

Dynamics & Issues for Labor Market Reform and Need for Review of Social Safety Net Policies in Pakistan

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I am happy to represent the Employers' Federation of Pakistan in this very important expert meeting on "Building Social Safety Nets for Employment-Strategies in Asia". This expert meeting is convened in Niigata, Japan by the Ministry of Health, Labor, and Welfare Government of Japan to discuss the importance of social safety nets for employment and to identify the key elements necessary for promoting them. The recommendations of this Expert Meeting are going to be deliberated in the Special Session as a side event of the 15th ILO Asia & Pacific Regional Meeting to be held from 10th to 13th April 2011 in Kyoto, Japan.

In this session on "Challenges and Strategies for promoting unemployment insurance and Active Labor Market Policies in Asia", I wish to throw light on Dynamics & Issues for Labor Market Reform and need for review of Social Safety Net Policies in Pakistan.

Social Safety Nets are socio economic safety programs necessitated to offset the imbalances in the labor market system and to protect the poor and the vulnerable working class from the shocks arising out of such imbalances. It will be relevant in this context to precisely have a look first into the dynamics and issue of Labor Market and the current structure of social safety nets before we can look into some new dimensions of safety net policies and programs.

A. Dynamics of Labor Market

The dynamics of the Labor Market in Pakistan (Kiani & Sheikh PIDE) can be identified with the following features.

- a. According to the 1999-2000 Labor survey, the labor force participation rate (LFP rate) from the total adult population increased from about 44% in 1998-99 to 50% in 2000-01. This increase in LFP is largely due to rise in the female participation in labor force from 16% to 25% mainly in the rural areas where females are mainly engaged in activities relating to farming & live stock.

Table 1: Labor force participation and unemployment rates in two panel data sets by gender and rural-urban areas.

Area/Gender	Labor force participate rate			Unemployment rate	
	1998-99	2000-01	2000-01 (standardized)	1998-99	2000-01
Pakistan both sexes	43.7	50.3	48.0	6.1	11.5
Male	68.8	72.2	68.4	4.9	7.1
Female	15.6	25.9	25.3	12.0	25.1
Urban areas both sexes	39.5	47.1	44.7	9.8	13.5
Male	66.9	71.3	67.6	7.4	8.1
Female	8.8	19.9	19.1	31.1	35.4
Rural areas both sexes	46.3	52.3	50.2	4.11	10.3
Male	69.9	72.8	68.9	3.5	6.5
Female	19.9	29.7	29.2	6.7	20.7

Source: Computed from PSES Round I and II.

- b. According to the same survey between the 1997-98 & 1999-2000 period, the level of overall unemployment increased from 5.9 percent to 7.8 percent. This increase of about 2 percentage points in open unemployment in these years is rather too substantial which indicates that macro economic factors have adversely affected the employment initiatives in the country.

Table 2 Labor force participation and unemployment rates as reported by more recent Labor force surveys by gender and rural urban areas

Area/Gender	Labor force participation rates			Unemployment rates		
	1996-97	1997-98	1999-00	1996-97	1997-98	1999-00
Pakistan -both sexes	43.0	43.3	42.8	6.1	5.9	7.8
Male	70.0	70.5	70.4	4.2	4.0	6.1
Female	13.6	13.9	13.7	16.8	15.0	17.3
Urban areas - both sexes	38.9	37.7	38.1	-	-	-
Male	66.5	65.2	65.0	5.1	5.8	7.5
Female	8.4	7.4	8.8	25.2	28.6	29.3
Rural areas - both sexes	45.1	46.4	45.1	-	-	-
Male	71.8	73.4	73.1	3.8	8.5	5.4
Female	16.3	17.4	16.1	14.6	11.9	14.1

Source: Labor Force Surveys, 1996-97, 1997-98, 1999-2000.

c. According to available data the transition from unemployment to employment is quite slow. Only 41% of the unemployed was able to obtain a job between the 1999-99 and 2000-01 period. One third of them could not get a job even after two years 61% of the long term unemployed were males. More than quarter of the unemployed stock moved out of the labor force between the above period, and more than half of this group consisted of females due to female marriage or other family responsibilities. Approximately 3.7% of total employed stock (1998-99) changed their labor market status and become unemployed in 2000-01. Approximately 6% of individuals who were not in the labor force in 1998-99 also joined the unemployed stock in 2000-01.

Table 3: Change in labor market states between the 1998-99 and 2000-01 period.

Labor market states in 2000-01	Labor market states in 1998-99			All	N (Male)
	Employed	Unemployed	Not in labor force		
Employed	79.3 (90.7)	41.4 (84.1)	19.4 (46.8)	44.6 (79.5)	5309 (4220)
Unemployed	3.7 (79.0)	32.6 (60.6)	6.0 (29.0)	5.8 (47.0)	688 (323)
Not in labor force	17.0 (55.8)	26.0 (48.2)	74.6 (25.1)	49.7 (29.7)	5918 (1758)
All	100 (84.2)	100 (67.1)	100 (29.4)	100 (52.9)	-
N (Male)	4891 (4119)	319 (214)	6705 (1968)	11915 (6301)	-

Source: Computed from the PSES Round I and II.

Note: In parenthesis is percentage of males in each cell.

d. More than 60% of the group (that moved from employment to unemployment) was below the age of 30 years in 1998-99 and were predominantly males. It appears that workers who lost their Jobs & joined the unemployed pool between 1998-99 & 2000-01 were primarily young males although 40% of these workers were illiterate, a substantial portion i.e. 24% had in their accounts 10 or more years of education.

Table 4: Age and educational distribution of labor force by nature of transition made
Between the 1998-99 and 2000-01 period.

Age groups/ Education level	No transition: employed in two periods	Transition from employed to unemployed	Transition from employed to out of labor force	No transition :unemployed in two periods	Transition from unemployed to employed	Transition from unemployed to not in labor force
Age groups (years) in 1998-99						
< 20	11.4 (85.7)	23.2 (73.8)	21.3 (59.9)	17.3 (77.8)	31.1 (82.9)	25.3 (66.7)
20 – 29	31.2 (92.1)	37.6 (92.6)	17.9 (53.7)	25.3 (55.6)	37.2 (95.9)	39.8 (36.4)
30 – 39	20.1 (88.9)	12.1 (50.0)	13.1 (36.7)	9.6 (60.0)	12.9 (82.4)	9.6 (75.0)
40 – 49	17.1 (90.4)	11.1 (70.0)	12.0 (32.0)	9.7 (30.0)	9.9 (64.3)	10.8 (11.0)
50 – 59	13.6 (53.4)	8.9 (68.8)	15.5 (50.4)	9.6 (50.0)	6.5 (50.0)	9.6 (62.5)
60 +	6.6 (97.3)	7.2 (100)	20.1 (84.4)	27.9 (67.0)	4.5 (66.7)	4.8 (5.0)
Education						
Illiterate	46.9 (84.6)	40.3 (64.8)	74.3 (42.5)	54.0 (48.2)	32.6 (67.4)	50.0 (27.3)
Primary	16.9 (95.7)	21.0 (75.7)	7.7 (69.6)	16.0 (75.0)	17.4 (78.3)	13.6 (55.6)
Middle	15.4 (98.3)	14.8 (88.5)	8.3 (78.3)	12.0 (75.0)	17.4 (95.7)	9.1 (83.3)
Matriculation	10.7 (96.1)	12.5 (100)	6.8 (85.7)	10.0 (70.0)	9.1 (100)	7.6 (40.0)
Higher	10.9 (91.7)	11.4 (100)	2.9 (85.7)	8.0 (87.5)	23.5 (96.8)	19.7 (46.2)
All	100 (90.5)	100 (79.0)	100 (51.7)	100 (61.0)	100 (84.1)	100 (40.9)

Source: Computed from the 1998-99 & 2000-01 PSES.

- d. Five variables like age, gender, marital status, education & training turned out to be statistically significant factors influencing the probability of transition from unemployment to employment. These factors provide some indication of labor market behavior and has important bearing on policy formulation. Older persons are relatively less likely to be absorbed in the labor market. Males are more likely than the females to leave the unemployment pool. Being currently married is positively associated with making transition from being unemployed to being employed. Only college and

higher level of education had a positive influence on being employed. Training also had a positively significant influence on making transition from unemployed to being employed.

The dynamics of the labor market therefore displayed the following features:

- I. The labor force participation rate from the total adult population showed an increase in recent year.
- II. The level of overall unemployment showed substantial increase.
- III. Transition from unemployment to employment is quite slow.
- IV. Major portion of the group that moved from employment to unemployment was below the age of 30 years & were males.
- V. Workers who lost their jobs & joined the unemployed pool were primarily young males.
- VI. 40% of the workers moving from employed to unemployed were illiterate while 24% of them were with 10 years of school education.
- VII. Variables related to human capital of individual such as age, education, and training appear to have greater influence on the probability of making transitions from unemployment to employment.

These dynamics of labor market may be attributed to deterioration in Pakistan's growth performance during the 1990s. The real GDP growth slowed down in an average of 4.9% in the first half of the decade declining further to an average of 35% in recent years. The large scale manufacturing sector which grew by an average annual rate of 8.2% in the 1980's slowed down to an average of 4.7 percent in the first and further to 2.4% in the second half of the 1990's. The economy at present may be characterized as:

- Growth rate around 3.5% high unemployment rate and an increase in poverty.
- Low investor's confidence and declining investment rate;
- The underlying budget deficit of around 5% of GDP;
- Trade deficit around \$1 billion and surplus in the balance of payments;
- Foreign exchange reserves of over \$ 10 billion: and
- Trimmed down civil bureaucracy which needs to be reduced further.

B. Labor Market Issues:

Labor Market issues in Pakistan largely centre round unemployment, working conditions & Child labor (Sabur Ghayur PDR 1996). Some of them are identified as under:-

- a. Pakistan's Labor Market is unable to continue the past trends of labor absorption. Generation of additional work opportunities commensurate with labor supplies, increasing by over 3% annually is the most serious challenge confronting the labor market.

- b. The twin measure of unemployment & under employment seriously confronts the Labor Market. The most worrying aspect of about 5% of unemployment is its concentration among the youth, the educated and the trained.
- c. The under mobilization of manpower is more visibly reflected in underemployment. These are more than a tenth of the employed who find their work unable to keep them busy for 35 hours a week (FBS 1994).
- d. Out of these employed, a quarter of them find their employment income only meeting half of the subsistence requirements, while a similar proportion find their employment income barely managing to meet the subsistence requirements [NMC (1989)]. Lesser productive and low remunerative work opportunities are thus emerging as the major characteristic of the labor market in Pakistan.
- e. The working conditions prevalent in Pakistan need serious improvement. A significant number of work places has larger working hours & deplorable working conditions including occupational safety and health hazards.
- f. Existing labor laws are outdated, cumbersome, too many and need consolidation, reformation and attuning with the changing demands of the work place. The implementation of labor laws is another major issue due to weak & corrupt labor administration machinery.
- g. Trade union movement suffers from division & fragmentation. Despite long years of experience in turbulent industrial relations environment, both labor & managements pace of response to the challenges of the labor market is too slow and passive.
- h. The existence and widespread prevalence of Child Labor in prominent sectors is highly vulnerable & poses a serious challenge while efforts to combat them are on their way to progress at a slow pace.
- i. labor market is seriously being affected by the pursuit of free trade regimes coinciding with policies of privatization and structural adjustments. These set of policies are being pursued without taking adequate safeguards thereby involving considerable risk of severely affecting domestic manufacturing, employment and labor market conditions.

C. Review of existing Social Safety Nets Program:-

Social safety nets are necessary to alleviate poverty with broader macro economics growth policies which otherwise take a long time to trickle down the benefits to the poor & the working class. The recent economic crises has reversed poverty alleviation gains made in during the earlier part of the decade. The attempts to mobilize the economy through steep reductions in fiscal and current account deficits as part of the ongoing international monetary fund loan arrangement has led to a curbing of public & development expenditure. To mitigate this situation the need for efficient safety nets to ensure the very survival of seizable population of very poor in Pakistan is vital.

The social safety nets program existing in Pakistan may be identified as under:-

- a. Under the Zakat & Ushr Ordinance 1980, Zakat (a religious cess) is compulsorily deduction from the Sunni Muslims once a year @ 2.5 percent on the value of specified financial assets. This principal form of cash transfers to the poor through a publicly administered Zakat system reaches out to less than 35percent of the household living below the poverty line.
- b. The Baitul Mal established in 1992 mainly provide assistance to the needy (such as the minorities not covered by Zakat) from the funds coming in the form of non lapsable grants from the Federal grant and smaller grants from the provisional & local governments.
- c. Ushr is another religious tax levied Zakat & Ushr ordinance on agricultural produce exceeding 948 Kg of wheat or the equivalent value of other crops. Having the potential to become a major source of help to poverty stricken rural households, its effectiveness is seriously hampered by the absence of an efficient administrative machinery for its collective and distributive.
- d. For the employed workforce, the federal government operates state pension fund for employees in the service of the state and for employees in the private sector an Employees Old Age Benefits Insurance Scheme through a semi-autonomous institution of the Employees Old Age Benefits Institution. Managed out of the fund exclusively generated by private sector employers contribution of 5% of the minimum wage in respect of all the employed persons, the secured employees are entitled to a meager pension amount on retirement after reaching the age of retirement and contribution in respect of whom has been paid by their employer for 15years of service. Although the law has been expanded to cover all industrial and commercial establishments employing more than 5 employees, the Institution suffers from administrative issues & trust deficit which is a major hindrance in expanding the real scope of this benefit for the poor and the working class.

- e. A provincial Government sponsored Employees Social Security Institution is another labor welfare legislation through which industrial workers are provided the sickness, medical & other benefits such as marriage grants, death grants, survivors pension, etc. out of the funding paid by the employers at the rate of six percent of minimum wages covering all employees drawing wages up to Rs. 10,000/- the Social Security Institution with its large establishment has not been able to make a very positive impact due to lack of efficiency & transparency in the administration of this scheme.
- f. Under the labor laws industrial and commercial establishments of certain categories are obligated to provide their employees benefits like group life insurance, compensation incase of employment injury, notice pay, gratuity and/or provident fund in case of employees separating from service.

The above forms of social protection have been largely limited to the formal non agricultural economy and the organized state or private sector. The rapid deterioration in the employment and the labor market situation in Pakistan in recent years have made it imperative for policy makers to bring in labor market reforms and employment oriented labor and industrial policies. It goes without saying that when economic growth slows down and unemployment increases its first and foremost impact is on poverty level. The ILO estimates that almost 14 million of the work force in Pakistan of 40 million are living in “working poverty” i.e. the worker and his family live on less than \$1 per day per person.

To meet the Safety Net Challenges the government has been working since the past few years with some major donors organization to prepare a National Social Protection Strategy (NSPS) which met the Prime Minister’s approval in mid 2007. The NSPS had also committed the government to provide regular cash transfers to over six million of the poorest people in the country with in the first five years of implementation under the Benazir Income Support Program. The government has decided to provide Rs. 1000/- per month cash transfers directly to women of poor household across the country under the BISP and to subsequently offer employment generation and other opportunities to these identified families. A poverty scorecard approach is being adopted for selecting beneficiaries on the basis of information including household size and composition, education, household assets etc. The government is currently engaged in social dialogue with its constituent partners i.e. the employers and workers on ways and means to reform the labor markets, consolidate and simplify existing labor laws improve legislative structure in the area of industrial relation and labor welfare, and to review the safety net programs with a view to jointly work on decent work agenda, employment generation and developing new safety nets to prevent the existing workforce in particular the educated youth from the shock of risks arising out of the economy restructuring initiative currently in progress in Pakistan in the shape of privatization of large public sector organizations and strategic mergers of business enterprises due to economic and market pressures. In the long run this may eventually lead to better administration of the now state owned enterprises in the hands of professional managers in the private sectors but in the short run is likely to create further imbalances in the already deteriorated labor market.

In the recent Labor Policy 2010, the government has announced to introduce a comprehensive social insurance for old age benefits and health services on self registration/voluntary basis to allow all workers in formal and informal sectors including self employed to benefit from it. The govt also proposes to extent the coverage of workmen compensation to workers of mechanize farms in the private sector. Workers in the informal economy including home workers and domestic workers will benefit from improved safety and health arrangements and excess to social security and payment of minimum wage. Majors are intended to be taken to gradually expand the coverage of EOABI act including self employed persons and increased its benefits.

D. Need for Review of Safety Net- New Proposal

It is therefore relevant at this stage for the government, employers and workers to deliberate on the efficacy of the existing safety net programs and to look for new ways and schemes to make safety net more pragmatic to the demands of a vulnerable labor market and macroeconomic changes.

It may be well advised also to deliberate upon the promotion of **unemployment insurance scheme** in the country and to make it work as safety walve in otherwise explosively inactive labor market. The existing Employee Old Age Benefit Institution (EOABI) in collaboration with the State Life Insurance Corporation may look into the possibility of introducing unemployment insurance program by adopting a two dimensional approach:

- i. **One for the educated employed youth:** a large number of educated youth and the vulnerable group of workers thrown out of the active labor force may be provided with technical, vocational and skill training to increase their employability with cash transfers from BISP to support them during their period of unemployment. The amount of cash transfer may be recovered from them in easy installments once they are employed as a result of skill training and retraining.
- ii. **For the large number of employed workforce in the private sector:** employed workforce may be required to make a contribution of 1 - 2% of salary out of their current income to a safety net fund which may be used to generate funding for a national unemployment insurance scheme in which the employers contribution made to the welfare funds comprising of huge transfer funding under the workers profit participation enactment may be included in addition to employers contribution to EOABI and compulsory group life insurance premium. Out of this safety net fund, the contributing employee workforce may be given up to 30 to 50% of their wages during the period of unemployment for a period of 6 months as and when the same occurs due to Macro Economic pressures

The above initiatives in the area of reforming labor market generating decent employment and promoting safety net through the existing social protection schemes and the proposed employment insurance program

can be practically perused more vigorously at a time when devolution of power to the provinces is already in progress due to the 18th constitutional amendment now in place to provide greater provincial autonomy.

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