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ABSTRACT

An examination of the public pension and social security schemes in Pakistan reveals that the provision of regular pensions is limited to formal sector employees only. A number of social security schemes that are operational in the public and private sectors cover a small proportion of old-age population, whereas a significant proportion of the elderly population working in the informal sector remains largely unprotected by social security schemes. As such, the challenge of meeting the needs of the increasing elderly population demands an improvement of the support base and social security system in Pakistan that emphasises the need to implement reforms of public pensions and programmes of social protection. Efficient deployment of resources and improvement of the governance structure are needed for effective welfare of the eligible sub-group of the elderly and the economically disadvantaged population.

JEL classification: H55
Keywords: Social Security, Pensions, Pakistan

1. INTRODUCTION

The issue of evaluating pension and social security schemes has gained great relevance at both the regional and global levels in view of rising poverty levels as well as ageing populations. Policy-makers across the world are striving to adapt their pension and social security systems to the reality of a fastly increasing old-age dependent population and tightening of budgets. The issue is more pronounced in the developed regions of the world which have already experienced a demographic transition with consequences of rising proportions of the elderly. However, developing countries like Pakistan which are in the process of a demographic transition, are also concerned about rising trends of their ageing population and its social and economic consequences in the coming years. It is estimated that in the more developed countries, about 15 percent of the population is of persons 65 years and above compared with nearly 5 percent in the less developed countries in the year 2005, and these percentages may be higher if assessed for ages 60 years and above [Population Reference Bureau (2005)].

Learning from the experience of developed countries, population ageing has raised concerns about the sustainability of public pension systems and is becoming increasingly burdensome on the contributors as old age dependency rates are rising to high levels [OECD (1998), Bongaarts (2004)]. The system of social security in these countries is well established giving coverage to most of the population. However, expenditures on 'pay-as-you-go' public pensions schemes, which involve monetary transfers from younger to older generations are becoming increasingly burdensome on the contributors and eventually unsustainable as old-age dependency rates continue to increase. Hence, the change in the structure of their population has long-term implications for their fiscal resources.

In developing countries including Pakistan, on the other hand, the process of ageing is well on its way due to declining trends in mortality and fertility levels and an increase in the average span of life in recent decades. The changing demographic and social trends in terms of shifts from extended to a more nuclear family system has raised concerns about the rising old-age dependency ratio and the adequacy of future family support for the elderly. The effects of an ageing population in these countries is becoming apparent in terms of increasing costs of health-care systems, social security and old age benefits, problems of family relationships and changing social attitudes towards older people. As such, new challenges of meeting the needs of the increasing population of the elderly have emerged that demand an assessment of the support base and social security system. With a large population base such as that of Pakistan, the absolute and the relative size of the elderly population and those living in poor socio-economic conditions is expected to be large enough to put substantial burden on the budgets for pensions and social security schemes.

The number of elderly (aged 60 years and above) as enumerated in the 1998 population census is about eight million which is nearly 6 percent of the total population. In view of the recent decline registered in the fertility rate and rising life expectancy, this number is expected to increase further. It is estimated that the proportion of elderly population will increase to 15.7 percent in 2050. At the same time, the proportion aged 0-14 years is expected to decrease from 41.8 percent to 21.9 in 2050 [United Nations (2004)]. Hence, the dependency ratio between working age population and the population aged 60 and over will increase from about 6 percent to 14.1 percent between 2006-2050.[1] As a result, the need to generate fiscal resources to support the basic needs of the older people and to provide social security for more retired persons will increase.

Consequently, there are not only implicit challenges and resource management demands at the regional and national level, but also social and economic concerns at the family and individual levels. With increasing trends of urbanisation, and the fast eroding traditional family system in the wake of rapid modernisation, the issues concerning the living conditions and quality of life of the elderly and the poor merit due attention in Pakistan. It is observed that trends of urbanisation and modernisation, economic pressures and reduction in the value of the joint family system have greatly eroded the support base of the elderly and the poor population. In this context, the mechanisms of social transfers are becoming a challenge in terms of pension, health care and social protection. The need to identify and implement reforms of public pension systems and social security schemes under these changing demographic conditions represents an urgent challenge for public policy.

Presently, the provision of regular pensions is limited to formal sector employees only. A number of social protection schemes which are operational in the public and private sectors cover a small proportion of old-age population. The challenges of an ageing population and their socioeconomic protection therefore go beyond social security, health and morbidity issues when assessed in terms of social participation,

[1]The data on household structure show that about 70 percent of persons aged 60 years and above were living in extended type of households and only 26 percent were living in nuclear households and were headed by elderly persons. Moreover, about 15.2 percent of elderly females were living alone as one person household as compared to only 1.9 percent of males. This is indicative of the family structure in Pakistani society where older males tend to get remarried and live with families whereas older and widowed female tend to live alone if not supported by the kins and families.

employment opportunities, protection from violence and abuse, and physical and mental well-being. As such, protection of the social, economic and political rights of the elderly poor persons has to be part of the overall development policy and research agenda in Pakistan. At the same time, the economic reform programme of the government aimed at downsising and privatising institutions is increasing the vulnerability of the working class. Workers feel threatened with the new tide of globalisation as it may further deteriorate their condition through loss of jobs. The economic insecurity of the working class has increased the need for social security and its expansion and to implement reforms of the public pension system in the country. In this context, it is of special significance to assess the share of pensions, insurance, health care and other types of social safety nets that would contribute to reduce poverty and vulnerability of older persons.

The present study aims to identify the modalities of a comprehensive pension system and the role of other relevant agencies that give protection and coverage to the elderly and poor population in Pakistan. More specifically, the main objectives of the study are to:

- Assess population of the elderly and the poor in the context of changing socio-economic conditions;
- Review and evaluate the existing policies and programmes of social assistance including pensions and security schemes in the country;
- Suggest ways and some policy options to increase the coverage of existing pension and social security scheme for the needy and vulnerable groups including the elderly.

2. ELDERLY POPULATION IN PAKISTAN

The 1998 Census and the Pakistan Demographic Surveys provide useful information on the socio-economic and demographic characteristics of the elderly population. The census data show that the population aged 60 years and above has increased from 2.92 million in 1961 to 7.34 million in 1998, indicating a nearly four times increase over the years (Table 1). The table shows that about more than 4 million persons were added to the elderly population during the intercensal period of 1961-1998 with an average annual growth rate of 3 percent. With a lowering of fertility levels and rising trends in life expectancy, it is projected that the elderly population will increase from 7.34 million as estimated in the1998 census to 11.19 million by the year 2013, and to 23.76 million by 2030, indicating more than a three times increase in nearly 30 years. Consequently, the share of the elderly in total population will increase from around 6 percent in year 2005-06 to 9.3 percent in the year 2030 (see Table 1).

Table 1

Total Population and Elderly Persons (Aged +60) in Pakistan: 1961–2030

Year	Elderly Population (Million) (60+ Years) Total	Male	Female	Sex Ratio (M/F)
Census				
1961	2.92	1.68	1.24	135
1972	4.57	2.63	1.94	135
1981	5.88	3.40	2.48	137
1998	7.34	3.99	3.35	119
Projected Estimates				
2013	11.19	5.69	5.50	103
2030	22.07	11.09	11.09	99

Source: Pakistan (2002) Ageing in Pakistan: A Situation Analysis, Ministry of Social Welfare and Special Education, Islamabad.

The population of elderly disaggregated by sex in Table 1 shows that males have outnumbered females over all these years. However, due to improvements in mortality and better enumeration of female population over the years, the sex ratio of elderly (males per 100 females) has shown significant decline in the year 1998 - from 135 in 1961 to 119 in 1998. The decline in the sex ratio is also reflective of improved life expectancy at birth for females than males which is expected to increase from 63.7 years to 65.9 years for males and from 65.1 years to 67.3 years for females during the period 2005-2010. Similarly, the life expectancy of the elderly at age 60 shows that males are expected to live 17.3 years more and females about 18 years beyond age 60 during 2005-2010 (Afzal, 2000). The ageing process in Pakistan is expected to gain momentum that will narrow the age structure at the base and will enhance the old age dependency ratio (ORD).[2]

The socio-economic characteristics of the old-age population are reflective of the living conditions and quality of life of the elderly. For example, marital status has significance in terms of the family support and care they can get in older ages. It is commonly observed that a much lower proportion of men is widowed compared to women in old age primarily because of longer life of women than men and the general tendency of men to remarry if they become widowers. The much larger proportion of widowed females in older ages puts them in a vulnerable position if they do not have sufficient economic and social support and are not covered by any programme of social assistance.

[2]This ratio is usually estimated as the ratio of the population aged 60/65 years and older to the working age population aged 15-59/64 years, and the inverse of this ratio is called the support ratio. The values of ODR for Pakistan is estimated as .10 in 1998 which compares well with .09 in Bangladesh, .13 in India and .15 in Sri Lanka for the years 2000 [Rajan and others (2002)].

Regarding other socio-economic characteristics of the elderly, only 27.5 percent of males are literate and 55.5 percent are in the labour force, i.e. either working or looking for work and helping their families as unpaid workers, whereas the female literacy rate is only 8.9 percent and their work participation is reported as low as 1.6 percent (Table 2). It is estimated that a majority of elderly males - 79.4 percent are self-employed, 12.6 percent are private sector employees, 2.3 percent as government employees, 3.5 percent are unpaid family helpers and only1.3 percent are employers [Hashmi (2003)].[3]

Table 2

Literacy Status and Economically Active Population (60 Years and above) 1998

	Literate (%)			Labour Force Participation Rates(%)		
Age Group	Both Sexes	Male	Female	Both Sexes	Male	Female
60-64	21.1	30.7	9.9	34.3	62.4	1.6
65-69	20.6	29.9	9.5	32.6	58.0	1.7
70-74	17.0	24.3	7.9	29.6	52.3	1.4
75+	15.6	22.5	7.5	24.9	44.5	1.2
Total (60+)	**19.0**	**27.5**	**8.9**	**30.9**	**55.5**	**1.6**

Source: 1998 Population Census of Pakistan.

Labour force participation of the elderly is important for assessing their economic status and financial support base in view of the inadequate social security system in Pakistan. Given the fact that only a small proportion of the elderly benefit from pension and social security programmes in Pakistan, many persons continue to work beyond 60 years of age, especially in rural agricultural and non-wage sectors. Poverty and economic pressures compel many older persons to work even beyond 75 years of age. It is generally observed that the role of most females in Pakistani society is limited to unpaid family help or doing household chores, they remain financially dependent on other economically productive family members during older ages. This requires specific programmes and interventions that would provide them economic and social support in view of the changing social conditions.

[3]The extremely low level of labour force participation among elderly females reflects the inadequacy of census data regarding work, as many of those women are likely to be involved in agricultural and unpaid family help and are not counted as economically active.

3. ECONOMIC CONDITIONS AND THEIR IMPLICATIONS FOR THE ELDERLY AND THE POOR

The dependence of the needy and elderly population on the government-sponsored schemes is increasing with the process of development. Along with pension schemes, the Pakistani government has initiated some other programmes to provide social protection to senior citizens. At the same time, the country is facing funding constraints due to stringent fiscal controls imposed by international donor agencies to reform the economy. As such, poverty levels increased due to the low priority given to social sector development during the 90s. As a prelude to assess the policies and programmes for the elderly and poor population in Pakistan, it would be useful to review the economic conditions of the country as the basis for suggesting a comprehensive pension and social security programme for the elderly and economically disadvantaged population.

Pakistan has faced fiscal and monetary constraints since the 1980s and embarked upon the economic reforms process through the Structural Adjustment Programme. One of the targets was to reduce the fiscal deficit to a sustainable level by increasing revenues and/or controlling expenditures[4]. The government was financing this deficit by borrowing at very high rates of interest which resulted in the rapid growth of public debt. The servicing of this debt was eating up the major chunk of resources, leaving a very little amount for protecting the economy to external and internal economic shocks. The target was set to reduce the fiscal deficit to 4.0 percent of GDP either by increasing the tax revenues, controlling the public sector expenditures or through both measures. The evidence shows that the government successfully controlled its expenditures and the fiscal deficit declined to a manageable level since the year 2000 [Pakistan (2006)].

Regarding access to social services, low budgetary allocations for health and education sector programmes cause inadequate delivery of health care services by the public sector, thereby affecting the poor and elderly dependent families with more severity. Shortages of medical staff and supplies affect many poor families including aged population who can not afford to go to a private facility. The results from a recent study support the evidence that nearly 57 percent of sick persons go to a private facility for treatment and about 45 percent mentioned “no money available” as one of the reasons for not seeking treatment of their illness [Mahmood and Ali (2003)].

The state of health and nutrition services in the country needs immediate attention of the policy-makers for higher allocations of funds to improve the welfare of the poor and the aged population. The evidence shows that the higher prevalence of disease among the poor is the major factor pushing them in poverty and that 65 percent of the poor including the elderly persons surveyed were sick at the time of their interview [Mahmood and Ali (2003)].

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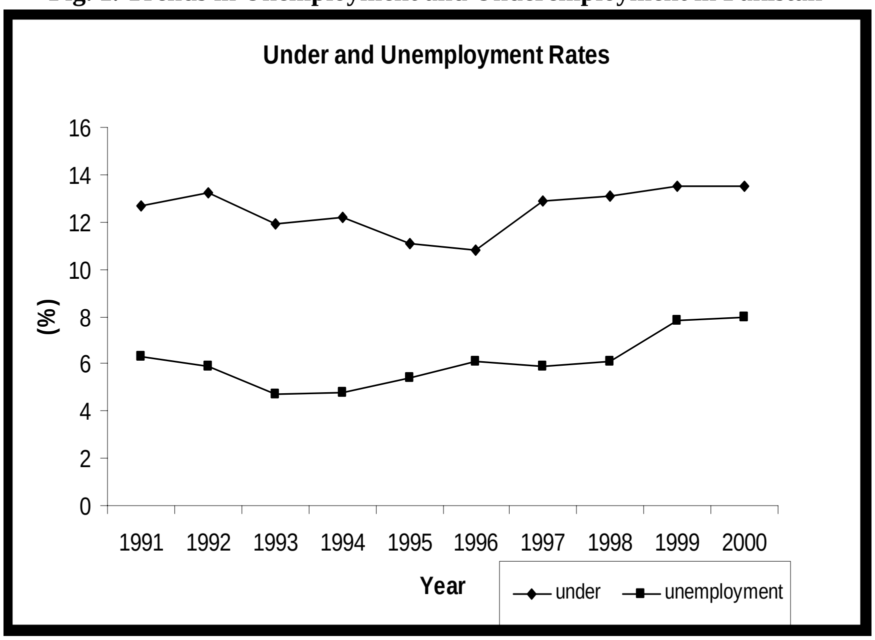
[4]Pakistan has a record of very high fiscal deficits in the 1980s and 1990s reaching the level of 8.5 percent in 1987-88 and 8.8 in 1990-91 [Kemal (2003)].

3.1. Employment Situation

The labour force participation rate in Pakistan is very low. On the basis of estimated current population, the labour force is estimated around 50 million with the labour force participation rate at 32.2 percent in 2005-06.[5] The employment situation has become worse since the 90s as the unemployment rate surged to almost 9 percent (see Fig. 1), about 10 percent of the employed population was working less than 35 hours per week and about 27 percent are employed as unpaid family helpers. The 2005-06 Labour Force Survey data further shows that most of these employed persons work in the informal sector constituting 73 percent of the economy. The under-utilisation of the labour force in Pakistan is about 13 percent if unemployment and under-employment rates are combined. This situation is likely to hit the elderly and poor subgroups the hardest and demands the provision of social protection for these people and their families.

Fig. 1. Trends in Unemployment and Underemployment in Pakistan



[5]The Labour Force Survey 2003-04 provides information on many diminutions of the labour market [Pakistan (2006)]. This is however the only reliable source of information on labour force in the country. The civilian labour force does not include the members of the armed forces.

3.2. Pension Coverage and Budget Priorities

Given that a large majority of the population is employed in the informal sector, it is important to assess the coverage of social assistance for older and poor persons. The budget allocations for pensions and social security are small and inadequate to meet the demand of increasing older and poor population. Consequently, those who are covered get inadequate amount for survival. It is estimated that only about 20 percent of elderly population is covered by the Pay and Pension Scheme, and that the coverage to 7.34 million elderly population (as reported in 1998) would cost about Rs 88 billion with 1000 rupees given as monthly benefits to each individual. Of course, many individuals may not need such assistance, yet the coverage of pension and social security schemes falls much short of the actual needs of this segment of the population. Although the government has many competing priorities, it is recognised that higher allocations are needed for the protection of old and other vulnerable groups. The welfare schemes need to be expanded to the informal sector which demands revamping of the current schemes and initiating new programmes. To further assess the budgetary requirements, it is imperative to review the existing pension and social security schemes in Pakistan.

4. PENSION AND SOCIAL SECURITY SYSTEM

The old age pension and social security schemes are the safety valves to protect vulnerable segments of the society against unforeseen circumstances. These measures provide a ray of hope to the elderly people who have limited economic options in their life. The aim of a well-designed pension and social security scheme is to protect individuals, households and communities from acute deprivation or inadvertent decline in incomes through formal and informal arrangements (public and private pension and social security programmes). These programmes usually cover three types of vulnerable groups - the retired, disabled and families of the deceased workers who died during employment. Social security and pension schemes are the right-based instruments with legal guarantees and are aimed at enabling people to better manage the social and economic risks, prevent them from sale of their assets in distress, provide them a system of income insurance to protect them through short-term stress and calamities, and take care of their long-term disability.

There is no universally accepted definition of social security, however different world bodies have developed their own definitions. The United Nation’s Declaration of Human Rights adopted in the December, 1948 states that: “Everyone has the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control” [Euzeby (1987)]. The International Labor Organisation (ILO) adopted various recommendations and conventions on social security which are approved by many countries. According to the ILO: “Social Security refers to the protection society provides to its members through a series of public measures against the economic and social distress. The social security cover be provided in case of sickness, maternity, employment injury, unemployment, invalidity, old age and death. The provision of medical care and subsidies for families with dependent children is also included in the social security coverage [ILO (1992)]".

In industrialised countries, the social security system is functioning successfully as states are executing their financial responsibilities effectively. The problems are more challenging in less developed countries which lack resources and an efficient mechanism to protect the vulnerable and old age population with coverage to a limited number of workers. In South Asian region, India and Pakistan are the only countries which cover all sorts of contingencies recognised by ILO convention. The percentage of workers covered under these schemes is relatively higher than other countries of the region, but still very low as compared to developed countries of the world (Table 3)

Table 3

Social Security Contingencies Covered and Types of Schemes in South Asia

Scheme	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Employment Injury	EL	EL/SI	EL	EL/SI	EL
Sickness	EL	EL/SI	EL	EL/SI	–
Maternity	EL	EL/SI	EL	EL/SI	EL
Medical Care	–	SI	–	SI	–
Old Age	–	NPF/SI	NPF	SI	NPF
Invalidity	–	NPF/SI	NPF	SI	NPF
Survivorship	–	NPF/SI	NPF	SI	NPF
Beneficiaries	–	7,500,000	300,000	1040,000	30,00,000

Source: Employees Old Age Benefit Institution, 1997-98.
Note: Dependants are entitled to medical care under the social insurance schemes.
(El = Employers Liability, SI = Social Insurance, NPF = National Provident Fund).

In Pakistan, social security and pension schemes sponsored by the government benefit a small proportion of the population in the formal sector, even though a number of programmes are in place. For workers employed in the informal sector, there are civil society organisations such as mosques, financial institutions, non governmental organisations, and private philanthropists which are involved in the distribution of social services besides government institutions. There is however no umbrella institution to coordinate the services provided by these institutions for better coverage and delivery. The social safety nets are heavily favourable to the workers in the urban formal sector whereas the majority of the population lives in rural areas and employed in the informal sector. A view of the pension and social security schemes operating in Pakistan is presented and discussed in the following section.

4.1. Pension and Social Security Schemes in Pakistan: A Review

Pension and social security in the formal sector is currently provided through social insurance programmes and other employer benefit schemes. The current schemes can be divided into two main categories: The first category consists of the “general” or “by default” schemes. These are the government schemes that employers are required to contribute to, unless they have been specially exempted by legislation. The Employees Old Age Benefts Institution (EOBI) is a federal body that provides age, disability and survivors pensions. The Employees Social Security Institutions are provincial bodies (ESSls) that provide health services and some cash benefits to retired and senior citizens. The EOBI covers approximately 1.3 million workers, while the ESSls cover only 850,000. The second category consists of schemes that are specific to particular sectors or enterprises and are specifically exempted from membership of the general schemes. The main category exempted consists of government workers, members of the armed forces, and some others.

The pension and social security coverage is limited to the formal sector whereas the informal or unorganised sector fall outside the purview of the statutory provisions usually administered through registered public and private enterprises. As mentioned before, the structural adjustment policies have reduced social budgets, privatised public sector units and downsised governments. These policies and programmes have in turn tended to reduce the number of individuals covered by the pension and social security schemes as incremental employment is generated in the informal sector.

The formal sector which consists of both the public and private sectors provides pension coverage to employees. Precise estimates of employment in public sector are not readily available, but some measures show that about 1.5 million workers are employed at the federal level who are covered under government provided pension schemes. The public sector employment includes 3,83,101 employees of the federal government and state-owned enterprises. The other enterprises include the Pakistan International Airlines (PIA) employing 18,946 workers, the Pakistan Railways employing little over 100,000 people, the Water and Power Development Authority (WAPDA) of about 40,000 persons, and Pakistan Steel Mill with around 35,000 employees. The Armed Forces of Pakistan, another big employer, provides direct employment to around 0.75 million people including officers and Jawans of Army, Navy and Air Force. Besides there are provincial and district government employees who are also covered under pension schemes. Although most of these workers are in lower grades they are largely covered under pension schemes (Table 4).

Table 4

Number of Employees Covered by the Pension Schemes

Organisation	Number of Employees			Total
	BPS 17-22	BPS 12-16	BPS 1-11	
Total Federal Divisions	2,027	2,261	6,886	11,174
Total Attached Departments	8,671	21,759	251,193	281,623
Total Autonomous Bodies	14,696	6,586	69,022	90,304
Grand Total	**25,394**	**30,606**	**327,101**	**383,101**

Source: EOBI

Further distribution of employees covered by pension schemes in different departments is given below.

Banking and Finance	BPS 16-22	BPS 1-15	Total
National Bank of Pakistan	7,805	7,833	15,638
Habib Bank Ltd.	11,390	10,729	22,119
United Bank Ltd.	6,495	8,140	14,635
National Investment Corporation of Pakistan	117	186	303
Energy			
KESC	1,004	11,474	12,478
Oil and Gas Development Corporation	1,421	8,242	9,663
Sui Northern Gas Pipeline Ltd.	583	6,404	6,987
Sui Southern Gas Company	1,347	3,998	5,345
Pakistan State Oil	859	1,843	2,702
National refinery Ltd.	361	697	1,058
Transport and Communication			
Pakistan Telecommunication Company Ltd.	4,221	52,542	56,763
Industry			
Pak-Saudi Fertilisers	525	480	1,005
Pak-Arab Fertilisers	629	456	1,085

The pension coverage to the private formal sector is provided by the Employees Old Age Benefits Institutions (EOBI) operating at the federal level and Employees Social Security Institutions (ESSI) at the provincial level. The coverage is, however, limited to only 2.15 million employees and their survivors. In recent years, the flexible labour market policies to attract foreign investment and promote business friendly environment has resulted in substantial growth of the informal sector. However, there is no such scheme for the employees in the informal sector and only Zakat and Bait-ul Mal provide some relief to vulnerable groups. The estimates show that the total pension and social security coverage in the country is limited to 6.621 million people in the country, including those who receive benefits through Zakat and Bait-ul Mal. Those who do not fall in any of these schemes are being taken care of by society and philanthropy which are major sources of safety nets in the country (Table 5).

Table 5

Number of Households Covered under Various Social Assistance Programmes

Programmes	Number of Households Covered
Employees Old Age Benefits Institution	1.30 million
Employees Social Security Institutions (Mostly covered by EOBI)	0.85 million
Zakat	1.70 million
Bait-ul-Mal Financial Assistance	0.02 million
Bait-ul-Mal Food Support Programme	1.25 million

Source: EOBI.

4.2. Formal Pension Schemes

Besides EOBI and provincial social security Institutions, a number of formal pension schemes are providing coverage to public servants, workers in statutory bodies, workers in industries and organisations (specifically excluded from EOBI coverage) and members of the armed forces. Of these groups, the public service (including the armed forces) has the greatest legal obligations to its workers. The Benevolent Fund that applies to the public service only provides benefits to survivor, too. The group insurance scheme, which covers the other workers, requires employers to pay a lump-sum gratuity on retirement. In practice, however, most also pay contribution to pensions related in some way to earnings. In addition to retirement benefits, permanent workers in the formal sector tend to receive a wide range of employment-related benefits which include:

(a) **Free or heavily subsidised medical care**. They are entitled to free treatment in public hospitals but as the standard of care is so low (or difficult to access without unofficial payments), many pay for treatment.

(b) **Subsidised housing.** This can involve subsidised rent or purchase of housing on very advantageous terms.

(c) **Subsidised education for children**, including the provision of schools for employees.

(d) **Employee shops** where staple goods can be bought at discount prices.

(e) **Reservation of jobs** for children.

It is observed that the schemes which apply to most federal employees and to provincial and district government employees are facing a severe financial viability problem. Federal and provincial governments are already paying Rs 47 billion a year in pensions. The Federal Government pays Rs 33 billion and the provinces Rs 14 billion. Military pensions account for Rs 24 million of the Federal Government pension bill. If unchecked, the growth in costs could lead to pension payments being the equivalent of two to three per cent of GDP within the next fifteen years [Pakistan (2007)]. The looming crisis in Federal Government pensions has also been the subject of much debate on how to manage this issue and make some alternative arrangements. A government actuary has been appointed and options are being considered. It seems inevitable that, notwithstanding the difficulties involved in scaling back benefits, change is likely to happen.

Major issues in implementing pension and social security schemes are related to mismanagement of funds and political pressures that result in unequal benefits accruing to those who are strictly entitled. Fraud and lack of transparency also appear to be a problem in the semi-autonomous agency schemes. Individually, they do not pose a big problem as the mainstream government schemes, but together the liability could be substantial. An excellent example in this regard is the ghost employees and pensioners in Railways and Education departments who were drawing benefits in billions of rupees with the connivance of internal staff. Railways was almost bankrupt and running a deficit in funds which demands the adoption of a strict policy and effective mechanism to collect benefits with valid identification of eligible beneficiaries.

Less attention has been paid to the benefits applying in the other non-EOBI organisations. It seems likely, however, that there are also substantial problems with unfunded pension liabilities. In the past, management of state-owned enterprises showed one of their principal roles as improving the welfare of its employees. However, with privatisation and the pressure to compete, it is expected that companies will be more stringent and scrutinised closely than in the past. On the other hand, the government concessions on taxation or above-market interest rates on government financial instruments are a cost to the budget and the revenue foregone which needs to be taken into account in calculating total welfare activities.

There are a number of concessions that apply to pensions, provident funds, superannuation funds, and some local concessions for older people or widows on local taxes or charges. People aged 65 or over whose income is less than Rs 200,000 (increased to Rs 300, 000 in the 2004-05) receive a rebate of 50 per cent on income tax. Recently, the Federal Government announced a 100 per cent exemption from local property tax for widows and retired government servants renting out property, and a 60 per cent exemption for others living in cantonments (Budget 2006-07). In 2006-07, the Federal Government estimated the cost of income tax expenditures on pensions, allowances, income from funds and National Savings Scheme interest to be in billions of rupees. The Government of Pakistan also has two savings products that give higher rates of return to widows and retired people. The Behbood Savings Account (for widows) and the Pensioners' Benefit Account (for retired government and semi-government officials and others aged 60+) provide interest of 10.8 percent on investments of up to Rs 2 million (increased in the *2004-05* budget) with a ten-year maturity. The interest payable under the basic National Savings Scheme that is more accessible to low income earners is still paying above market rate of interest at more than 8 percent, thereby raising the cost and the feasibility of the scheme.

4.3. Employees Old Age Benefits Institution (EOBI)

This scheme was launched in July 1976 to provide coverage to workers employed by industrial and commercial enterprises with ten or more employees, irrespective of their status. The maximum wage limit for payment of contribution and payment of benefits is Rs. 3000 per month. Under this scheme, the employees are entitled to benefits of old age pension, invalidity pension (for causes other than work injury or occupational disease, survivors pension, and old age grant (to those not entitled to pension).

The EOBI scheme operates on a partially funded basis. Half of the finances for the scheme come from the contribution of employers (5 percent of their payroll) and the other half comes from the government contribution by matching the contribution of employers. According to the existing rules, employers pay mandatory contributions of 5 percent of the first Rs 3,000 of employee's wages per month. The government has been contributing an equivalent matching grant until July 1995, but it withdrew thereafter. Old age pensions accrue at the rate of 2 percent of the final year wage (maximum of Rs 3,000 p.m.), subject to a minimum of Rs 630 per month (recently increased to Rs 700 per month). Survivor's pension (for spouses on death after retirement and on death in service after 36 months of coverage), invalidity pension, and old-age grants are also provided. Normally workers become eligible to draw pension after reaching the age of 60 years provided they complete 15 years as their covered service.

The EOBI has blended its schemes with Islamic teachings and included old parents and young widows in its benefit entitlement.[6] In EOBI rules, the parents of an unmarried employee get pension from EOBI for five years in case of employee's death. In case of widow, if any employee dies after 36 month of EOBIs insurable employment, then his widow gets survivor's pension for the entire life. The benefits to the children of the deceased employee continue even after remarriage of his widow under the consideration that the stepfather may not take financial responsibility of catering to the needs of these children. The data on registered beneficiaries of EOBI indicate rising numbers of old age employees. For example, the total number of employers registered with EOBI was only 5,447 in 1977 which increased to 43,560 in 2000. There were only 8,807 employees insured with EOBI in 1977 which crossed the 1.5 million mark

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[6] In teachings of Islam, old parents are the responsibility of their earning children.

in 2000 indicating an increase of almost 11 percent in the number of beneficiaries in just two years (Table 6). However, with an estimated 10 million wage employees in the country, the EOBI coverage is yet not adequate as it covers only a minor fraction of employees in Pakistan.

Table 6

Registered Employers, Insured Persons, and Beneficiaries under EOBI

Registration	Employers	Insured Persons	Beneficiaries
End 1999	42,632	1,46,5087	164,203
End 2000	43,560	1,572,014	181,547
Growth (%)	2.2	7.3	10.6

Source: EOBI.

The EOBI takes care of all the functions including collection of contribution, investment of funds in profitable schemes and the payment to pensioners. Besides income from employers' contribution and government's matching grant, EOBI invests its fund in profitable projects and generates additional income for the welfare of workers. It is estimated that the amount collected by EOBI is inadequate to meet the requirements of its beneficiaries and if the present contribution rate continues, it will be difficult to meet the cost of increasing pension expenditure. The estimates show that the Fund will start decreasing in next 20 years if present trends continue suggesting that the administrative and financial aspects of EOBI need to be evaluated to enhance its scope of beneficiaries.

Under the EOBI, the registered employers (establishment of 10 or more employees) up to March 2002 were around 43,000. The number of insured persons registered by end March 2002 was around 1.5 million and it covers all employees in registered establishment employing 10 or above workers with eligible wages to a maximum of Rs. 3,000 per month. In 2001-02 (up to March 2002) about 202,707 persons benefited from the scheme. Since 2001, the rate of minimum pension has been revised from Rs 425 per month to Rs 630 per month or 48 percent. In the first nine months of 2001-02, an amount of Rs 948 million was disbursed on account of payment of pension to the registered employers (Table 7).

The average monthly pension paid under EOBI is quite low—which increased from Rs 888 to about Rs 1000 per month in 2006-07. There is no provision for indexation of the payment with the rising cost of living and if the pension were to be reduced further in real terms, it would be questionable whether it is worth continuing with the scheme. A particular difficulty for pensioners is that, because of the eligibility rules for Provincial Employees Social Security Institutions, they lose entitlement to health insurance as soon as they retire from work, at the age when they need it the most.

Table 7

EOBI Beneficiaries during 2001-02

	Disbursement of Pension (Million (Rs))	Disbursement of Pension (Percentage Share)	Number of Beneficiaries (Numbers)
Old-age Pension	747	78.80	1,41,330
Survivors Pension	187	19.6	52,782
Invalidity Pension	8	0.9	4,825
Old Age Grant	6	0.7	3,776
Total	**948**	**100.0**	**2,02,707**

Source: EOBI.

The EOBI is currently facing financial constraint and management problems given that the benefit payments and administrative expenses would exceed contribution income plus investment income in the year 2024 and afterwards, and the fund would be completely exhausted by 2035. A number of factors are contributing to this situation. The proportion of pensioners in relation to contributors is increasing markedly and the value of pension has increased markedly. For example, in 10 years from 1993 to 2003, contribution collections increased by 300 percent and pensions increased by 572 percent. To maintain financial health of pension funds without government subsidy, the Actuary has estimated that EOBI would need to earn a return on the fund of seven per cent above inflation.

In addition to collecting and paying pensions, the EOBI manages the pension fund. The fund currently stands at Rs 80 billion. The EOBI is currently in the middle of an administrative reform process. Recent returns on investment have been extraordinarily high—42 percent, which owes primarily to realisation of capital gains. The system has been computerised to improve controls and accountability and manage its real operating costs. The ratio of administrative expenses to contribution income alone was 22 percent in 2002-03 and 17 percent in 2003-04, implying for the need to improve administrative efficiency of this institution. However, considerable progress has been made in recovering arrears from enterprises and increasing collection rates in recent years.

At present, participating registered companies with the EOBI are offered a "self assessment" package under which they pay Rs 150 per month and deduct Rs 20 per month for each worker that they nominate. It is generally understood that companies operating in this way will not be subject to any check on the real number of workers in the enterprise. It is speculated that approximately 1,056 companies are working under self-assessment. The current situation demands delegation of more powers to EOBI to check the non-compliance of companies. The first step should be to change legislation to give the EOBI and social security institutions greater powers to investigate companies operating completely outside the system, to compel them to participate and penalise their non-participation. Companies operating completely outside the system should be the target for enforcement and implementation of policy. Employers have expressed concern about the number of different inspections to which they are subject (for a range of other activities as well as pensions). It is therefore imperative to improve the profiling of organisations so that the need for inspections is minimised.

Effective enforcement and compliance of rules are required to improve the effectiveness of pension funds. One possible option would be to raise contribution levels after taking into account the costs to the enterprise. The real contribution rates are much less than the nominal ones because they apply only to salary and not allowances, and there is very low ceiling on wage contributions. For psychological reasons, a workable policy option may be to apply the rate to all income but at a reduced rate.

4.4. Employees Social Security Institutions (ESSI)

This scheme was introduced in March 1967 and reorganised on a provincial basis in Sindh, Punjab and NWFP in July 1970. A Provincial Employees Social Security Institution (PESSI) was established headed by a Commissioner with a Board of Trustees including the representatives of employers, workers, and Government. The contingencies covered under the scheme included sickness, maternity, work injury, invalidity and death benefits (full wages with leave for a specified period). The PESSI was applied to industrial and commercial establishments employing 10 or more employees. The coverage was provided to the employees of these establishments drawing monthly wages up to Rs 3,000.

In the beginning, the scheme was financed through monthly contribution of employers and employees. The employee was paying 2 percent of his wage while the employer was contributing 4 percent of the employee’s wage. Sweeping changes were introduced in 1972 under the Bhutto government where not only the employer was made responsible for the whole contribution but the rate of contribution was also raised to 7 percent of the wage of an employee. The provision of services and benefits are accruable without litigation to the dependents of secured workers including medical care.[7]

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[7]For providing medical care to the secured workers, the provincial social security institutions have a network of hospitals, dispensaries, treatment centers, qualified doctors, para-medical staff, ambulances etc. The workers and their dependants are entitled to medical care from the first day of the employment. The dependants include wife or wives of needy invalid husband, dependant parent and any unmarried children up to 21 years. A secured worker for sickness benefits has to produce a certificate from employer that he has been working for 90 days. In case of death a secured worker should be receiving injury benefits, sickness benefits or medical care for death grant. A secured woman, in case of, maternity is entitled if contribution in respect of her, were payable not less than 180 days for cash benefits.

The information on number of covered workers under Pakistan Social Security System (PSSS) in different provinces is scanty which limits the possibility of drawing a comprehensive picture of beneficiaries. The available data show that the scheme covers about a million workers in the whole country employed in 41,498 establishments (Table 8). The available information on medical facilities and health services show that the expenditure covered per employee on health services is a paltry sum as compared to the disproportionately huge per capita sums on the administrative expenditures. This clearly shows that the institutions of Social Security are benefiting persons other than those for whom these institutions were established.

The main source of income of the ESSIs is a contribution paid by employers of 7 percent of the wages of paid workers who earn up to Rs 5000 per month. In Balochistan, it applies to enterprises with 5 workers or more and elsewhere, 10 workers or more. Apart from the different number of worker thresholds, the coverage of ESSIs is similar to EOBI in that they exclude government workers, the armed forces and other nominated excluded industries.

There are two potential problems the way PESSIs are structured. The first is that it is both the purchaser and the provider of services. This makes it difficult to perform either function effectively. The second structural difficulty with the current arrangements is that the benefits are entitlement based, meaning that whoever applies should be paid. However, the budget is fixed and most of it is taken up by health care. The benefits are very generous but the numbers receiving, with the exception of sickness benefits, do not seem to be large. This may indicate a certain amount of rationing of benefits, regardless of numbers who might be eligible. The numbers of beneficiaries, with the exception of sickness benefit are quite low.

The ESSIs also face problems of enforcing coverage. Many employers give the ESSIs number of workers and the appropriate payment for this number, but are refusing to provide lists of workers covered. Employers complain that providing lists is very erroneous because of continued staff turnover, but there is certainly an element of evasion. This means, in the current enforcement climate an enterprise can, for example, pay for 40 workers when it should register 60 but get full cover for all or most of them.

4.5. Compulsory Group Insurance Scheme, 1968

This scheme is mandatory for employers of the industrial and commercial establishments to insure all permanent employees against natural death, disability and injury arising out of contingencies not covered by the Workman Compensation Act, 1923, or the Employees Social Security Ordinance, 1965. The scheme does not cover non-permanent and permanent employees of establishment with less than 20 workers. In the changing employment environment, companies avoid hiring workers on permanent basis, therefore a

Table 8

Workers Covered under PESSI and SESSI and the Cash Flow Position

	PESSI		SESSI					
Registered Establishment (Nos.)	27,667		13,400					
Workers Covered	5,17,766		1,94,400					
Dependant Covered	31,06,596		9,72,000					
	PESSI		SESSI		NWFP ESSI		BESSI	
	Million Rs	%	Million Rs	%	Million Rs	%	Million Rs	%
INCOME								
Social Security Contribution	922.3	78.3	400.4	89.5	59.1	91.6	23.6	91.8
Profit from Investment	251.3	21.4	40.1	9.0	4.7	7.3	2.1	8.2
Others	3.6	0.3	6.8	1.5	0.7	0.1	–	–
Total	**1177.2**	**100.0**	**447.3**	**100.0**	**64.5**	**100.0**	**25.7**	**100.0**
EXPENDITURE								
Mecial Care	645.3	57.0	315.0	71.9	30.4	68.5	27.7	93.6
Cash Benefit to Workers	78.2	7.0	27.0	6.1	2.4	5.4	0.4	1.4
Advances to Employees	125.0	17.0	83.0	19.0	6.1	13.7	1.5	5.0
Misc. includ. Admn. Exp.	277.5	25.0	13.0	3.0	5.5	12.4	–	–
Total	**1127.0**	**100.0**	**438.0**	**100.0**	**44.4**	**100.0**	**29.6**	**100.0**

Source: PESSI (Punjab), SESSI (Sindh,) NESSI (NWFP) and BESSI (Balochistan) Employees Social Security Institutions.

– Not available or negligible.

vast majority is working as non-permanent employees and most of the establishments employ less than 20 workers. Due to the heavy cost of insurance premium set by insurance companies, many employers do not insure their workers to avoid this cost. Therefore the scheme does not cover a vast majority of workers.

4.6. The Future of Social Insurance

Under current legislation, the privatisation process will represent a shift to a more unified pension system, under the aegis of EOBI (as once privatised, they automatically fall under EOBI legislation) and to some extent provincial social security. Government's immediate concern is to ensure that the process does not bankrupt EOBI. In the long run, however, it could hurt it badly because its pension liabilities will increase even more—particularly if it is to be held responsible for the level of pension promised under the previous regime and the privatisation process is conducted in such a way as to free purchasers from future pension liabilities.

As previously discussed, it would be useful for the government to articulate clearly its position on social insurance and employee benefits. The current position is somewhat non-transparent with considerable restraints on full enforcement.

In principle, it is not particularly desirable for the government to put more funds into subsidising pensions in the formal sector—particularly when such a small proportion of the population gets the benefit. The second linkage that the government should explore concerns the mix of benefits. As health expenses are a major concern, it is likely that people would be willing to trade off unaffordable pension benefits for access to good quality health care and good health insurance.

4.7. Extension to the Informal Sector

A further major strategic issue is how to extend benefits to the informal sector. This is not only an issue about how much money would be available but also about mechanisms to accrue benefits to all categories of employees.

It is important to be clear about what is meant by the "informal sector" as this term is often used in a number of different ways. The first common definition refers to people evading taxes or social security contributions, which could occur in any type of enterprise. The other meaning of "informal sector" as defined by the labour force survey, refers to all people working in a small way on their own or in enterprises with less than 10 people or engaged in agriculture. Under this definition, the informal sector contributes about 70 per cent of total employment indicating 31.5 million out of 43.2 million employed workers (Table 9), and a substantial number of employees work for themselves (self-employed) and are not permanent employees (Table 10).

Table 9

The Number of Informal Sector Workers in Different Occupations

Category of Workers	Number (Millions)
All Workers	43.2
Agricultural Workers	16.7
Non-agricultural Workers	26.5
Non-agricultural Formal Sector Workers	11.7
Non-agricultural Sector Informal Sector Workers	14.8
Total Informal Sector Workers	**31.5**

Source: Pakistan Labour Force Survey 2001-02.

Table 10

Number and Percentage Distribution of Workers by Employment Status

Employment Status	Number (000s)	Percent
Regular Paid Employee	5018	18.1
Casual Paid Employee	2524	9.1
Paid Worker by Piece Rate	2172	7.8
Paid Non-family Apprentice	155	0.6
Employer	217	0.8
Self Employed Non-agriculture	4789	17.3
Self Employed Worker	1140	4.1
Self Employed Cultivator	3981	14.3
Sharecropper	1406	5.1
Contract Cultivator	361	1.3
Unpaid Family Worker Agriculture	4779	17.2
Unpaid Family Worker Non-agric	1160	4.2
Others	40	0.1
Total	**27,743**	**100.00**

Source: Pakistan Labour Force Survey 2001-02.

While considering the option of expanding the coverage of social security schemes, three sectors need to be taken into account:

(a) All permanent employees in the formal sector.
(b) Casual employees in the formal sector.
(c) The informal sector.

(a) Extending coverage among permanent formal sector workers can be done by better compliance and enforcement of rules, and picking up people currently not covered. Another option would be to change the eligibility criteria to enhance contributions on behalf of higher paid workers who are currently excluded. There has been no census of people receiving formal sector pensions or other benefits. The estimates of numbers working in different covered organisations shows that approximately 70 percent of permanent wage earners are currently covered. Perhaps another 10 or 15 percent would not be covered by current schemes because their salaries are too high, indicating little scope to improve enforcement coverage to permanent workers.

(b) Extension of coverage to casual workers in the formal sector is also essentially an enforcement problem. Under both EOBI and Social Security Scheme, contributions are required on behalf of casual workers. This is fairly difficult to enforce because the link between the employer and the sub-contracted worker is often hard to establish.

(c) The third aspect of expansion is to move into the agricultural sector and to people not currently required to contribute to pensions or social security. This could mean including larger enterprises in agriculture that share all or most of the characteristics of formal non-agricultural sector enterprises or to small enterprises. It could mean extension to all in the community regardless of who they work for.

5. INFORMAL SCHEMES OF SOCIAL ASSISTANCE

Government-funded social protection schemes in the informal sector refer to programmes that transfer money or goods to individuals that are not linked to contributions. They are usually, but not always, targeted at the poorest and needy. The main organisations providing social assistance are Zakat and Bait-ul-Mal which perform a wide range of programmes and the functions related to social protection.

5.1. Zakat

Zakat is a state-based option for Muslims to meet their charitable obligations through a deduction once a year at the rate of 2.5 per cent on the value of certain financial assets. It applies only to Sunni Muslims and others can choose not to be included in the scheme and pay their zakat privately. Additionally, Ushr is a tax levied on agricultural produce for the same purpose but the system in practice is moribund and very small amounts are collected. The discussion, therefore focuses mainly on zakat in the following section.

5.2. Types of Assistance under Zakat System

Approximately 400,000 people are involved in the administration of zakat with a Central Zakat Council functioning at Federal level as well as Provincial and District Councils at lowers levels. The Central Zakat Council decides the proportion of zakat funds to be spent on different categories. The main types of assistance for individuals are as follows.

(a) ***Guzara*** **Allowance.** This is an allowance of Rs 500 per month to persons identified by the local zakat committee as being the most needy in the locality. The allowance is supposed to be paid for six months and if a person is found to be no longer eligible, another needy person can be nominated to take their place.

(b) **Educational Stipends.** These are paid to poor students in mainstream schools, colleges, polytechnics and universities to help them pursue their education including *Deeni Madaris* (religious schools). Institutions that provide boarding for poor students get allowances for food, accommodation and clothing. *Deeni Madaris* that are "branded as promoting extremism, sectarian violence or militancy" are not eligible for assistance.

(c) **Health Care.** The local Zakat Committee Chairman decides who gets assistance for medical treatment and illness. Major tehsil and district level institutions receive a yearly allocation from the District Zakat Fund to be distributed among the deserved.

(d) **Social Welfare and Marriage Assistance.** This consists mainly of grants to social welfare institutions, largely those run by provincial welfare and labour departments to pay the fees of *Mustahiq* getting vocational training. Additionally, poor and deserving families are provided funds for the dowry on the occasion of their daughter's marriage The Central Zakat committee also specifies the percentage of the total that must be spent on each category which are:

- *Guzara* Allowance (60 percent)
- Educational Stipends (18 percent)
- Stipends for Students of *Deeni Madaris* (8 percent)
- Health Care (6 percent)
- Social Welfare (4 percent)
- Marriage Assistance (4 percent)

Approximately 1.7 million individuals received zakat assistance in 2002-03 with a total budget of Rs. 9845 million. The number of recipients of assistance in the year 2002-03 is shown in Table 11 below.

Table 11

Zakat Assistance by Gender, 2002-03

(000s)

Benefit	Males	Females	Total
Guzara Allowance	487	392	859
Education Stipends	368	185	553
Deeni Madaris	35	0.5	35
Health Care	91	53	144
Social Welfare	28	8	36
Marriage Assistance	–	18	18
Rehabilitation Grant		93	20
Total	**1028**	**681**	**1709**

Given the problems faced by widows and the fact that women live longer than men and are more likely to be isolated in old age, there is a need to increase the proportion of assistance for deserving women. However, it is not possible to ascertain the situation without more information on the situation of the recipients.

The gender disparity in assistance for medical care is a serious concern. It seems hard to believe that women's need is almost half that of men. This pattern may well not be a result of Zakat procedures. It may be that serious female health problems are not regarded as important as men's and women may not reveal their serious health problems; or that if money is to be spent, families prefer to spend money on men's health to maintain the male breadwinner's ability to work.

Figures in Table 11 reveal that only a limited number of poor, needy and old persons are benefited by Zakat money and its distribution. There are three main issues that need to be addressed regarding the utilisation of Zakat funds for the elderly and the poor.

The first is the credibility of the system. There is a widespread perception that corruption and favouritism are endemic in the distribution of funds and that the benefits are not being targeted at the poorest.

The second major concern is related to the funding and scope of the system. Current levels of Zakat funding are cumulated only because of the build-up of fund reserves in previous years. In future, the real value of funding is likely to decline and the reserves will be exhausted. This means that the government must either look at alternative sources of funding or greatly reduce assistance or both.

The third main issue is the adequacy of payments. The rate of individual financial assistance is Rs 500 a month, which is well below the poverty line and not adjusted for the family size. The adequacy of support can be further damaged by administrative problems resulting in late release of funds.

In an average locality of 10,000 people, ten households can get individual financial assistance. The current coverage is far less than the eligible population but it is hard to define the exactness of eligible population for Zakat. Estimates of the number of "destitute" or extremely poor range from about two million to about eight million.

Corruption certainly exists in the distribution of Zakat funds which needs attention. The temptations for corruption would be highest in the area of Zakat support for medical costs because the benefits can be quite large. However, these are decided by a committee on which the Zakat Chairman is only one member. However, other members who have a high status often influence the decision of Zakat disbursements in their own right.

5.3. Some Strategic Suggestions

Given the difficulty and effort required to improve functioning of Zakat distribution system to the deserving beneficiaries, it seems viable either to end the scheme or create a new scheme with employees directly under government control. It may be possible to link Zakat more with the devolved set up of administration and de-link it from local politics. In any realignment of social assistance with local government, it is important that this should not mean putting decisions about social assistance recipients under the control of local elected officials. There is basically very little hope of effective distribution if the process becomes even more politicised than it is now. To suggest a new phase of Zakat strategy, the options would include:

(a) Strengthen the local decision making and monitoring system.
(b) Have a better assessment of the size of the eligible population.
(c) Improve funding resources and its distribution mechanisms.

If Zakat is withdrawn from other functions, particularly educational support and assistance for medical costs, and concentrate solely on '*Guzara* allowance', this would allow a three times increase in spending on this aspect. At existing rates of payment, this would allow it to cover a significant proportion of the "destitute" target group.

5.4. Bait-ul-Mal

Pakistan Bait-ul-Mal is a semi-autonomous organisation within the Ministry of Women Development, Welfare and Special Education with a mandate to provide social assistance to the deserving poor and needy people including the elderly. It took over the functions of the previous National Zakat Foundation (not to be confused with the still-continuing Zakat programme discussed earlier).

Unlike Zakat, Bait-ul-Mal benefits are open to all regardless of creed and the funds are entirely controlled by public servants. It has offices at provincial and district levels that are closely linked to, but not part of provincial administrations. The staff consists of the district manager, a social mobiliser and support staff. The Pakistan Bait-ul-Mal is headed by a Managing Director who reports to Board of Management about its progress. At provincial and district levels, there are Steering Committees to manage funds under different programmes described below.

(a) Food Support Programme

The largest programme under Bait-ul-Mal is the Food Support Programme for the poor that provides Rs 2400 a year in two six-monthly installments. The programme guidelines requires that assistance be provided to "needy individuals having no support or source of income in following order of priority:

(a) Individual with major ailments/ disability;

(b) Widow with dependent children;
(c) Invalid with dependent children;
(d) Infirm (senior citizens above);
(e) Poorest of the poor to be reviewed periodically for rehabilitation; and
(f) Orphans, destitute and victims of unpredictable circumstances.

Meeting these criteria does not guarantee receiving the benefit as each district has a quota of recipients that it cannot exceed. Government employees and their family members and beneficiaries of other social welfare agencies are not eligible. The aim of the Food Support Programme is to compensate the poorest families for a reduction in the wheat subsidy. The current payment is made to 1.25 households or approximately 8.5 million people (average household size is 6.8 people). The number of recipients, expenditure and level of assistance provided under the Food Support Program in 2001-02 and 2002-03 is shown in Table 12 below.

Table 12

Number of Beneficiaries and Expenditure of Food Support Programme in Pakistan, by Province

Area	Beneficiaries (000s)		Expenditure (Rs millions)	
	2001-02	2002-03	2001-02	2002-03
Punjab	545	564	1090	1127
Sindh	239	233	479	466
NWFP/FATA	228	215	456	430
Balochistan	45	45	91	90
ICT/NA/AJK	58	61	116	121
Total	**1116**	**1117**	**2231**	**2235**

(b) NGO Funding

Bait-ul-Mal also provides Rs 43 million for 78 NGO projects to support institutions for disabled, orphans, abandoned and destitute women and other poor needing care as well as assistance for health (eye care) of aged persons, particularly from rural areas.

The funding is based on cost-sharing—Bait-ul-Mal provides 75 percent in rural areas and 50 percent in urban areas. Approximately, 70 per cent of the expenditure goes to health facilities. Overall, Pakistan Bait-ul-Mal estimates show that it covers almost two million households by its activities. Its expenditure for the year 2003 in different programmes is shown in Table 13.

Table 13

Annual Expenditure of Social Assistance under the Bait-ul-Mal Scheme: 2003-04

Programme/Activity	Expenditure (Rs Mil)	Beneficiaries
Food Support Programme	2803.72	1,250,000
Individual Financial Assistance	222.01	21,230
Vocational Training	9.75	2,446
Tawana Pakistan	541.77	246,649
Assistance to those affected by natural calamities	7.5	1,500
NGOs	43.09	456,968
NCRCL	78.43	9,060
Larkana Housing Scheme	29.98	100
Total	**3736.25**	**1,987.953**

There is an overlap between Bait-ul-Mal and Zakat in the area of assistance to individuals. There seems to be no good reason for continuing the two agencies providing the same type of assistance to the same target group. It would seem better to divide the responsibilities more clearly so that Bait-ul-Mal would deal with minorities or specific target groups only and this option needs to be seriously considered.

The rules of both Zakat and Bait-ul-Mal require that a person assisted by one cannot get assistance from the other. To prevent this, there is cross-membership on district committees and checking is required prior to grant of a benefit. It is not clear how consistently this crosschecking is performed. Local discussions point toward very little contact and coordination between Zakat and Bait-ul-Mal in some areas. Bait-ul-Mal is currently developing a database, which hopefully will facilitate crosschecking of recipients. The more difficult issues relate to clerical procedures, such as the need for standard formats for names and addresses; deciding which system has priority if matching reveals different data; and ensure the accurate and timely information on the number and types of beneficiaries.

One major problem of its programmes and projects launched is their non-sustainability. To deal with the issue, it has developed an endowment fund for projects started recently in order to guarantee their sustainability. However, it may be difficult to deal with large budget items such as Tawana Pakistan and other poverty reduction related projects requiring a long time frame. Based on the review of the existing pension and social security schemes, some policy options are presented and discussed below.

6. PENSION AND SOCIAL SECURITY REFORM: SOME POLICY OPTIONS

An examination of public pension and social protection schemes in Pakistan has revealed that a large section of population is not provided pension or old-age benefits. All government employees and their dependents are entitled to life pension, widow pension and commutation of a portion of pension and free medical care. The Employees Old-age Benefit Institution (EOBI) is funded by an employer contribution of 5 percent of wages and a limited federal contribution and provides monetary benefits to its insured persons in their old-age in the event of their becoming disabled/invalid owing to injuries/diseases. Survivor pension is also provided in the event of the death of an insured persons to the widow/widower for life.

The old-age pension is a particularly important source of income to the elderly and the households in which they live. Without pensions many households and communities would face stringent financial hardships and may collapse. Social security transfers provide much more than a safety net in the narrowest sense of the word, but they are generally not a reliable source of income.

The Old-age Benefits Institution (EOBI) is regulated and administered at federal level, whereas medical care is a provincial subject and is provided by the "Employee' Social Security Institution" of each province under each legislation. Invalidity pension is being paid by both of these institutions and benefits can not accrue from both the institutions simultaneously. Hence, there is a need to have a clear policy on the system of social security and old age pension programme that aims to bring more people under these schemes. In this context, the modalities of a comprehensive pension and social security system become a critical welfare policy issue. Some of the issues of coverage and adequacy, management and monitoring of resources that affect the efficiency of the pension plans and social security system are discussed below with suggestions and policy options to improve the situation.

(i) With the passage of time, the burden of pension liabilities both compulsory, state-run and company-run, has widened due to upward adjustments in retirement benefits and longevity of life. A viable option to deal with the issue is to reform the entire system by switching over to defined contribution retirement plans, which are run either by EOBI or by insurance companies or specialised private retirement pension management companies, subject to government regulation. To support this, the Poverty Reduction Strategy Papers (PRSP) proposes to expand the coverage of pension schemes to a larger population by extending it to subgroups including domestic servants and rural workers and increasing the eligible wage limit. In this connection, the PRSP is mandated to support institutional reforms and social assistance schemes by strengthening legal framework, organisational structure and financial position of these institutions to have a universal coverage and privately managed system that should have defined contribution and should be financed on an advanced funded basis.

(ii) The EOBI institution can play a pivotal role in extending the coverage to more people. In this regard, it is noted that procedures for monitoring of payments, filing of returns and assessment, and resolution of disputes are cumbersome. There are numerous complaints from employers and employees against harassment at the hands of the EOBI staff. Records are alleged to be poorly maintained and there is a lot of evasion and manipulation. To resolve this, it becomes imperative to have supervisory and regulatory mechanisms in place.

(iii) As noted earlier, pensions are not indexed and erode quickly due to inflation. The government has at times attempted to partially relieve this hardship by raising the minimum pension. But this relief has not been enough and even the minimum pensions have lost one thirds of their value in last 15 years. The erosion produces un-predictable effect on pensioners, creates inequities between different age cohorts, and diminishes the effectiveness of the plan. To further strengthen these benefits, the National Saving Schemes should start a programme where special interest should be paid to the elderly (60+) who have no other source than the pension. This will raise the income level of elderly and will provide them some comfort. Recently, some new schemes such as 'Pensioners Benefit Account' have been introduced for pensioners and widows to protect them from reduced returns from other sources and such schemes need to be expanded.

(iv) As discussed earlier, pensions, programmes of social assistance and all the related welfare measures undertaken by various institutions under the Ministry of Labour do not cover workers from the agriculture sector, the informal economy and those in the formal sector employed temporarily through contractors. Given the rising employment in the informal sector in Pakistan, the coverage of social security schemes have further declined from 3-4 percent of the total employed labour force in 1991 to an estimated 2 percent in 2000-01. The most important step, therefore is to bring unorganised/informal sector under the social security or pensions net. The funding requirements are high but these programmes can partially be financed through zakat funds and partially by allocation from the government. The existing EOBI institution can be strengthened for this purpose and disbursement can be done with the help of district governments which are now in place under the devolution plan.

(v) The magnitude of private transfers through Zakat and philanthropy are one major source of help presumed to be made to the poor, widowed and elderly persons in need of financial assistance. The Zakat scheme introduced during the 1970s has only limited coverage. It benefited only 2 million people during the year 2001, in contrast to over 40 million poor. There is ample room for improving the efficiency of the scheme through forming Monitoring Teams at district level, and improving governance to disburse funds to the eligible persons in need of assistance.

(vi) The government is aware of the problems associated with the efficiency and cost-effectiveness of pension and social welfare schemes. In the current financial year, the government is likely to introduce private pension schemes as part of the overall pay and pension reforms through offering tax incentives to individuals for joining the system and improving coverage and adequacy of these schemes. It is realised that the huge magnitude of civil and military pensions is gradually becoming fiscally burdensome and unsustainable. Some studies indicate that pension costs would increase 7-9 times during the next 10-15 years. In order to combat this problem, the decision makers may consider at least two policy measures. Firstly, to increase funding from the asset returns that the government accumulates in the future. Secondly, to increase the labour force participation of the elderly as it may have favourable effects on output and large tax base. However, both policy options involve serious challenges when it comes to implementation given the problems of government deficits, financial constraints, and situation of high unemployment in Pakistan. Hence, the recent policy proposed to introduce and expand private pension schemes are timely and needful which would allow an individual to invest 20 percent of the income in such schemes and would get a tax write-off on the amounts contributed as well as on the employer's contribution.

(vii) National Pension Plan is a far cry at this stage to extend pension coverage to all. It is however possible to move step by step to that direction by first targeting those uncovered elderly who are destitute, the poorest of the poor, and who have no access to family support or the ability to work. A pension scheme providing cash benefit is the most efficient approach. The extension of coverage to the informal sector can be initiated with the government funding and support as pension schemes in private sector provide little or no incentive for people to contribute to pension plans.

(viii) While government has many programmes that create work, there are no programmes targeted specifically at the elderly who are also poor. Special employment opportunities may be their only hope, particularly for those living in rural areas. However, government should consider spending a higher proportion of expenditures on cash benefits for those who because of family situation, disability or frailty would be unable to participate in income-generating activities. Providing cash requires much less administration than other approaches and it can have multiplier effects in very poor communities because of increased purchasing power. At present, social assistance seems to be one of the less favored approaches for dealing with poverty, particularly for those who cannot enter the workforce because of age, disability or caring responsibilities. Even in Zakat, there is an increased emphasis on “rehabilitation” rather than helping people to start small stalls, etc. It may however, be noted that government needs to increase funding for cash benefits for the destitute in future years when the reserves in the Zakat fund have been exhausted or are scarce.

(ix) Government should aim to develop a new consensus between employers, government and workers on pension insurance. Aspects of the current system that are seen as an unnecessary burden on the private sector or not viable should be changed. There seems to be little doubt that there is need to reform the current pension and broader social insurance systems that operate in the formal economy. To some extent, government is acknowledging employer’s concern about the impact of these costs on their competitiveness by a low-key approach to enforcement. It is important that this issue be handled in as transparent a way as possible. Donors are currently doing a great deal of work on the financial viability of different schemes and fiscal concerns need to be balanced with social issues.

(x) Research on the current burden of social insurance on employers would be very useful. There is a need to build up policy and research capacity on social protection issues. This may be best achieved by developing centers of excellence in social protection research and analysis at PIDE. Supporting effective policy development at higher levels of government involves a number of activities. People need to have a clear understanding of the parameters and the analytical framework behind social protection concepts. They need to be able to produce guidelines that are easy to master and actually help people do their job—rather than listing of regulations. Senior public servants in Pakistan rarely stay much more than one year in a particular job which effects effective implementation of schemes and makes it hard to obtain expertise in any particular areas. Academics can also play an important role in developing policy and understanding of issues that cover more than one Ministry. Donors can fund surveys and research, training of staff, provision of library and research material and assistance with the development of teaching curricula. It is suggested that all national plans involving pension or social assistance schemes should identify the extent to which they have been implemented, the reasons for non-implementation, and steps that could be taken to make the policies credible that have specific and agreed timelines for each item

(xi) As there is a huge amount of private giving in Pakistan and a general obligation to donate for the less fortunate, the government should encourage at both national and local levels the development of NGOs that specialise in safety net assistance, including feeding programmes and cash benefits. The aim should be to develop organisations that have broad public trust and support and will be able to distribute donations to the poor on behalf of private individuals. There will be gains to welfare if there are effective and trusted NGOs to help channel individual charity towards the poorest.

(xii) Extending pensions to the informal sector does not seem viable in the short and medium-term. The government should, as far as possible, allow people themselves to decide and should aim to cost-share rather than completely fund any programme. The first step should be to address market failures that prevent insurance products reaching people who want them and would pay for them. After understanding the nature of demand and the nature of the issues, funding should be generated to make coverage affordable and extendable.

In all, it appears that the fundamental issue of pension and social security schemes in Pakistan is the inadequacy of the retirement benefits including their coverage and costs in the formal sector and its limited outreach to the informal sector, especially in the rural and poor households. The recently adopted reforms to improve the coverage and adequacy of pension and social welfare schemes are generally phased in slowly that would leave current pensioners and beneficiaries largely unaffected. However, the foregoing analysis clearly suggests that to improve the impact of pension and social security schemes in Pakistan, the efficient deployment of resources has to be guaranteed and the governance structure ranging from resource allocation to implementation has to be improved. The ongoing reforms are a step in the right direction but they are far from adequate to show a notable impact on the welfare of the majority of the eligible subgroups of the elderly and economically disadvantaged population.

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