments with 10 or more employees. These employees must be drawing wages up to Rs. 3000 per month</td>
<td>Between 0.55-0.6 million workers and their families (1994)</td>
<td>Financed exclusively through the contributions of employees at 7 percent of the wages of secured workers</td>
<td>Until 1969, the scheme was only limited to textile workers. Later, workers of industrial and commercial establishments were included.</td>
</tr>
<tr>
<td>(2) Employees Old Age Benefits Institution (EOBI)</td>
<td>1976</td>
<td>Old age pension, Invalidity pension, Survivors' Pension, Old age grant</td>
<td>Workers employed by industrial, commercial, and other establishments with 10 or more employees irrespective of their wage.</td>
<td>1,66,744 workers</td>
<td>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</td>
<td></td>
</tr>
<tr>
<td>(3) Government Servants Pension Fund</td>
<td>1954</td>
<td>Old Age pension, Provident Fund</td>
<td>All government servants after retirement (60 years of age) of at least 25 years of service</td>
<td>N.A.</td>
<td>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%.</td>
<td></td>
</tr>
<tr>
<td>(4) Public Sector Benevolent Funds and Group Insurance</td>
<td>1969</td>
<td>Benefit grants, Group Insurance, Benevolent Fund</td>
<td>All public sector employees</td>
<td>Total number of beneficiaries was 19,242 till June 1993</td>
<td>Benevolent Fund is deducted at source from the monthly salary of the employees. Group insurance is financed by monthly contributions of the employees</td>
<td></td>
</tr>
<tr>
<td>(5) Workers Welfare Fund (WWF)</td>
<td>1971</td>
<td>Provision of residential plots and housing facilities, Provision of income generating goods, Jahez fund</td>
<td>Workers of those establishments that are registered with the fund</td>
<td>So far, 58,000 residential plots and 14,000 houses have been received by beneficiaries</td>
<td>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</td>
<td></td>
</tr>
<tr>
<td>(6) Workers Children's Education Ordinance</td>
<td>1972</td>
<td>Free education to one child of every worker up to Matriculation and thereafter in a polytechnic or vocational training institution</td>
<td>Workers in all establishments employing 10 or more employees doing skilled, unskilled, manual and clerical work</td>
<td>X</td>
<td>The employer contributes Rs. 100 as education cess to the provincial government.</td>
<td></td>
</tr>
</tbody>
</table>

Table 1 highlights some important shortcomings of the existing social security system in Pakistan. The most glaring feature of the existing benefit system is that it is excludes the bulk of the labour force. 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.

The agriculture sector which constitutes more than 40% of the labour force\textsuperscript{11}, 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\textsuperscript{12}. Similarly, construction, transport, and whole sale and retail sectors - which are pre-dominantly informal in character - and collectively employ approximately 27\% of the labour force have no social protection arrangements. Particularly 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 1996-97 Labour Force Survey estimates, the total number of self-employed were 14.4 million, which constituted a substantial 42.2 per cent of the total labour force in the country.

On aggregate, therefore, the EOBI and PSSS cover only 5\% 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, 2000), the coverage of these two institutions, as a proportion of the labour force, is declining over the years. Whereas in 1991-92, their coverage was approximately 3-4\% of the total employed labour force, in 1998-99 this had declined to a mere 2.25\%.

Besides the lack of coverage in the existing social security system, there are several problems with the design of these schemes also. The most important feature is that by and large funding responsibility has been placed 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.\textsuperscript{13} Because employees are not made to contribute towards their own benefit, the sense of participation of workers towards their own benefits is not created.

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

- 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.

\textsuperscript{11} 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.

\textsuperscript{12} See Sayeed and Ali (2000).

\textsuperscript{13} The only exceptions to this trend are the provident fund, benevolent fund, and contributions in the Workers Participation Fund of the Workers Welfare Fund.
Pension rates are extremely low even in nominal terms. 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.

Claiming benefits is a complex and time consuming bureaucratic procedure, riddled with corruption and deliberate delay in payments.

Lack of information and guidance for pursuance of benefits.

High administrative costs.

2.2. Generic Welfare Schemes

The major social safety schemes in Pakistan are the systems of Zakat and Ushr, 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.

2.2.1. Zakat and Ushr

The Zakat and Ushr 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 mustahiqueen) 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 accounts, saving certificates and share dividends. It is estimated that 50% of the revenue is collected through saving bank accounts and about 16% from fixed deposits. This collective revenue is received by the Central Zakat Council (CZC) which has different procedures for the disbursement of funds.

Examination of the structure of the Zakat System reveals a fairly complex hierarchy. 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. The Provincial Zakat Councils release funds to the Local Zakat Committees, 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 mustahiqueen and the disbursement of funds for direct assistance.

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14 The minimum pension rate is Rs.675 per month.
15 Both, Zakat and Ushr are religiously mandated charity taxes, which differ in nature. Zakat is deducted compulsorily once a year at a rate of 2.5% on specified financial assets. On the other hand, Ushr is levied on agriculture produce exceeding 948 kilograms of wheat or the equivalent value of other crops. The rate of Ushr is 5% of the value of crops at a farm site for irrigated land and 10% in the case of non-irrigated (barani) land. (SPDC, 1999)
16 The rest presumably comes from dividend income on shares.
17 A portion of Central Zakat Fund is retained by the Central Zakat Council, which is invested on a non-interest basis.
18 Provincial disbursements are based on the population criterion. However, according to SPDC (1999) this criterion is not usually followed.
19 Local Zakat Committees receive 60% of the total funds available to the Provincial Zakat Councils.
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 other recipients of the zakat fund with a total share of 40% in the provincial zakat fund.

Unlike Zakat, the collection and distribution of Ushr is negligible. In 1984-85, Ushr collection peaked at Rs. 0.3 billion, progressively receding to less than Rs. 10 million by the end of the 1990s.

Despite the magnitude of the Zakat system, there are a number of limitations attached to it. According to official statistics, there are 44 million individuals living below the poverty line in Pakistan, while the total number of beneficiaries of the Zakat and Ushr system is approximately 1.5 million. As such, only 3.4% of the poor population is covered by this scheme.

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. This has led to resentment and ill feelings in the communities. Similarly, the control of local politicians who utilise funds to further their own political interests has also been noted (World Bank, 1995).

Even if the benefits reach the targeted population, their value is meager. 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. 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.

Because of its poor targeting and general lack of legitimacy of officially collecting what is considered to be a religious obligation, there has always been a high degree of avoidance of zakat payments. Zakat collection peaked at Rs. 4.7 billion during 1993-94 and since then it has declined to Rs. 4.1 billion in 1997-98. The Supreme Court decisions of allowing all sects to file a declaration seeking exemption from payment of Zakat will further reduce collection.

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20 SPDC (1999)
22 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).
23 Sufficient wheat flour to feed a family of eight for a month costs roughly Rs. 900-1000 in 1999-2000 prices.
2.2.2. Bait-ul-Mal

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.

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 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 is the food stamp programme, in which Rs. 395.9 million were disbursed. This scheme, however, has been abandoned since 1994.

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 obvious shortcomings of the Bait-ul Mal funds are similar to that of zakat. The idea behind establishing this fund was to extend the coverage by including the groups of people and areas that are not covered by the Zakat system. Even after eight years of existence, the number of people covered is miniscule. The cash stipend given under the Atta Subsidy Scheme is negligible and is not sufficient to cover the basic food requirements of a family. Procedural difficulties for eligibility are also riddled with red tape.

2.3. 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 security mechanisms, networks of patronage and corruption provide social security through state resources – either through jobs in the public sector 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.

While the exact magnitude of private charitable transfers is not available, 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. The above numbers also demonstrate that by and large the transfer process is well-targeted.

24 The application form must be attested by three local people (including a local Zakat committee member) before it is processed at the provincial and district levels (SPDC, 1999).
Private charitable transfers are likely to continue given the ethos of Pakistani society. But are they sufficient? The fact that private transfers only contribute to less than half of the population in the lowest quartile demonstrates at first glance that they are insufficient. Moreover, the information available also does not indicate the extent to which they were adequate in lifting the recipient households above the poverty line (for those recipients who were below the poverty line). It should also be remembered that this analysis is based on 1991 data when both the incidence of poverty was much lower and per capita incomes were increasing at a faster rate than they have in the rest of the decade. Given slower growth in per capita incomes as well as increasing poverty in the 1990s, on the one hand, the numbers of those below the poverty line has increased substantially and at the same time the poverty gap has widened. On the other hand, falling per capita incomes will mean that the proportion of transfers will also decline. It is in the nature of such transfers that when they are most needed – during an economic downturn – their magnitude declines. The conservative conclusion about the sufficiency of charitable transfers is that it is an insufficient social security institution. It should also be noted that charitable transfers, by definition, are not rights based. As such, power in the relationship between donors and recipients is completely vested in the donors.

Provision of social security through social networks – such as familial, kin and biradari – operate in a multiplicity of forms. Provision of food and shelter to the unemployed and the newly migrated worker as well as lump sum help at times of marriage, death or illness are some examples of the nature of social security provided by this informal institution. Nepotism in provision of loans and jobs to one’s kindred can also be categorised as a form of security provided by such social networks.

The magnitude and prevalence of this form of social security is difficult to determine. Casual observation, however, suggests that it is fairly substantial. But is it adequate and sustainable? Again there is little direct evidence on adequacy. Increasing poverty and persistently low social development indicators arguably demonstrate its inadequacy.

More importantly, however, sustainability of this institution is in question. Such social networking institutions essentially cater to traditional forms of production; such as feudal or family based subsistence farming and/or small-scale, usually family based, manufacturing and services. Increasing commercialisation as well as complexity in the production processes along with the social change they foster – such as high rates of locational mobility, weakening of the extended family, etc. – have weakened these institutions over time. The inadequacy of traditional institutions was illustrated dramatically during the recent East Asian crisis when unemployment and business failures led to massive social dislocations. According to Lee (1998, p 45)

--- traditonal institutions facilitating labour absorption in rural areas have been eroded. Commercialisation of agricultural production has reduced the role of family-based farms and many urban workers have gradually lost the necessary links to the rural areas to enable them to re-absorb there.

Changes in the structure of economy and society has not taken place in Pakistan to the extent that it has in East Asia. However, the direction of change is similar.

25 The poverty gap refers to the distance between the poverty line and the actual income/consumption level of the poor household.
26 Vijay (1999) shows that in India, social networking institutions, though numerous, are inadequate. This is not to undermine their contribution in the absence of any formal social security mechanism.
Yet another informal channel through which individuals and groups seek social security is through political patronage and/or corruption. Since public sector employment has employment security and other benefits, it remains the preferred form of employment, exemplified by the large bribes people are prepared to pay to secure a government job. Over-employment in the public sector is in fact a manifestation of such informal search for social security in a milieu where none exists in private sector employment or as part of citizenship rights. The problem with it obviously was and is that apart from breeding nepotism and corruption in society, it destroys the productivity of public sector enterprises. This informal institution is already under strain given the fiscal crisis of the state – to which it contributed in no small measure. In the prevalent neo-liberal policy environment where privatisation and down-sizing rules the roost, this institution is on its last legs.

### Provision of Comprehensive Social Security to Citizens

In the previous section, we argue that whereas a number of social security schemes exist, their coverage is extremely narrow and the design and functioning of the schemes is inadequate. In this section, we will lay out the bare-bones of a comprehensive social security system in Pakistan. We do so, keeping in mind the ground realities that exist in Pakistan. The most fundamental reality in today’s Pakistan is that 83% of all employment is in the informal or unprotected sectors (ILO, 2000), roughly half of the labour force is self-employed and contractual arrangements of employment are increasingly becoming casual and unprotected (see Sayeed and Ali, 2000). We also address in this section, some of the problems with regard to financing such schemes and the incentive structure that they create.

#### 3.1. Generalising PSSS and EOBI

The Social Security Scheme and the EOBI are, in principle, appropriately designed with the essential drawback that their coverage is limited. Their coverage needs to be extended, first of all, to the agricultural sector. Because of the variety of contractual arrangements that exist in the informal sector (and now increasingly in the formal sector) permanent wage employment as a criterion for eligibility will have to be done away with. Instead the principal distinction should be whether the person is an employer or a worker, where workers ought to be the beneficiaries. This should cut across the contractual arrangement and sectoral divide used now to ration these schemes.

By making workers pay their contribution to these funds and by exempting the employer’s direct contribution many of the problems of funding as well as adverse incentives will be resolved. Payment towards the scheme will not only develop a sense of participation by workers but will become self-targeting also. Moreover, the workers will have some control and say over the nature and magnitude of benefits also. This will also create a genuine working class constituency that all governments and politicians will have to take seriously.

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27 The self-employed creates a bit of a conundrum. But because we suggest that their ought to be worker contribution, that should self target those self-employed individuals who wish to benefit from this service.

28 What the exact contribution of workers should be is part of the detail.

29 Incorporating employee contributions was also a suggestion made in the task force established on social security in 1994. See GOP (1994).
Excluding the employers from making direct contributions will relieve them from one of their long-standing and genuine complaints that these schemes increase their economic as well as transaction costs. The employers contribution should then be deducted through income, corporate and wealth or property taxation.30

3.2. Minimum Wage and Incomes Policy

Although a minimum wage policy exists in Pakistan, it suffers from the same drawback as other existing welfare-oriented schemes. Moreover, employers have got around this stipulation by either contracting out work or hiring workers temporarily through contractors. This loophole can be plugged by including the informal sector as well in the minimum wage net. Also, by legislating minimum standards for contract workers, minimum wages can be brought to this segment of the workforce also.

We are mindful that plugging one loophole often gives rise to the creation of others. Through conducting a social dialogue the employers need to be convinced that in an otherwise flexible labour market and with removal of other costs on employment as a result of them not directly contributing to EOBI and PSSS, the cost increase will not be substantial.

Even if instituted, the minimum wage policy will only cover the category of Employees, which is only 36.4% of the employed labour force. Given the high and growing number of self-employed, un-paid family helpers and piece-rated workers, it is important to devise a minimum incomes policy to protect the non-time wage earning households. Also, because of a very high rate of underemployment in the economy, the criterion of employment is not sufficient to meet basic needs. The process should be initiated by first gathering more information on the nature and extent of work in these occupational categories and then look into experience from other countries to determine an optimal and implementable policy.31

3.3. Unemployment Compensation

Unemployment compensation is another area which is necessary if rights-based social security is to be instituted.32 There may be some overlap in this scheme with regard to the minimum income policy. This overlap, in principle, can be removed by making only those eligible for this scheme who may be unemployed but whose household incomes do not make them eligible for the minimum incomes policy criterion. This particular scheme ought to be funded directly through fiscal transfers.

Ideological aversion to the welfare state has spawned many myths regarding unemployment compensation. If workers know that even if they don’t work, they will get a dole-out from the state, then the incentive to work shrinks. If the compensation is set at a minimum subsistence level and eligibility criteria are devised where search for work is mandatory and refusal to work at a minimum wage makes one ineligible for compensation, then the negative incentive affect is somewhat mitigated.

The latter two schemes are targeted and thus require the administrative apparatus for means-testing. As we saw with the zakat and Baitul Maal schemes, targeted schemes often pose problems of red-tape, corruption

30 Whether the schemes are administered federally, provincially or locally depends on the fiscal division of functions and resources that is ultimately decided upon. In principle, the level of government should not make any substantial difference.
31 China and Sri Lanka are two countries where minimum incomes policies exist.
32 Again the mechanisms can be sorted once it is accepted in principle.
and interest group capture. The only manner in which some self targeting can be instituted in these schemes is if benefits are kept at the level of meeting basic needs adequately.

3.4. Is the State Too Poor to Institute Social Security for All?

The most common reservation about provision of social security for all in developing countries is finances. With a much narrower tax base than developing countries and a much larger base of claimants, it is argued that countries with a low per capita income cannot put in place a welfare state.

Indeed with a tax-GDP ratio hovering in the range of 13-14 per cent, instituting social security for all appears a tall order in Pakistan. Through a mixture of increased resource mobilisation and re-switching of expenditure priorities, adequate funding to meet basic needs provision is arguably not a fiscal impossibility.

That Pakistan’s tax base should be expanded is not only a fiscal necessity in the short run but also a fundamental issue of equity. It is thus necessary that the agricultural income tax and a tax on traders is instituted. Also scope for re-switching present expenditure priorities is required. Two areas where re-switching can free considerable resources is reduction of federal ministries that come under the concurrent list and defence expenditure. The latter is closely tied to Pakistan’s foreign policy and will only be possible once there is a commitment and consensus that human security rather than grandeur notions of territorial security are the state’s priority.

4. Pre-Requisites for Comprehensive Social Security

Social security schemes require some fundamentally important prerequisites; otherwise they cannot be initiated, implemented and sustained. The two most important in this regard are freedom of association and documentation of the economy.

Freedom of association and unionisation is crucial if adequate welfare provisions are to be devised and safe-guarded. It is generally argued that unionisation has negative influences on development and efficiency. The counter argument stresses that unionisation increases productivity and welfare by reducing inhumane practices, ensures labour dignity and freedom, moderates the harsher aspects of market driven distribution of income, and stresses that the costs and benefits of economic transition and structural change are more equitably shared. In Pakistan, various governments in power, whether civilian or military, have never allowed trade unions to function freely and effectively. The freedom to associate as workers – regardless of the size of the enterprise or occupation – is, therefore, a central pre-requisite to create a countervailing force with a vested interest to develop and sustain provision of social security.

Documentation of the economy is not only important for purposes of revenue generation – as it has been propagated in Pakistan recently - but is also crucial if comprehensive social security is to be instituted.

33 The tax on traders need not be the currently propagated GST. By documenting trading activities, their actual direct tax contribution will fulfill the criteria of resource generation as well as equity.

34 This is best illustrated by the fact that the state spends roughly 0.4 per cent of GDP on social transfers (SPDC, 2000) whereas 5% of GDP goes directly towards defence.

35 See Sayeed and Ali (2000) for a detailed exposition on this theme.
Without documentation targeted schemes, in particular, cannot be instituted. Moreover, documentation also assists in monitoring labour market trends and understanding of underlying causes and consequences. The complexity of labour market developments—in particular those related to the informal sector and atypical forms of employment—require increased attention to conceptual and measurement issues.

**Conclusion**

We have argued in this paper that if human security is to be prioritised in society, then instituting comprehensive social security is a necessary pre-requisite. While the recent fad of poverty alleviation programmes may have temporal utility, it is not a formula that provides social security to citizens on a sustainable basis. To draw the distinction between social security and safety nets is thus crucial in our present politico-economic and ideological context.

We conclude this paper on two notes. First, the social security schemes outlined in section 3 should be seen as merely illustrative. We are fully aware 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 security. 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.

Second, this paper should not be seen as a policy proposal to the government. We are certain that as long as the Pakistani state structure remains molded in its undemocratic and militaristic trappings, welfare of the people will not enter its priority agenda. This discussion, should therefore, be seen in the spirit of keeping alternatives alive in popular and political discourse. We also visualise that comprehensive social security can become an important focus for future political mobilisation that seeks to restructure the Pakistani state towards a democratic entity with full citizenship rights.
References


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