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Poverty Group, Country Operations Policy Unit

Pakistan Poverty Assessment Update

Background Paper No. 4

**Conceptualizing a Social Protection
Framework for Pakistan**

**Faisal Bari, Emma Hooper, Shahid Kardar, Shanza N.
Khan, Irfan Mohammad, and Asad Sayeed**

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Asian Development Bank
Pakistan Resident Mission
OPF Building, Shahrah-e-Jumhuriyat
G-5/2, Islamabad, PO Box 1863
Pakistan
Tel (92-51) 282-5011-16
Fax (92-51) 282-3324, 227-4718
adbprm@adb.org

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Foreword

The Asian Development Bank (ADB) and Pakistan have been development partners for almost 38 years. ADB's Poverty Reduction Strategy, approved in November 1999, articulates poverty reduction as its overarching goal. ADB is committed to supporting poverty reduction efforts in member developing countries, and has supported poverty reduction efforts in Pakistan through enhanced levels of assistance and targeted investment projects with the objective of reducing poverty and generating employment—over the last 3 years, assistance has averaged about \$907 million a year. This high level of assistance focuses specifically on supporting poverty reduction through interventions in the areas of good governance, sustained pro-poor growth, and inclusive social development.

ADB also has an active research agenda on poverty and economic and social development issues. As part of this agenda, work on a comprehensive poverty analysis for Pakistan was initiated in 2000, and a report titled *Poverty in Pakistan: Issues, Causes, and Institutional Responses* was subsequently released in 2002. The report provides a detailed poverty profile for the country, and analyzes the main causes of poverty, along with institutional responses to poverty reduction.

This poverty analysis is now being updated in the form of ADB's Pakistan Poverty Assessment Update. A series of draft background papers have been prepared on cross-cutting poverty issues. Given the importance of the topic, ADB's Pakistan Resident Mission (PRM) feels that it would be useful to circulate these papers among a wide audience to solicit feedback that may help widen the analytical perspectives presented. We hope that the Background Papers Series will not only contribute to the debate on these key issues in Pakistan but prove useful to scholars, development practitioners, and policy analysts interested in poverty reduction issues.

Dr. Naved Hamid
Deputy Country Director
ADB Pakistan Resident Mission

Preface

Under ADB's Country Strategy and Program for 2002–06, poverty reduction has been the overall objective of ADB's development assistance to Pakistan. A new Country Strategy and Program will be prepared to cover the period 2007–11. As input to this, the preparation of ADB's Pakistan Poverty Assessment Update started in 2005. Part of this preparation process has been the commissioning (both in-house and from external consultants) of a number of background papers on specific topics for in-depth examination. In particular, cross-cutting themes such as poverty definitions, income and non-income poverty, gender and poverty, and issues such as the protection of the chronically poor, food security, and the social sector, have been the subject of research by the Poverty Group of the Country Operations Policy Unit at ADB.

This Background Paper Series aims to share the draft papers with a select audience of interested interlocutors, with the objective of supporting the debate on poverty reduction and economic growth. Comments and inputs received on these draft papers will be most appreciated and will be given full consideration in preparation for the Pakistan Poverty Assessment.

This paper was prepared by Dr. Emma Hooper, Poverty and Macro Economic Specialist, PRM; Dr. Shahid Kardar, Managing Partner, Issues & Policies Consultants; Dr. Asad Sayeed, Director, Collective for Social Research; Dr. Faisal Bari, Executive Director, Mahbub ul Haq Development Center; Dr. Irfan Mohammad, former Joint Director, Pakistan Institute of Development Economics; and Shanza N. Khan, Poverty Research Associate, PRM. The study was adapted from a paper prepared in November 2004 and presented to the Government of Pakistan Ad Hoc Working Group on Social Protection for the Ninth Five Year Plan. The authors would like to acknowledge Sohail Javed for his assistance and Haris Gazdar for his comments. The paper was edited and prepared for publication by Maheen Pracha.

Dr. Emma Hooper
Poverty and Macro Economic Specialist
ADB Pakistan Resident Mission

Abbreviations and Notes

ADB	—	Asian Development Bank
ESSI	—	Employees Social Security Institutions
FY	—	fiscal year
FSP	—	Food Support Program
GDP	—	gross domestic product
GoP	—	Government of Pakistan
IFA	—	Individual Financial Assistance (program)
ILO	—	International Labor Organization
NGO	—	non-government organization
PBM	—	Pakistan Bait-ul-Maal
PRM	—	Pakistan Resident Mission
PRSP	—	Poverty Reduction Strategy Paper
WWF	—	Workers Welfare Fund

NOTES

Currency Equivalentents (as of 1 September 2005)		
Currency Unit	—	Pakistan rupee (PRs)
PRs1.00	=	\$0.0168
\$1.00	=	PRs59.68

The fiscal year (FY) of the Government of Pakistan ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends. For example, FY2002 begins on 1 July 2001 and ends on 30 June 2002. All year figures without the prefix "FY" refer to calendar years, unless otherwise stated.

In this paper, "\$" refers to US dollars.

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Summary

Social protection offers a means of strengthening poor people's capabilities to mitigate and manage risk and vulnerability. This, in turn, can have a positive impact on underlying poverty and inequality. Social protection should be mainstreamed into the Government of Pakistan's (GoP's) policies, for three main reasons. First, it is necessary if both social equity and economic growth are to be addressed. Second, the absence of adequate social protection can be viewed as the State's failure to meet its obligations on basic human rights as mandated in the Constitution of Pakistan. Third, while some programs are undoubtedly costly, many forms of social protection have minimal cost implications.

While there is ongoing debate on the effectiveness and range of available social protection (safety net) instruments in Pakistan, this is marred by a lack of conceptual clarity. Essential features of social protection include the 'rights-based' approach and the notion of public provisioning.

Practical engagement with social protection in Pakistan presently focuses on formal safety nets alone. These tend to take an 'economistic' approach instead of grappling with social risks such as discrimination and marginalization. A multi-dimensional view of poverty and risk requires an expanded, holistic view of social protection. In Pakistan, current policy emphasis is on targeted schemes rather than those concerned with employment creation or employment-related forms of social protection. The private sector is expected to play a much greater role in the provision of social protection, both through private philanthropy; and by using the non-profit sector as a delivery mechanism for social services as well as income-generating schemes. Conceptually, therefore, the provision of social protection in Pakistan is steadily moving away from social protection as part of citizenship rights, toward an emphasis on private and market-based provisioning.

However, a future social protection strategy for Pakistan needs to address both the consequences of *being poor* as well as the risk of *becoming poor*. To develop targeted responses within a strategic framework that is responsive to the needs of these different groups of the poor, it is necessary to distinguish between the chronically poor, the economically at-risk, and the socially vulnerable.

One of the pillars of Pakistan's Poverty Reduction Strategy Paper (PRSP), aimed at eradicating extreme poverty and hunger, is to expand the coverage of anti-poverty and social protection programs for the poor and vulnerable, and to improve their targeting. To fulfill this commitment, the GoP has designed several instruments to help the poorest segments of the population. These include transfers in cash and kind to smoothen consumption and investment, access to concessionary credit for entrepreneurial ventures, and better employment opportunities through public works programs.

Pakistan's main social safety net programs include the Pakistan Bait-ul-Maal, the institution of *zakat* (charitable donations), the Workers Welfare Fund, Employees Social Security Institutions, the Workers Participation Fund, various provincial wheat subsidy programs, and the Khushali Bank. At present, formal social protection measures fall short of providing effective social protection coverage. Apart from this, most schemes are beset by ineffective targeting and resource leakages. Key gaps in the GoP's current approach to social protection include: (i) the lack of a clearly articulated social protection strategy; (ii) inadequate government spending on existing social safety nets; (iii) the lack

of committed funding for safety net programs; (iv) inadequate current assistance; (v) multiple programs in non-core competence activities; (vi) inadequate targeting mechanisms and weak governance; (vii) the lack of inter-agency coordination; and (viii) weak monitoring and supervision.

The way forward in social protection should address differential vulnerability, leading to the development of a range of risk management strategies, including prevention, mitigation, and coping strategies. Each type of strategy relies on different categories of intervention to address vulnerability. Differentiated interventions could take the form of social assistance, social insurance, social equity, social development, or economic empowerment.

At present, a number of donors are exploring ways to support the GoP in its commitments to strengthen social protection, and to improve analysis of and response to risk and vulnerability; as well as supporting ongoing concrete initiatives. Areas being explored include: (i) the development of a broad, shared conceptual understanding of social protection; (ii) strengthened strategic thinking and measures to manage risk and promote security in the PRSP, Ninth Five Year Plan, and other national strategies; (iii) the assessment and strengthening of existing formal and informal mechanisms used by poor households to manage risk, thus improving the effectiveness of support to all stakeholders in their efforts to reduce risk and vulnerability; and (iv) the promotion of learning, knowledge sharing, innovation, and partnerships on these issues across countries and institution.

1 Introduction

Poverty is driven by inequalities in both capability and opportunity. Reducing poverty and achieving the full range of Millennium Development Goals requires both equitable growth *and* approaches to development that are more inclusive. Social protection offers a means of strengthening poor people's capabilities to mitigate and manage risk and vulnerability, and thus, of producing a positive impact on poverty and inequality. The Government of Pakistan's (GoP's) Poverty Reduction Strategy Paper (PRSP) reflects a strong commitment to effective social protection, with "targeting the poor and vulnerable" as one of its four pillars (GoP 2003).

In addition to lessening exposure to risk and vulnerability (from loss of income caused by external shocks), social protection can also play a significant role in generating employment to reduce poverty. First, social protection schemes help maintain a basic level of income for those whose direct earning capacity is diminished or interrupted by contingencies such as sickness, injury and disablement, or old age. Apart from supporting individual beneficiaries, systems of social protection also play a role in maintaining the demand for essential goods and services and hence, the overall level of employment in the national economy. Social protection also has an impact, albeit less directly, in promoting solidarity and social harmony in the workplace, and thus, enhancing overall productivity.

Social protection represents an investment as well as a cost. As an investment, it functions as a key instrument in reducing poverty and enhancing growth in terms of three critical effects:

- **Pro-growth-enhancing effect.** Hedging risk with the use of formal and informal insurance has investment demand effects that can reduce poverty and promote growth. Social protection that enables asset creation (public works, school meals) has income and employment multiplier effects that ultimately lead to growth.
- **Poverty-reducing effect.** Redistributive transfers directly raise the income and consumption of the poor, lifting them out of poverty. The indirect effects of this have implications for livelihood stability and economic growth.
- **Equity-promoting effect.** Measures that redress power differentials between individuals and groups can encourage inclusive economic growth. For example, appropriate minimum wages can increase the productivity of labor; land access for women can have positive spillover effects on children and on women's contribution to the productive economy.

Social protection should therefore be mainstreamed into the GoP's Ninth Five Year Plan growth-enhancing and poverty reduction strategy for three main reasons. First, it is a necessary requirement to address both social equity and economic growth. Social protection invests in people, and consequently, social protection interventions have the potential to contribute directly to the GoP's stated objective of sustainable poverty reduction. Second, the absence of adequate social protection can be viewed as the State's failure to meet its obligations on basic human and citizenship *rights* as mandated in the Constitution of Pakistan. Third, while some programs are undoubtedly costly, many forms of social protection—such as transformative interventions through legislative change and sensitization campaigns—have minimal cost implications. In addition, acknowledging the growing significance of social protection is a response to the increased awareness that risk and vulnerability are integral elements of poverty in

Pakistan; and that social development concerns of inequality, exclusion, unemployment, and low productivity remain major challenges inhibiting the development of the Pakistani economy.

2 Defining Social Protection in the Pakistani Context

Ongoing debate on the effectiveness and range of available social protection instruments in Pakistan is marred by the lack of conceptual clarity. The term *social protection* is often used interchangeably with *social security* and *social safety nets*. It is important to distinguish between the three concepts. The first two are complementary in terms of their implications; the third, social safety nets, is not only analytically different, but has different potential implications.¹

2.1 International and Operational Definitions of Social Security

The contemporary operational definition of social security derives its inspiration from the Social Security (minimum standards) Convention 1952 (102) framed by the International Labor Organization (ILO), which lays out three basic forms of social security that society should provide its citizens as a matter of public policy:

1. Mechanisms to offset contingencies arising out of income deprivation, whether the complete cessation of income-earning opportunities or reductions in income. The first category would include contingencies such as unemployment, invalidity, old age, or the death of a breadwinner. The second would include sickness, maternity (or paternity), and employment injury, etc.;
2. Health care;
3. Benefits for families with children, including provision for education as well as child support or other child-related benefits.

In spite of reflecting these three essential features, the concept of social security does not completely address certain structural aspects of or contemporary dynamics in developing countries. The two most important structural concerns in this case are the existence of (i) a pre-dominant unorganized or informal sector (in terms of employment and output) and (ii) widespread absolute poverty. Those employed or associated with the informal sector necessarily fall outside the purview of statutory provisions, usually administered through registered public and private enterprises. The contemporary concern of globalization and structural adjustment in developing countries has further eroded the base on which developing countries can deliver social security to a growing number of their populace.

2.2 Distinguishing Between Social Protection and Safety Nets

Safety nets have three basic aims: (i) to prevent the poor from resorting to coping behavior that undermines their assets, (ii) to facilitate the acceptance of market-based reforms, and (iii) to enable the poor to better manage risk. Conceptually, the central difference between social protection and safety nets is that while the former is rights-based, the latter is rooted in instrumentalist² reasoning.

¹ This section draws heavily on Sayeed (2004).

² This refers to a set of means employed to achieve certain ends.

International thinking links safety nets to promoting the acceptance of change such as income transfers as a means to create political stability and prevent social unrest manifested in crime, riot, and revolution, etc. The promotion of political acceptability for market reforms is also internationally used as a rationale for introducing safety nets.

The definition of safety nets diverges from the collective criteria that are central to the social protection approach. Social protection has to be seen as a right if a country is to secure sustainable livelihoods for its population.

2.3 Toward a Working Definition of Social Protection

Definitions of social protection vary in context. What is common to all definitions, however, is that *social security* is a sub-set of *social protection*. Essential features of social protection include the rights-based approach³ and the notion of public provisioning. Social protection provisions include: (i) those that protect against low or declining living standards caused by exposure to structural vulnerabilities and/or market-related or contingent risks, and (ii) those that society provides to individuals and households through public and collective measures to guarantee a socially acceptable standard of living. Individuals and groups (such as the poor and marginalized) derive rights and entitlements from the public provisioning of social protection. There is an intrinsic argument for rights that conceives the absence of adequate social protection as a violation of basic human rights, as well as an instrumental argument that highlights the special role that legal rights can play to compel action on the part of duty bearers.

Interestingly, Pakistan's Constitution is one of the few in developing countries that delineates social security as an explicit citizenship right. Articles 38(d) and (e) of the Constitution state: "*The State shall provide for all persons employed in the service of Pakistan or otherwise, social security by compulsory social insurance or other means; provide basic necessities of life such as food, clothing, housing, education and medical relief, for all such citizens, irrespective of sex, creed, caste, or race, as are permanently or temporarily unable to earn their livelihood on account of infirmity, sickness or unemployment; reduce disparity in the income and earnings of individuals [sic]*".

This commitment by the State toward its citizens remains largely unfulfilled. First, the resources to fulfill such an ambitious commitment do not exist. Second, in a context where higher-level constitutional violations are common, there is little sanctity accorded to constitutional provisions that confer rights and privileges to citizens.

2.3.1 The Relationship Between Social Protection and Vulnerability

Social protection is intimately linked to the concept of vulnerability. The majority of existing social protection programs explicitly aim to reduce vulnerability, which is defined as "the probability that an individual or household will assume a certain (negative) status at a given point in future and that household consumption has fallen or will fall below a minimum level" (Conway, Turk, Howell, and Blomquist 2001). This negative status may be *consumption-related* or *entitlements-related*.

Vulnerability is also associated with the extent of poor households' capacity to cope with risk and external shocks, i.e., natural or man-made disasters such as drought

³ Rights are defined as an intrinsic good that cannot be violated for the sake of expediency.

and financial crises, respectively. However, it is important to recognize that vulnerability is not synonymous with poverty, but rather affects segments of the population such as minorities or women, who may be structurally disadvantaged.

Vulnerability is due to two main variables: exposure and response to shocks and stresses. The latter are sometimes termed downward pressures, the first, gradual and cumulative, and the second, sudden and unpredictable. Downward pressures can include illness, violence/conflict, natural disaster, harvest failure, deterioration in a country's terms of trade, and loss of employment. The reason that vulnerability is linked to poverty is that the poor are more exposed to shocks and stresses and often less capable of responding to them. The non-poor are also vulnerable, however, and at times more exposed to certain shocks, e.g., better-off farmers who are more likely to be involved in cash crop cultivation are more vulnerable to swings in world prices for these commodities. In Pakistan, there are two particularly vulnerable categories of population: the chronically poor and the transitorily poor (those around or just below the poverty line). All groups categorized as vulnerable need: (i) protection from risk (through social protection or the rule of law/access to justice) and/or (ii) access to opportunity in the form of economic empowerment.

2.3.2 The Vulnerable in Pakistan

The Participatory Poverty Assessments carried out by the GoP identify the vulnerable as those without status and/or resources, and those who are dependent. In Pakistan, the vulnerable include the landless and the homeless; widows, especially those with dependents and no support; women and children from poor households; households with few or no male children; people from low castes; minorities; low-status tribes/ethnic groups; those without access to health services or education; those dependent on *zakat* (charitable donations); and those without power, influence, or voice in decision-making.

In economic and social terms, vulnerability is therefore, status-related. It encompasses the lack of access to basic social services such as education, health, and water that often results from ascribed socioeconomic status. Vulnerability also includes the lack of access to formal safety nets; status-based discrimination; and exclusion from access to decision-making structures. Vulnerability is also correlated with agricultural land ownership and power, and access to rights and entitlements, including basic resources such as water. The weakest members of society are usually those who are both economically and socially vulnerable—because these sources of vulnerability interact with and reinforce each other—and they are often in greatest need of social protection.

2.3.3 A Working Definition of Social Protection

Based on the relationship between social protection and vulnerability discussed above, and the assessment of the vulnerable in Pakistan, this paper proposes the following definition of social protection for incorporation into the GoP's Ninth Five Year Plan: "The provision of support to individuals and households through public and collective measures, to guarantee a socially acceptable standard of living; and to protect them against low or declining living standards caused by exposure to structural vulnerabilities and/or market-related or contingent risks".

3 A Multi-Dimensional Social Protection Perspective

At present in Pakistan, practical engagement with social protection tends to focus on formal safety nets alone. This is apt to take an 'economistic' approach (dominated by a focus on the need to earn a living or manage income risks, etc.) at the expense of grappling with social risks such as discrimination and marginalization. A multi-dimensional view of poverty and risk requires, in turn, an expanded, multi-dimensional view of social protection. Given that economic and social vulnerability are increasingly seen as inter-related, an effective, sustainable approach to social protection needs to address social vulnerability.

3.1 Expanding Approaches to Social Protection

Growing attention to extreme poverty and inequality includes, but moves beyond a focus on, formal safety nets and systematic movements, and recognizes their current limitations (for example, limited public resources, the limited effectiveness of mechanisms such as means-testing, the limited potential to reach the very poor, and the potential to alleviate, but not to transform, underlying conditions and relationships). A sustainable approach to social protection involves strengthening resource transfers and improving the way in which beneficiaries are targeted. Such an approach also needs to engage with a range of other options, including the diversification of livelihoods, access to services, and changes in behavior toward, and relationships with, socially vulnerable groups.

These options challenge a stand-alone approach to social protection, implicit in many forms of safety nets, which labels different forms of disconnected deprivation; reinforces stigmas by identifying people as 'needy' and unable to fend for themselves; and aims to bring about their 'rehabilitation'. Internationally, social protection is now being explored in ways that are integrated with mainstream poverty frameworks and address underlying issues.

In Pakistan, the current policy emphasis as outlined in the PRSP is on targeted schemes rather than those concerned with employment creation or employment-related forms of social protection. It is anticipated that the private sector will play a much greater role in the provision of social protection, both through private philanthropy and by using the non-profit sector as a delivery mechanism for social services as well as income-generating schemes. Conceptually, therefore, the provision of social protection in Pakistan is steadily moving away from social protection as part of citizenship rights, and toward an emphasis on private and market-based provisioning.

However, a future social protection strategy for Pakistan needs to address the consequences of *being poor* as well as the risk of *becoming poor*. To develop targeted responses within a strategic framework that is responsive to the needs of these different groups of the poor, it is necessary to distinguish between:

- The chronically poor;
- The economically at-risk;
- The socially vulnerable.

The *chronically poor* are those who have suffered from persistent poverty over time. Social protection is often expressly designed to address one type of chronic poverty—that of the long-term dependent poor who are unable to secure a minimum

standard of living without some sort of social assistance. Chronic poverty represents a long-term, permanent condition that differs from other more transitory forms of poverty. Impoverishment is another process that reflects a change in the permanent component of income or consumption. It reflects a dramatic fall in living conditions to a new long-term level. Some of the instruments used to prevent impoverishment may be similar to those designed to address transitory forms of poverty. When the *process* of impoverishment culminates in the *state* of chronic poverty, different remedies become relevant. Some are likely to be similar to those for the chronic, dependent poor.

The *economically at-risk* include those who are vulnerable to variations in income under 'normal' conditions, such as over the course of a season, or following frequent and repeated natural shocks. Informal sector workers and sharecroppers, for instance, would fall in this category. Once again, the nature, scale, and duration of appropriate measures of social protection are likely to be different for this transitory form of poverty.

The *socially vulnerable* include groups such as orphans, widows, and the disabled, etc. Often, these categories overlap, because of the composite nature of vulnerability. For instance, socially vulnerable groups such as ethnic minorities or people living with AIDS are often economically vulnerable as well, being unable to work (in the case of the severely disabled or terminally ill) or confined to low-status livelihood activities that generate low and variable incomes.

4 A Summary Analysis of Existing Provision for Social Protection

As mentioned in Section 1, one of the pillars of the PRSP for eradicating extreme poverty and hunger is the improved targeting and expanded coverage of anti-poverty and social protection programs for the poor and vulnerable. To fulfill this commitment, the GoP has designed several instruments to help the poorest segments of the country's population. These include transfers in cash and kind to smoothen consumption and investment; access to credit on concession for entrepreneurial ventures; and better employment opportunities through public works programs.

4.1 An Overview of Selected Social Safety Net Programs⁴

Pakistan's main social safety net programs include:

1. *Zakat* programs;
2. The Pakistan Bait-ul-Maal;
3. The Workers Welfare Fund;
4. Employees Social Security Institutions;
5. The Workers Participation Fund;
6. Wheat subsidy programs;
7. Khushali Bank.

While the wheat subsidy programs and Pakistan Bait-ul-Maal (PBM) are financed by government budgetary allocations, organizations such as Employees Social Security Institutions, the Workers Welfare Fund boards, and *Zakat* Councils/Committees receive funding from the contributions of organizations/individuals under relevant legislation. Overall, budget allocations for safety nets have increased only moderately as a proportion of Pakistan's gross domestic product (GDP) from 0.19% in the fiscal year (FY) 2002 to about 0.30% in FY2004 (including off-budget *zakat* contributions, the total expenditure amounts to under 0.50% of GDP).

Based on the estimate of around 7 million households living below the poverty line, *zakat* and PBM programs reach a relatively small number of households—less than 35%. Moreover, these programs add as little as 4% to the incomes of households bordering on the poverty line. Similarly, labor welfare schemes implemented by the WWF and ESSIs in the formal sector⁵ benefit a mere 4% of the non-agricultural workforce, suggesting that the inadequate coverage of poor or mis-targeted schemes as a

⁴ This section summarizes a study that was commissioned by the World Bank to provide a comprehensive review of selected social safety net programs instituted by the GoP. The study was carried out by Shahid Kardar, Faisal Bari, and M. Irfan. This section is essentially the executive summary of that report, and has been included here with the permission of the study team leader, Shahid Kardar. Section 4.6 (Informal Social Protection Mechanisms) draws on Sayeed (2004).

⁵ Protected by minimum wage legislation and hence, by and large, not those below the poverty line.

consequence of the lack of resources may pose a greater challenge than the scale of the problem itself.

4.2 Zakat, PBM, and Related Assistance

4.2.1 Zakat

All Muslims are obliged to pay *zakat*, a tax that is levied only on financial wealth. It is deducted at source by companies on the par value of shares held, and by financial institutions on assets such as savings bank accounts, fixed-deposit savings certificates, national income tax units, Investment Corporation of Pakistan mutual fund certificates, and government securities. Under a recent judgment of the Supreme Court, the payment of *zakat* is now voluntary. This decision could very likely scale down the level of annual *zakat* collection.

Zakat collected by financial institutions and other collection agencies is deposited in the Central Zakat Fund maintained by the State Bank of Pakistan. The Central Zakat Council disburses funds to the Provincial Zakat Councils, which in turn, allocate funds to the District Zakat Committees. As a percent of GDP, *zakat* amounted to about 0.31% in FY1981, falling to 0.20% during the 1990s, and to 0.14% in FY2000. During this period, PRs74 billion was collected as *zakat* and PRs59 billion disbursed, leaving PRs15 billion in reserve in the Central Zakat Fund. This reserve prompted the GoP and Central Zakat Council to introduce the Permanent Rehabilitation Scheme. However, it will no longer be possible to sustain such programs once the accumulated reserve has been exhausted, and since the average annual collection of *zakat* has now dropped to below PRs4 billion.

The two principal forms of *zakat* cash transfers to the poor and disadvantaged are the *Guzara* (Subsistence) Allowance (a monthly transfer of PRs500—earlier PRs300—per recipient to approximately 800,000 households) and the Permanent Rehabilitation Grant (an average transfer of PRs17,000 to close to 10,000 households). These absorb in excess of 70% of all *zakat*-related disbursements. Other *zakat* programs include education stipends, funding for healthcare, and marriage assistance grants.

Zakat funds are allocated to provinces and districts ostensibly on the basis of population. However, the report of the Auditor General Pakistan for 1995–98 holds that in a large number of cases, the prescribed rules for allocation were not followed nor the required standards of financial discipline maintained.

Positive features of the system of cash transfers under *zakat* include: (i) its fiscal sustainability in view of its specific, well-defined source of funding (in spite of the fact that *zakat* is no longer compulsorily deducted) that is not tied to government budgetary allocations; (ii) its strong redistributive function, since the burden is borne largely by more affluent households; and (iii) that consumption or production choices are not distorted.

However, it is difficult to ascertain the impact of this targeting, since there are no mechanisms or systems to verify expenditures beyond the district level. Moreover, the ill-defined targeting systems currently in place (see below) need to be improved by developing better criteria for eligibility, for instance through proxy means testing. The present *zakat* allocation formula based on provincial and district populations also needs to be reviewed in favor of a distribution basis driven by levels of poverty, mapping these to identify areas with a higher concentration of the poor.

4.2.2 Pakistan Bait-ul-Maal

The PBM was set up to help the destitute, the physically handicapped or infirm, needy widows, and orphans. Funding is provided essentially in the form of non-lapsable grants from the Federal Budget. The PBM has recently expanded its program coverage, and according to PBM sources, has disbursed PRs10 billion to 20 million beneficiaries to date. The two main programs instituted by the PBM include the Food Support Program (FSP) and Individual Financial Assistance (IFA). Smaller programs include 89 National Centers for the rehabilitation of child labor, 45 vocational training institutes, and the Tawana Pakistan Project.

Food Support Program

The FSP was launched in August 2000, with an annual budget grant of PRs2.5 billion. Under the FSP, cash transfers of PRs2,400 per annum are disbursed in two installments of PRs1,200 each, to about 1.25 million households. This support is roughly the equivalent of 4 months' *aata* (wheat-flour) consumption for beneficiary households, representing an additional income of 4% for households living on the poverty line. The registered beneficiaries of the FSP include 1.25 million household heads, covering approximately 8.5 million affected individuals. FSP funds are allocated by province and district, based on the distribution of poor households, using the national poverty profile (by province and urban/rural locations) derived from the GoP's Household Income Expenditure Survey.

A database identifying the poor across Pakistan would facilitate better targeting. The PBM has taken the commendable step of creating a database of its FSP recipients. The database aims to minimize the duplication of beneficiaries already targeted by other poverty reduction programs, but so far, no other agencies have established databases themselves. The procedures to verify eligibility for benefits are not rigorous, and are essentially an administrative process in the absence of a database confirming eligibility and ensuring better targeting.⁶ Once included in the program, households continue to receive assistance indefinitely. New beneficiaries are registered as and when the program is expanded or on the death of an existing beneficiary. Thus, the intake of new recipients is restricted by: (i) the level of resource allocation increases, and (ii) the rate at which places on the beneficiaries' register are freed on the death of an existing recipient. According to the PBM, around 10–15% of FSP beneficiaries are replaced by new applicants each year.

Government policy is inconsistent in that the size of the FSP transfers is significantly smaller than the GoP's Guzara Allowance (literally, subsistence allowance) of PRs500 per month per household, although both programs supposedly target similar groups of the chronically poor.

⁶ According to the PBM, the eligibility of each applicant is verified by a task force constituted in each district, and headed by a district coordination officer.

Individual Financial Assistance

The PBM offers a number of programs under the umbrella of IFA; the total allocation of PRs229 million in FY2004 benefited 20,000 households.⁷ The program's budget allocates transfers among the provinces on the basis of population; there is no further formal allocation to districts. District offices process applications on a first-come-first-served basis for approval by the provincial/regional offices. As a result, there are large district-level disparities in the number of recipients benefiting from these transfers.

The implementation of the priority ordering system under which beneficiaries are selected, and non-compliance with eligibility criteria under a discretionary selection process that allows significant possibilities of leakage, is a cause for concern. In addition, the PBM's major weaknesses are its heavy reliance on budgetary support, rendering it vulnerable in times of fiscal stress; inadequate program coverage (it reaches a mere 25% of the poorest 20% households); the volume of assistance that meets less than 20% of the income gap of those living in abject poverty; and the degree of poorly targeted assistance.

Generic issues around the lack of a clearly articulated social protection policy, the multiplicity of *zakat* and PBM programs, overlapping mandates, weak inter-agency coordination, program monitoring and targeting, and governance issues are discussed in Section 5.

4.3 Labor Welfare Schemes

Labor-related legislation imposes five types of charges on employers: (i) the Workers Welfare Fund, and (ii) the Workers Profit Participation Fund (both of which are structured as taxes on profits); (iii) the Employees Old-Age Benefit Institution (a GoP levy at 5% of the wage of any person, up to a maximum of PRs250 per month per employee); (iv) Social Security (a provincial levy at 7% of the wages of workers earning up to PRs5,000 per month, to cover health care); and (v) Education Cess (a federal levy collected and retained at the provincial level).

4.3.1 Workers Welfare Fund

The Workers Welfare Fund (WWF) was established in 1971. It is managed by a tripartite body comprising government officials and representatives of employers and employees. Provincial Workers Welfare Boards are responsible for identifying, planning, and executing WWF projects. Although the WWF's receipts are collected federally, the bulk of the operations are undertaken by the Provincial Workers Welfare Boards.

Broadly, WWF programs provide assistance in housing construction activities, grants to schools and health service outlets, and funds/commodities distributed directly to

⁷ A total of 50,683 applications for individual financial assistance were received in FY2004, with 27,939 applications received from the general public, 12,335 received from the Prime Minister, 2,011 applications received from the President, 979 received from the Advisor to the Prime Minister, 6,235 received from the Ministry of Social Welfare, and 1,184 applications received from members of the national and provincial assemblies or district representatives (*nazims*).

eligible workers (including marriage grants, death grants, scholarships for workers' children, sewing machines, and bicycles).⁸

Of all the welfare interventions made by the WWF, only the establishment of education facilities, scholarships, and vocational training are viewed positively by stakeholders. Even here, the WWF's capacity to undertake such activities effectively has been questioned, since these are not viewed as its core areas of competency. There is also the question of the duplication of functions that are performed by other welfare organizations such as Workers Children Education Cess, National Training Boards, and the Technical Education and Vocational Training Authority, all of which provide education and training facilities. To further address the issue of core competencies, it is recommended that the WWF discontinue its assistance in the construction of houses/flats and new schools, and that existing schools run by the Welfare Boards be handed over to their respective provincial education departments or district governments. Existing programs for scholarships, however, should be continued, and supplemented by education vouchers that can be encashed by privately managed education institutions.

4.3.2 Employees Social Security Institutions

Employees Social Security Institutions (ESSIs) were established to provide benefits to employees (with salaries below the specified threshold) in the event of sickness, maternity, disability, or work-related injury.

Provincial ESSIs cover all establishments notified/registered by the Social Security Institution, irrespective of the size of the establishment in terms of numbers of workers or asset base. Until recently, employers were required to contribute to ESSI funds at the rate of 7% of the wage of permanent employees earning a maximum gross salary of PRs5,000 per month. From 1 July 2001, employers were allowed to opt for a self-assessment scheme under which they were liable to pay a flat rate, lump sum contribution of PRs350 per month per secured employee on the books of the company on 30 June 2001. The Government of Punjab instituted a new system in 2003 under which organizations were required to pay contributions based on a slab system.

The affairs of ESSIs are managed by provincial governing bodies comprising representatives of the provincial government concerned and of employers and employees, the latter two selected by the provincial government. Currently, close to 534,000 workers are registered with the Punjab ESSI and an estimated 310,000 with its counterpart in Sindh.

To cater to workers' needs, the ESSIs have set up a number of hospitals, dispensaries, and other medical facilities where secured workers can obtain medical treatment. Most such facilities are located without regard for the number of secured workers in these districts, and may have been driven by political considerations. Moreover, this system runs parallel to the general public health system and merely duplicates health facilities, although targeting a specific group. However, since the public system functions inefficiently, an argument could be made for running a parallel system provided it is more effective in its operations. Unfortunately, complaints abound (both from workers and employers) on the quality of services provided through these institutions.

⁸ The program for distribution of sewing machines and bicycles was discontinued in 2001.

Poor accountability mechanisms that have led to poor staff attendance and the leakage of medicines from the ESSIs are also cause for concern. In FY2003, the Punjab ESSI allocated close to PRs819 million (60% of total budgeted expenditures) to medical care delivered by its hospitals and dispensaries, while another PRs79 million (6% of total expenditures) was earmarked for cash benefits for secured workers. In the case of the Sindh ESSI, PRs444.1 million was spent on medical care services, while PRs31.6 million was incurred on the provision of cash benefits to workers and their dependants. While the expenditure on medicines per person covered (including workers' dependents) is roughly PRs59, the Punjab ESSI's administrative expenditure works out to a substantial PRs58 per person covered, indicating the high costs and low efficiency of delivering health services to workers through this body. Similarly, the difference between the Sindh ESSI's income per worker and the medical expenditure estimated on the basis of workers secured is largely explained by the high administrative costs (PRs149.9 million—nearly PRs480 per secured worker) that the organization incurs.

The wide coverage of health services (including the treatment of a wide range of illnesses, especially one-off ailments such as cardiac disease), and the provision of cash benefits under the Social Security Ordinance is presented as one of the arguments in support of the current arrangements. However, the treatment of more common diseases could easily be covered by health insurance schemes or other programs, while the provision of cash benefits to workers in the case of sickness and disability could be built into their employment contracts.

4.3.3 Cross-Cutting Issues in Labor Welfare Programs

1. **Low coverage.** Since close to two-thirds of employees in the large- and medium-scale manufacturing and commercial sectors work as unprotected contract labor, only a small proportion of the workforce (less than 4% of the non-agricultural labor force), actually benefits from the entitlements built into labor legislation.
2. **Inconsistencies in control mechanisms.** Although both the WWF and ESSIs are supposedly managed by a tripartite governing body, in practice their operations are controlled by the GoP. Historically, representatives of employees and employers have been nominated by the GoP, rather than allowing for their independent representation in these governing bodies, and thereby constraining their ability to effectively safeguard the interests of the groups they represent. As a result, all key decisions pertaining to the direction, staffing, and nature of projects to be undertaken by ESSIs and the WWF are taken by government representatives, who, under the present arrangements, get an opportunity to exercise their powers bureaucratically.
3. **Weak governance mechanisms and lack of accountability among service providers.** Low staff attendance and the unchecked leakage of funds and medicines (in the case of the ESSIs) has resulted in low-quality service delivery by the health and education facilities managed by these labor welfare organizations. Other concerns include the implementation of eligibility criteria, the transparency of decision-making processes, and overall functioning of worker welfare schemes.
4. **Workers welfare organizations involved in a multiplicity of activities.** Labor welfare programs cover a vast range of activities, including the provision of cash benefits, as well as health and education services. Not only is there an overlap between programs run by the WWF and the ESSIs (for instance, both organizations have established health facilities), these services are also provided by government

service delivery systems. Although the poor quality of services delivered by public service outlets is used to justify their duplication by labor welfare organizations, these organizations lack adequate capacity to effectively undertake such activities, nor are such functions their core area of competency.

5. **Improved Transparency.** Measures are needed to ensure greater transparency in the implementation of eligibility criteria for various workers welfare schemes. The potential for malfeasance and corruption can be checked by institutionalizing regular third-party validation exercises to monitor adherence to specified eligibility criteria and procedures. Any irregularities highlighted could then be investigated and those charged with neglect of duty, appropriately penalized. Labor welfare organizations should focus on a core set of activities based on their competencies.

4.4 Wheat Subsidy Program

The wheat subsidy programs instituted by the GoP and provincial governments comprise a universal subsidy on wheat and other special programs such as the Punjab Chief Minister's *Ramzan* (the Islamic month of fasting) package, an intervention targeting less affluent households. Policies related to the management of the support price program for wheat are formulated by the GoP in consultation with provincial governments, who are responsible for implementing these policies. The support price at which government agencies purchase wheat from farmers is approved by the GoP along with the issue price of wheat, i.e., the subsidized price at which wheat is sold to flour mills. Historically, both the support price and the release price were fixed for the entire year. In FY2003, however, the Ministry of Food, Agriculture and Livestock decided to revise the issue price upward every few months with the objective of reducing the level of subsidy and providing the private sector an incentive to participate in wheat procurement, handling, and storage, thereby releasing pressure on the GoP to maintain large stocks of wheat.

Wheat procurement by public sector agencies has ranged from 2.7 to 4.4 million tons, except in FY2001, after a bumper crop of 8.6 million tons was procured, with 6.3 million tons procured by the Government of Punjab alone. In most years, the support price of wheat has remained below the world price. It was around the international price in FY2000—on the basis of the import parity price—although above the export parity price. In addition, provincial governments frequently resorted to the imposition of Section 144 of the Criminal Penal Code to prohibit the inter-provincial/district mobility of wheat during harvest time, further limiting opportunities for farmers to obtain a higher price for their produce in other regions of the country. These restrictions on the movement of wheat not only depressed its market price but also defeated the purpose of establishing support prices, since the support/procurement price effectively became the maximum/ceiling price.

What is classified as *aata* subsidy in budgetary allocations is only very partially a consumption subsidy. The bulk of the fiscal cost of activities related to wheat operations comprises expenditures on incidentals—bagging, handling, storage, and stock-carrying costs—that go to subsidize the high cost of management, storage, wastage, pilferage, and corruption. Any relationship between levels of poverty and the allocation for the *aata* subsidy is, at best, tenuous. This is because of the way in which the subsidy is defined and its accounting entry recorded, whereby the higher the stocks, the higher the subsidy.

Moreover, the subsidy also increases with higher inefficiency and rising administrative costs caused by overstaffing and salary enhancements.

The present system means that it is not really the consumer (in whose name the subsidy is being incurred) who benefits, but rather middlemen, flour-mill owners, banks (which lend the money for procuring wheat), and public officials. Only a small proportion of the total fiscal cost of the subsidy on wheat actually accrues to the consumer. The economic subsidy on the basis of the import parity price is calculated as the difference between the issue price and the price of imported wheat (taken as a proxy for the non-intervention price of *aata*). Using the revised poverty line of PRs849 per adult equivalent per month, the economic subsidy for FY2004 works out to less than 5% of the poverty line, and around 8% for households earning PRs2,500 per month, if the issue price of wheat is not adjusted periodically during the year. Therefore, the benefit to the consumer is modest.

Estimates suggest that if the entire budgetary allocation for the subsidy—PRs16.8 billion (which includes allocations for the PBM's wheat subsidy and FSP)—were earmarked for the 15% most vulnerable households identified on the basis of proxy means testing, it would be sufficient to meet their wheat consumption requirements for close to 6.5 months. This would be a more efficient and effective utilization of scarce resources, only requiring the establishment of an appropriately designed, transparent, centralized, easily accessible, and user-friendly database of eligible households.⁹

GoP operations with regard to the procurement, storage, and marketing of wheat should be curtailed, and these responsibilities slowly shifted to the private sector. This move will not, however, absolve the GoP of its responsibility to review food security policy and ways of achieving this objective more cost-effectively. Apart from the need to improve the targeting of the wheat subsidy based on proxy means testing, etc., one option for attaining the goal of food security would be to maintain a strategic reserve of wheat.

Ramzan Bazars

The provincial food departments in Punjab and Sindh run special packages that involve the sale of *aata* at subsidized rates during the month of *Ramzan* to provide relief to the poor. Under these packages, 'Ramzan Bazars' are set up in urban localities selected by their respective district governments. There is some level of indirect self-targeting as the majority of the bazars are located in low-income localities. In addition, since the scheme is implemented through the bazars, which represent a more controlled environment, program supervision is relatively easier, thereby improving the effectiveness of monitoring efforts.

The Punjab Chief Minister's 'Sasta Aata' Scheme

Other special packages have also been initiated by successive Chief Ministers of Punjab. The intended coverage of the Chief Minister's 'Sasta Aata' program of 2004 was 350,000 families. Under the scheme, targeted households were provided two coupons per month each to enable them to purchase a specially packed 20 kg bag of *aata* at a

⁹ Combined with a mechanism for community involvement in the distribution of benefits, to ensure better targeting and greater transparency.

concessionary rate (PRs160 per bag as compared to the ex-mill price of PRs195) at selected sale points. The targeted beneficiaries were identified by district-level committees headed by a provincial minister from the area. The budgetary allocation for the scheme was PRs105 million, of which only PRs48.6 million was eventually spent, as coupons could not be distributed on time to nearly 90,000 households. There were also reports that the targeted households were unable to utilize the coupons because the scheme had not factored in their inability to purchase 20 kg of *aata* in one transaction.

The Sasta Aata scheme described above was more distributive towards the poor, being better targeted in comparison with other packages/general subsidies, since the coupons for obtaining subsidized *aata* were ostensibly issued directly to low-income households, and because the benefit was essentially of interest to the poor. Given that the coupon could only be encashed for a staple food like *aata*, and that there were several persons involved in the identification of beneficiary households, there was less incentive and potential for corruption. This experience highlights the need for a better targeting mechanism for wheat subsidy programs.

4.5 Microfinance Initiatives

The PRSP identifies Khushhali Bank and the Pakistan Poverty Alleviation Fund as the GoP's microfinance initiatives to reduce poverty. However, such initiatives launched by the GoP as one of the key components of its poverty reduction strategy *do not strictly qualify as a social safety net*, since social credit is not advanced at concessionary rates of interest and there is no element of explicit or implicit subsidy. Rather, microfinance is an enabling mechanism for some groups of the poor to access opportunity. A detailed examination of microfinance initiatives has been taken up by the Planning Commission's Five Year Plan Sub-Group on Poverty Reduction, and not analyzed in this report.

Expanded micro-credit programs can nonetheless make a major contribution to poverty alleviation by serving as a powerful tool supporting income generating activities for poor entrepreneurs, and thus, facilitating access to opportunity. To that extent, they can be included under the safety net umbrella. However, while the provision of micro-credit helps some groups of the poor generate increased income, it cannot usually address the needs of those in chronic poverty. Moreover, it cannot act as insurance against disaster or provide long-term assistance to the permanently debilitated or incapacitated, which constitute two important functions of safety nets.

4.6 Informal Social Protection Mechanisms

Informal welfare transfers predominately take three forms: (i) private provision of *zakat* and *sadqa* (alms for the poor); (ii) familial-, kin-, and *biradari* (clan)-based linkages, which act as support mechanisms in times of distress; and (iii) given the paucity of formal social security mechanisms, networks of patronage and corruption that provide social security by facilitating privileged access to state resources, either through jobs in the public sector or through specific demand on land, quotas, or licenses. In Pakistan, strong social networks constitute an important source of social protection. For example, segmentations in the labor market operate along the lines of parochial networks, which provide employment, food, and shelter to the unemployed and the new migrant workers, as well as lump sum help at times of marriage, death, or illness.

According to a survey carried out in 1998, the extent of charity given was estimated to be PRs41 billion or 1.25% of GDP. This amount is substantial given that official transfers, both budgetary and non-budgetary, in FY2002 amount to PRs18.9 billion or 0.60% of GDP. About two-thirds of this philanthropy was given directly to individuals. The remaining one-third was disbursed through organizations, of which 94% was given to religious institutions and causes (Sayeed 2004).

The fact that absolute poverty has increased in Pakistan over the last decade shows that such informal arrangements are neither sustainable nor sufficiently effective as forms of social protection. More fundamentally, those categorized as socially excluded do not have the resources or opportunities to provide sufficient protection to their caste or group. The division of Pakistani society along parochial lines implies that any non-parochial arrangement, whether market- or state-driven, has little chance of widespread success.

5 Identifying Gaps in Current Social Protection Schemes

Formal social protection measures fall far short of providing effective social protection cover. Besides the lack of coverage, most schemes are marred by ineffective targeting as well as corruption and embezzlement in their operations. The following issues have been identified as key gaps in the GoP's current approach to social protection.

5.1 Lack of a Clearly Articulated Social Protection Strategy

There is no clearly articulated government social protection policy identifying: (i) the risks against which the vulnerable need to be protected; (ii) a strategy for dealing with the chronically poor; (iii) the type of support to different groups that need assistance; or (iv) a system of prioritizing interventions. In consequence, there is no official definition of social protection, nor of the minimum economic and social standards that Pakistan desires to reach and maintain.

The GoP therefore, needs to formulate a social protection strategy based on an understanding of the extent and nature of poverty, that clearly articulates the objectives of various safety net interventions, prioritizes them, establishes indicators and targets to be monitored, and separates programs targeting the chronically poor from those providing temporary relief to poor/needful households.

5.2 Inadequate Government Spending on Existing Social Safety Nets

Government spending on safety net programs is inadequate relative to the scale of the problem. Public spending on social safety nets needs to address issues of low coverage and inadequate levels of benefits. To begin with, there is some fiscal space to enhance allocations for safety net programs due to the GoP's restructuring of its debt portfolio and reduced interest expenditures. Additional resources can be made available by reprioritizing expenditure obligations.

5.3 Lack of Committed Funding for Safety Net Programs

Ensuring sustainable and predictable sources of funding for safety net programs requires a clear commitment from the GoP to provide the necessary resources as and when required. Budgetary allocations for safety nets should be built into the GoP's Medium Term Budgetary Framework, in order to gradually improve the availability of funds for such programs.

5.4 Inadequate Current Assistance

The assistance extended by most safety net programs currently in operation has had only a marginal impact in alleviating the poverty of households living below subsistence level. The coverage and size of grants disbursed as individual transfers under the FSP and Guzara Allowance scheme inadequately addresses the needs of the poorest households. The combined coverage of the programs is roughly 2 million households per annum, which represents roughly 28% of the households living below the

poverty line; cash transfers under the FSP provide additional income equivalent to barely 16% of the income gap of 20% of the poorest households, while the Guzara Allowance covers only 40% of this gap.

Similarly, the general wheat subsidy that constitutes 74% of government expenditure on social safety nets contributes less than 5% of the poverty line and around 8% for households earning PRs2,500 per month. The GoP needs to ensure that the coverage and size of individual grants under its safety net programs adequately meets the objectives of that particular intervention.

5.5 Multiplicity of Programs and Non-Core Competence Activities

Currently, similar national safety net programs are managed by different agencies with no clear division of responsibilities as to the type of program or target groups. In consequence, there is a proliferation of programs run by each organization, resulting not only in loss of focus but also in scarce resources (both financial and human), being spread thinly, with the capacity to administer them severely constrained. This thin spread implies that the grant assistance provided to recipient households is normally too small to achieve its intended purpose.

At present, agencies mandated to implement safety net schemes are involved in a wide array of activities, including many that are not part of their core competency. For instance, agencies such as the WWF and PBM manage schools and training centers—activities already mandated to institutions specializing in their management, such as the provincial departments of education and health. In addition, the activities/schemes implemented by various agencies involved in social protection tend to overlap—these include education stipends for general and technical education, the National Level Health program under *zakat*, and education stipends and assistance for medical treatment under the PBM's IFA scheme.

5.6 Inadequate Targeting Mechanisms and Weak Governance

The lack of adequate targeting mechanisms is common to the majority of Pakistan's existing social safety net schemes. The targeting of such programs also has to contend with the implications of weak governance. Since beneficiaries are selected on the basis of administratively determined criteria and identification procedures, there is wide potential for patronage and abuse. One consequence of this is the scope for politicizing selection processes. This results in the exclusion of many of the poor from deriving program benefits, while some of the non-poor are included in the list of beneficiaries. Beneficiaries should be identified and eventually selected for different program benefits on the basis of proxy means tests (by collecting information on wealth, property owned, condition of housing, occupation, locality of residence, status as widows, orphans, or disabled, durables owned, and number of earners and dependents, etc.) which would help assess the extent to which beneficiaries meet the eligibility criteria.

Community involvement in the distribution of benefits would improve both the transparency and targeting of existing safety net programs, as would improved registration processes (which, at present, are lengthy, cumbersome, and not user-friendly for those with low literacy, limited resources, and poor personal connections. Such design weaknesses impose significant costs on those most in need of assistance, which, combined with inequitable power structures and lack of transparency, gives corruption

greater room to flourish. A rules-based and accountable bureaucracy can mitigate a number of problems associated with inadequate targeting mechanisms. In addition, effective bureaucratic and judicial reforms must be instituted in the country, otherwise even with improved policy design and information flows, the targeting of social protection schemes will remain ineffective.

5.7 Lack of Inter-Agency Coordination

To improve the effectiveness of current programs, fragmented, dispersed efforts need to be streamlined by developing: (i) synergies between different agencies and programs; and (ii) a mechanism for sharing databases. The current absence of mechanisms to share data on beneficiaries among various programs can result in multiple payments to the same beneficiaries and waste scarce resources (both financial and administrative).

To address these issues, the GoP should establish a 'one-window operation' whereby those requiring assistance from social safety nets can apply through a centralized agency responsible for compiling data and establishing the applicant's eligibility from the existing pool of programs/schemes. Screening could be based on proxy means tests that would enable the system to inform the applicant about which program he/she is eligible under and the organization mandated the responsibility to administer it.

5.8 Weak Monitoring and Supervision

Monitoring and evaluation arrangements for safety net programs should be strengthened and internal review mechanisms supplemented by independent third-party assessments to enhance the credibility of these validation exercises. Special emphasis should be placed on ascertaining the extent to which the benefits accruing from the safety net schemes are actually reaching intended beneficiaries. The results of such assessments would enable the fine-tuning of the eligibility criteria/mechanisms through which potential beneficiaries are identified.

Monitoring can be further strengthened by establishing/improving mechanisms for obtaining and collating field-level data on beneficiaries and expenditures. In this respect, automating provincial and local field offices and establishing networks between provincial and central offices would facilitate the availability of up-to-date information for better management and informed decision making.

6 The Way Forward: Proposed Strategies and Interventions

6.1 Risk Management

Risk management takes place both before and after a risk occurs. Addressing differential vulnerability will lead to the development of a range of risk management strategies including:

- **Prevention Strategies.** These are strategies that are implemented before a risk event occurs. Reducing the probability of an adverse risk increases people's expected income and reduces income variance; both these effects increase welfare.
- **Mitigation Strategies.** Mitigation strategies also aim to address a risk before it occurs. Whereas preventive strategies reduce the probability of the risk occurring, mitigation strategies help individuals reduce the impact of a future risk event by pooling over assets, individuals, and over time. For example, a household might invest in a variety of different assets that yield returns at different times, which would reduce the variability of the household's income flow.
- **Coping Strategies.** These are strategies designed to relieve the impact of a risk once it has occurred. The main forms of coping consist of individual dis-saving, borrowing, or relying on public or private transfers.

6.2 Development of Differentiated Responses

Each type of strategy will rely on different categories of intervention to address vulnerability. Differentiated interventions can take the following forms:

- **Social Assistance.** These programs target the chronically poor, especially those who are unable to work and earn their livelihood. They typically include targeted resource transfers that are financed publicly, out of the tax base, with donor support, and/or non-government organization (NGO) support. Current social protection initiatives in this category would include *zakat* and the PBM's FSP.
- **Social Insurance.** These target economically vulnerable groups—people who have fallen or might fall into poverty, and may need support to help them manage livelihood shocks. Social insurance includes formalized systems of pensions, health insurance, maternity and unemployment benefits, with tripartite financing between the employer, employee, and the State. It also includes informal mechanisms such as savings clubs.
- **Social Equity.** These programs target socially vulnerable groups such as marginalized minorities. Interventions include changes to the regulatory framework that protects vulnerable or minority groups against discrimination and abuse as well as sensitization campaigns to transform public attitudes and behavior.

- **Social Development.** These target the poor and groups needing special care, such as orphans, in order to extend basic social services such as education and health to the very poor.
- **Economic Empowerment.** These programs include interventions such as access to credit and employment creation in order to create economic empowerment for the poor and the vulnerable.

At present, a number of donors are exploring ways to support the GoP in its commitments to strengthen social protection, and improve analysis of and response to risk and vulnerability; as well as supporting ongoing concrete initiatives. Areas being explored include: (i) the development of a broad, shared conceptual understanding of social protection; (ii) strengthened strategic thinking and measures to manage risk and promote security in the PRSP, Ninth Five Year Plan, and other national strategies; (iii) the assessment and strengthening of existing formal and informal mechanisms used by poor households to manage risk, thus improving the effectiveness of support to all stakeholders in their efforts to reduce risk and vulnerability; and (iv) the promotion of learning, knowledge sharing, innovation, and partnerships on these issues across countries and institutions (see Appendix).

7 Immediate and Long-Term Recommendations

A summary of the key issues to be addressed and related recommendations for action are presented in matrix form in the appendix to this paper. These are marked as those that can be addressed in the immediate term, i.e., in the first 2 years of the Ninth Five Year Plan; and those for implementation in the longer term, i.e., by the end of the Tenth Five Year Plan.

In addition to the recommendations outlined in the matrix, this paper identifies two institutional development requirements:

1. There is a clear 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 in one or two current tertiary institutions;
2. In order to address the gaps identified in Section 5, a high-level body should be formed to monitor progress in achieving the social protection strategy and to commission additional research and analytical work (whether implemented by the GoP or with donor support), as needed.

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Appendix: Summary Matrix of Key Issues and Recommendations

Summary Matrix for Safety Net Programs Overall

Key Issues	Recommendations	Timeframe for Implementation
Social Protection Policy		
No official definition of social protection or minimum economic and social standards.	GoP needs to articulate a medium-term strategy for social protection that defines objectives and the type of support for different groups; and establishes priorities, indicators, and targets to be monitored.	Immediate
No clearly articulated social protection policy identifying: (i) risks against which the vulnerable have to be protected, (ii) the instruments to support different groups, or (iii) prioritized interventions.		
Government Spending on Safety Nets		
Inadequate government spending (0.5% of GDP) on key safety net programs, resulting in poor coverage and low levels of individual transfers.	Cost of providing a minimum of 2,350 calories per day to 32% of the poorest households is roughly 2.8% of GDP—can be achieved in 10 years by enhancing budget (given current fiscal space) and reprioritizing expenditure. Welfare spending should be enhanced and protected to substantiate rights-based approach.	Long-term
Nature of Funding		
Funding for safety net programs suffers from unpredictable resource flows.	Need clear commitment from GoP to provide necessary resources when needed. Budgetary allocations for safety nets should be built into GoP's Medium Term Budgetary Framework that gradually improves availability of funds for such programs.	Immediate
Coverage and Adequacy of Assistance		
Assistance under <i>Zakat</i> and PBM reaches barely 35% of the 7 million households living below the poverty line and meets less than 40% of the income gap of the 20% poorest households	Increase budgetary allocations to extend coverage of safety net programs and ensure that individual grants are large enough to meet objectives of that particular intervention.	Immediate
Wheat subsidy contributes less than 5% of poverty line and 8% to incomes of households earning PRs2,500 per month.		
Existing microfinance initiatives have only limited coverage		

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Key Issues	Recommendations	Timeframe for Implementation
Multiplicity of Programs		
Organizations implementing safety nets are involved in activities that are not their core competency, e.g., PBM and WWF run education, vocational training, and health programs, although other public agencies are already mandated to do this.	Need to streamline fragmented efforts by developing synergies between agencies/programs, and delineating responsibilities for specific activities.	Immediate
Multiple schemes result in resources being spread thinly.	Need to develop instruments targeting different groups: one permanent instrument to assist those unable to work; one to smooth consumption and incomes of those able to work but with low and irregular incomes; and one temporary instrument to protect vulnerable groups temporarily unable to earn because of economic shock or slump.	Long-term
Overlapping programs run by different agencies targeting same base. No division of responsibilities by types of program or target groups.		
Inter-Agency Coordination		
Lack of inter-agency coordination and information sharing, resulting in multiple payouts to same beneficiaries.	Establish 'one-window' operation to allow those requiring assistance from social safety nets to apply through centralized agency responsible for compiling data and establishing applicants' eligibility using proxy means testing.	Immediate
Targeting Mechanisms		
Lack of adequate targeting mechanisms, e.g., general <i>aata</i> subsidy (comprising the bulk of allocations for safety nets) is applied universally and not targeted specifically at needy households.	Beneficiaries should be identified and selected for different program benefits on the basis of proxy means tests to verify eligibility.	Long-term
Beneficiary selection process and distribution systems suffer from lack of credibility, resulting in misuse of funds.	Improve eligibility criteria and transparency by involving communities in distribution of funds. Strengthen internal controls and evaluation systems, supplemented by third-party validation.	Immediate
Lack of systems and institutional arrangements (especially in the case of <i>zakaat</i>) below district-level, and weak information systems make it difficult to verify spending and assess impact and quality of targeting.	Establish mechanisms for obtaining field-level data on beneficiaries and expenditures. Public disclosure of data on sources, uses of funds, monitoring, and beneficiaries.	Immediate

Summary Matrix for Specific Safety Net Programs

Key Issues	Recommendations	Timeframe for Implementation
Labor Welfare Programs		
Poor coverage (less than 4% of non-agricultural labor force) does not include contract and informal sector workers.		
Concerns regarding lack of transparency, and participation of other stakeholders in decisions pertaining to deployment of funds. Entire process controlled by government functionaries. For example:	Restructure governing bodies; allow employers and employees to select own representatives and grant these bodies greater administrative and financial autonomy.	Long-term
Medical facilities for workers are often determined by political considerations, and with little participation by genuine representatives of workers.	Give workers the option of either using ESSI facilities or private medical insurance	Immediate
Wheat Subsidy Programs		
Program structure duplicates and/or conflicts with objectives to protect farmers' incomes in the event of a glut and ensure food security.	Allow free movement of wheat and improve targeting of subsidy based on proxy means testing, combined with mechanism for community involvement in the distribution of benefits, to ensure better targeting and greater transparency—entire amount would meet wheat requirements of poorest 15% households for 6.5 months.	Long-term
Universal, untargeted subsidy	Gradually phase out role of GoP in procuring, storing, and marketing wheat, and shift these responsibilities to private sector.	Long-term
Benefit of subsidy accrues largely to lenders of funds for wheat trading operations, transporters, middlemen, public functionaries, wheat procuring agencies, and flour millers, or is absorbed by management inefficiencies.	GoP should formulate policy using effective instrument to achieve food security, e.g., strategic reserve for wheat, requiring decision on reserve level and institutional arrangements for its management.	Long-term
Benefit to consumer less than 5% of official poverty line.		