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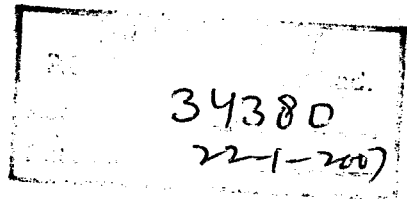
# PAKISTAN: DECENT EMPLOYMENT GENERATION AND SKILLS DEVELOPMENT

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# Employment Strategies and Labor Market Policies: Interlinkages with Macro and Sectoral Policies

Rashid Amjad<sup>11</sup>

## I Introduction: Recent Developments in the Labor Market

With the revival of economic growth in recent years the rising trend of unemployment has been arrested.<sup>12</sup> There has been a decline from a peak unemployment rate of 8.3 per cent in 2001-02 to 7.7 per cent in 2003-04 and (though not strictly comparable) to 6.8 per cent in July-September 2005 (First Quarterly Results).<sup>13</sup> The economy has been able to generate new jobs in manufacturing, construction and the agriculture sector as reflected in an increasing share of these sectors in total employment. Unemployment rates amongst young people in the age group 15-24 and amongst the female labour force have also shown a decline. The latter declined from 16.5 per cent in 2001-02 to 12.8 per cent in 2003-04 and to 10.3 per cent in July-September 2005.

These positive trends in economic growth and the labour market are broadly in line with the decline of 6 percentage points in overall poverty levels, from 32.1 per cent in 2001 to 25.4 per cent in 2005, according to the recently released results.<sup>14</sup>

Despite these positive developments the overall employment and labour market situation in the country continues to give rise to serious concern and needs to be given the highest attention in economic and social policy making in Pakistan. The increase in the absolute number of unemployed from around 1 million in 1990 to around 3.5 million in 2003-04 (and at 3.47 in July-September, 2005) in a country where few people can afford not to work for a lack of an effective safety net reflects the severity of the employment problem.

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<sup>12</sup> The Pakistan economy grew at 4.8 per cent in FY2003, 6.4 per cent in FY2004 and 8.4 per cent in FY2005. It is projected to grow between 6 and 7 per cent in FY 2006. (Pakistan Economic Survey, 2004-05).

<sup>13</sup> Starting 2005-06 the Federal Bureau of Statistics has moved to collection of data for the Labour Force Surveys from an annual to a quarterly basis. The Labour Force Survey July-September 2005-06 is the first in the series being carried out on a quarterly basis. It has a sample size of 8220 households, spread evenly over three months in the quarter to even out intra-seasonal variations. But since the earlier annual surveys were carried out over the year the First Quarterly Survey would not reflect inter-seasonal variations. Comparisons therefore must be made with considerable caution especially in terms of using these estimates for calculations of growth of labour force or total number of jobs generated in comparison with the earlier labour force surveys.

<sup>14</sup> A definitive analysis of poverty trends would have to await the release of the household income and expenditure data and the methodologies applied. [See Hassan (2006)].

The unemployment problem is reflected not just in the high absolute numbers or percentages of those who are openly unemployed. Pakistan's major employment challenge, as in the case of most developing countries, is that a large proportion of the labour force earn extremely low incomes and work in hazardous and poor working conditions with little or no social protection. According to ILO estimates, the "working poor" i.e. those who lived on less than \$1 a day, were about one-third of the labour force in 2001-02.

The economy's capacity to create good quality jobs, or what the ILO terms as decent work, continues to be disappointing. This is partly the result of a very high and rising growth of the labour force, around 3.5 per cent or even higher, which has been pushed up by increasing labor force participation rates especially amongst females.<sup>15</sup> At the same time, mainly due to labour-saving technological change, the labour absorptive capacity of the economy has been declining. The result is that against this high growth of the labour force the recent spurt in economic growth has been just sufficient to absorb the increase in the labour force and led only to a marginal decline in the open unemployment rate.<sup>16</sup>

In terms of the quality of jobs being generated, as in the case of most of the developing countries, the majority of the new jobs have been created in the informal economy whose share in non-agriculture employment was around 70 per cent in 2003-04. While one needs to be cautious in interpreting the results of the July-September 2005-06 Labor Force Survey (First Quarter) most of the new jobs created in the last two years according to this survey are in the category of unpaid family helpers with a decline in the share of the employees and self-employed category. This is a worrying development.

The employment and labour market challenge that Pakistan therefore faces is two fold. The first is to increase the rate of job creation to meet the high and by all evidence still rising rate of growth of the labor force. The second is to improve the quality of jobs that are being generated in terms of incomes, productivity and conditions of work.

To meet these twin objectives of improving quality and increasing the quantity of jobs, for both women and men, requires that the momentum of economic growth that has been generated in the last two years must be maintained and further strengthened and to ensure an economic environment and well functioning labor market institutional framework that increasingly results in the creation of decent work.

It must always be kept in mind that labor is not a commodity and labor markets are socially embedded. They rely on human motivations and needs including the need for security and social fairness. Freely chosen productive and remunerative employment must be promoted simultaneously with fundamental rights at work, an adequate income

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<sup>15</sup> The labour force growth rate shows wide fluctuations in the short-run depending on a number of factors especially the labour force participation rate. In the period 1999-2000 to First Quarter July-September 2005-06 it is estimated at 3.7 per cent. [See Ahmed (2006)].

<sup>16</sup> The impact of recent developments on the "working poor" would need to await the official release and analysis of the 2005 HIES.

from work, a voice at work and an affordable degree of social protection. These constitute the four pillars of decent work.

The ILO's Decent Work Country Program (DWCP) for Pakistan that has recently been drawn up in September 2005, together by the tripartite constituents, namely the Government and the Employers' and Workers' representatives, spells out a strategy and plan of action to promote the creation of decent work in Pakistan.<sup>17</sup> The Employment and Skills Forum at which this paper is being presented is part of the ILO's DWCP to assist the Government and the social partners to formulate and implement concrete policies and programs to increase both the quantity and quality of jobs being generated in the economy in an increasingly competitive global economy.

This paper is divided into two main parts. Part I examines the critical macro, sectoral and labour market issues that are the focus of attention of the session in which this paper is being discussed, based on lessons learned from ILO experience in the application of the Global Employment Agenda and ILO research on employment issues.<sup>18</sup> Part II examines these and other issues in the context of the Medium Term Development Framework (MTDF) 2005-10 and the Poverty Reduction Strategy (PRSP I and PRSP II currently in preparation).

#### Part-1

### **II Key Macro, Sectoral and Labour Market Issues**

Some of the critical challenges and questions that need to be addressed for creating a national environment conducive to the generation of productive and remunerative employment and decent work relate to the following issues:

- How to ensure a stable macroeconomic framework that spurs economic and employment growth?
- How to reconcile the need for productivity growth and competitiveness with sustained employment growth?
- How to develop well functioning labour markets and labour market institutions that promote growth, equity security and competitiveness?

#### *How to Ensure a Stable Macroeconomic Framework that Spurs Economic and Employment Growth?*

Though the relationship is far from automatic, as we examine in the paper, a high rate of economic growth can be an engine to expand the demand for labour and create a more favorable environment to achieve a higher rate of employment growth and poverty reduction.<sup>19</sup> Economic stability as reflected in the key macroeconomic indicators is

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<sup>17</sup> See GOP (2005).

<sup>18</sup> The Global Employment Agenda was adopted by the ILO's Governing Body in March 2003 based on strong support by the ILO's tripartite constituents. Its principal objective is to make employment central in economic and social policy making.

<sup>19</sup> For an analysis of the employment-poverty-development linkage see Islam (2006).

important for attracting investment and generating economic growth. The key question is how best to stabilize?

Economic policy makers in Pakistan have managed in the last six years to turn around the macro fundamentals of the economy from a precarious fiscal, balance of payments and debt bordering on default situation to the restoration of the fiscal balance, external credibility and the rekindling of economic growth. In the first few years this entailed economic hardship and a fiscal and monetary squeeze on the economy which resulted in low economic growth. Once having achieved macro stability the policy makers then jump-started the economy with an expansionary monetary policy that stimulated consumption expenditure supported by a significant increase in public sector development expenditures. These measures increased overall aggregate demand and stimulated economic growth. A large increase in remittances, from around US \$1 billion to US \$ 4 billion post-2001, helped to support as well as cushion the impact of these policies. However, a substantial monetary overhang resulting from an expansionary monetary policy and the increase in oil prices resulted in a level of inflation of around 10 per cent in FY 2005.<sup>20</sup>

As a result of these expansionary measures the economy has been able to achieve an average growth rate of around seven per cent in the last three years i.e. FY 2003 to FY 2005. In the first instance economic growth resulted from better capacity utilization of the existing capital stock but macro stability and economic growth has spurred both private and foreign investment and this is reflected in a large increase in imports of capital goods for both the domestic and export sectors.

It was against these encouraging and positive developments that the MTFD 2005-10 was framed which projected an average growth rate of around 7.4 per cent and a decline in the unemployment rate from a benchmark of 7 per cent in 2004-05 to 4 per cent at the end of the period 2009-10. The employment policies outlined in the MTFD 2005-10 to bring about this decline in unemployment are discussed in Part II but a key issue is whether the growth momentum and projected targets will be achieved for this will have a critical impact on labour market developments?

There are some worrying signs on the horizon. These relate to a rising balance of trade deficit reflecting high level of imports including machinery and though this has been accompanied by a creditable export performance it has not been sufficient to match the increase in imports. The continuing high level of oil prices has not helped this situation and though inflation has started to slow down it still remains at a worrying level.

The challenge for the policy makers is to gradually transform the primarily consumption-led growth impetus that jump-started the economy into a broad based sustainable growth path for the economy. Some "self-corrective" measures should help the situation. As new investments lead to increase outputs this should help dampen inflationary pressures and export growth taking advantage of new opportunities in the post-MFA trade regime should help finance the large and increasing import bill. A somewhat more prudent

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<sup>20</sup> See Janjua (2005)

monetary policy would also help the economy to move on to sustainable growth trajectory and dampen inflationary pressures.

From the point of view of the employment situation the important issue to grasp is that with the high growth rate of the labour force with which the country is faced any decline in the growth rate from its projected 7 per cent will result in rising unemployment and worsening labour market situation. It is imperative therefore that targeting a high growth rate of the economy, indeed to even a higher level than the projected 7 per cent, must remain a priority objective for policy makers. This is a necessary condition for meeting the employment challenge even though in itself it may not prove to be sufficient.

### *How to Reconcile the Need for Productivity Growth and Competitiveness with Sustained Employment Growth?*

The transformation of sustained economic growth into employment generation and other desirable labour outcomes is influenced by a number of factors acting simultaneously and sometimes in opposite directions: technological change and higher productivity; the sectoral mix in the pattern of growth of an economy between labour-intensive and capital intensive sectors; and duality in the labour market between a growing number of workers with excessively low-productivity (informal economy) and those with high productivity.

There is little doubt that as a result of technological change which is labour saving the labour absorptive capacity of the economy has declined in Pakistan, as is true in most countries. Traditionally labour-intensive sectors such as textiles now employ a much smaller labour force as machine operations have become increasingly mechanized. In Pakistan the consumption boom fuelled by cheaply available credit and favorable leasing arrangements led to a very high growth rate in the automobile and other durable goods sector, which being capital-intensive, did not generate a large increase in job creation.

The construction boom, fuelled significantly by remittances did, however, lead to a significant increase in employment as is also reflected in a rise in real wages of both skilled and unskilled workers in this sector. It has in recent months somewhat slowed down. In agriculture especially the very high growth rate of dairy farming, mainly milk production for urban consumption and livestock, have led to increase employment especially of women and could be an important factor in explaining the large decline in female unemployment in rural areas.

The key point to grasp is that the sectoral composition of growth plays a major part in determining its job generating capacity. What is needed is to identify and remove perverse incentives that bias investment towards capital-intensive techniques (eg. an over-valued exchange rate). There is also a need for a sectoral approach, not in the old sense of "industrial targeting", but creating conditions for investment in employment-intensive sectors through non-distortionary measures.

An important case in point is the development of the ICT sector in Pakistan. One of the worrying trends in the labour market as revealed in the July-September 2005 (First Quarter Results) labour force survey has been the increase in unemployment rates in

young educated people especially those with matric and higher educational qualifications. Clearly the economy is not creating sufficient jobs for the educated youth in the country. One sector which could, as in the case of India, provide job opportunities for unemployed educated youth would be the growth of the ICT sector in Pakistan. Total ICT exports from Pakistan is around US \$ 150 to \$ 200 million as compared to nearly US \$ 15 billion in India where this sector provides employment to between two to three million people. Now here is clearly a sector where with the development of the necessary infrastructure and skills the possibilities of generating jobs for the educated young men and women of Pakistan are considerable and indeed the Government is taking a number of steps to encourage the growth of this sector in which there is no reason that Pakistan should not be internationally competitive.

Similarly, a policy environment and measures can be put in place that gradually increase productivity, incomes and working conditions in the informal economy where most jobs have been generated in recent years.

The MDTF 2005-10 does identify a number of sectors whose growth could be encouraged in a competitive environment. The aim here must be to ensure that growth is as job-rich as possible in a context of accelerating technological change and productivity and ensuring global competitiveness.

*How to Develop Well Functioning Labour Markets and Labour Market Institutions that Promote Growth, Equity, Security and Competitiveness?*

A well-functioning labour market is an essential ingredient for developing a sound investment climate and can play a critical role in stimulating growth and poverty reduction. To the extent that rigidities exist, whether induced by lack or low levels of skills or a constraining regulatory framework, it can adversely impact on job creation especially by small and medium industries, which are the main engine of employment generation in the economy.

It has been argued that an increase in informal sector employment and hiring of contract workers in the organized sector is partly the result of a regulatory framework which places a high cost and imposes a lack of flexibility in hiring and dismissing workers, for those employing people in the formal or organized sector.<sup>21</sup>

Globalization and technological change are exposing national economies to more intense competition. Firms have to adjust more frequently their operations and their labour force to meet fluctuations in demand and boost productivity. But simply responding to firms' need for flexibility, without taking care of the worker's need for security, would be socially inefficient and would have negative effects at the individual as well as at the macroeconomic level. There is therefore a need for a well-functioning labour market with

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<sup>21</sup> See Akhlaque and Vodopivec (2005).



institutions and policies that lower the barriers of adjustment for firms, while ensuring income and employment security to workers.<sup>22</sup>

An important ingredient for success is that the labour market policies be institutionalized. In addition, tripartite social dialogue is necessary for designing and implementing effective labour market policies. Tripartism will aid the acceptance of change, improve the design of regulations and policies, and ensure sustainable financing.

The objective must be to develop an efficient and rights-based labour market on social dialogue and strong supporting labour market institutions including employers' and workers' organizations. In this context planned measures by the government to change the provisions of Industrial Relations Ordinance (IRO) 2002 and other legislation that are not in conformity with international labour standards to which Pakistan is a signatory need to be rigorously pursued.<sup>23</sup>

## PART-2

### **III Employment and Poverty Challenge**

With a labour force growth of over 3.5 per cent, based on historical trends and a healthy growth in productivity, Pakistan's economy must grow at a minimum of 7 to 8 per cent to absorb the new entrants into the labour force. It needs to grow even faster if it is to bring down the high unemployment rate.

This slackening in the labour market is reflected in movement of real wages where except in the public sector, between 1996 and 2002 they declined for both salaried and casual workers. In recent years real wages increased, according to Labour Force Survey data, between 2001-02 and 2003-04. However, wages in the agriculture sector, as shown by data of the Agriculture Prices Commission did not show an increase in this period.

The agricultural sector and allied industry (livestock, poultry and dairy) still account for the bulk of the employed labour force with a slight increase in recent years to around 44 per cent in July-September 2005. To reduce pressure on rural to urban migration and corresponding increases in low productivity informal sector employment in urban areas the agricultural economy still needs to play an important part in increasing productivity and incomes while maintaining its labour absorptive capacity.

Women's participation rate remains extremely low at 16 per cent in contrast to men's participation rate of around 70 per cent in 2003-04. According to the July-September 2005-06 (First Quarter) these increase to around 20 per cent for women and 73 per cent for men. If economic activities carried out within house premises is included this rate

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<sup>22</sup> The ILO has contributed substantially in the discussion on adjustment, flexibility and workers protection in the framework of globalized economies, [see Auer and Cazes (2003), Cazes and Nesporova (2003) and Auer and Coulibaly (2005)].

<sup>23</sup> Specifically Convention No. 87 (Freedom of Association and Protection of the Right to Organize), Convention No. 98 (Right to Organize and Collective Bargaining) and Convention No. 81 (Labour Inspection Convention).

increases to 39.3 per cent in 2003-04 and 43.5 per cent in July- September 2005, but still is much less than their male counterparts.<sup>24</sup>

Outside the agriculture sector the informal economy employs around 70 per cent of the labour force. The vast majority of informal jobs suffer from low productivity, low incomes and poor and hazardous working conditions.

While the employment rate among the illiterate is particularly high, as this group can hardly afford not to work, they are disproportionately more likely to be poor.

Among educated workers, more education not only brings significant wage advantage but is also associated with higher participation rate particularly among women.

A significant number of Pakistanis work overseas, variously estimated at between 2 to 3 million, mainly in the Middle-East but also in the Far East and with families in the United States, UK and the Europe. Out and return migration to Pakistan and remittances from abroad, which have increased almost 4-fold post 9/11 to around \$ 4 billion, have played an important role in labour market developments in Pakistan.

Child labour is estimated at 3.3 million and a significant number in bonded labour.

About one out of thirty-three i.e. 2.8 per cent of the labour force report some sort of occupational injury or disease in 2003-04. The majority of sufferers fall in the category of the self-employed.

### **III.1 Growth-Employment-Poverty Nexus in Pakistan**

In Pakistan the relationship between growth and poverty has never been straight forward as different time periods of its economic development testify. Periods of high economic growth have witnessed both declines in poverty, as in the 1980s, but also an increase in poverty as in the 1960s. Periods of low economic growth have seen poverty sharply increase as in the 1990s but also seen poverty fall as in the 1970s. In recent years the revival of economic growth based on recently released poverty estimates suggests that poverty levels may again be declining.

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<sup>24</sup> For obtaining a better measure of labour participation, especially of females, few new questions to net in a set of economic activities likely to be carried within house premises have been introduced in Labour Force Surveys.

**Table-2.I**  
**Growth and Poverty**

Year	1963-64 to 1969-70	1971-72 to 1976-77	1976-77 to 1987-88	1987-88 to 1992-93	1992-93 to 1998-99	1998-99 to 2001-02
GDP Growth rate	7.2	4.8	6.7	4.8	4.2	3.2
Labour Force Growth Rate	1.7	3.5	2.5	1.9	3.6	2.5
Growth Rate of Employment	1.5	3.4	2.5	1.5	3.4	1.6
Changes in Unemployment Rate	0.98 to 1.99	2.1 to 2.6	2.62 to 3.14	3.14 to 4.71	4.71 to 5.9	5.9 to 8.3
Changes in Poverty levels	40.2 to 46.5	46.5 to 30.7	30.7 to 17.3	17.3 to 22.4	25.7 to 32.6	30.6 to 32.1

Source: Kemal (2005).

While there is now a rich body of literature which reviews these trends and examines the reasons for the fluctuating levels of poverty<sup>25</sup> there is general agreement that a key factor in explaining poverty trends has been developments in the labour market both domestic and external as these have impacted on employment, wages and the relative bargaining strength of workers.

While data may not be strictly comparable in different time periods Table-2.I provides fairly robust evidence of the relationship between growth, poverty and labour market developments in Pakistan. The period from 1987-88 to 2001-02 shows that a slowing down in economic growth accompanied by an increasing imbalance in the supply and demand for labour resulted in a sharp increase in unemployment and a significant rise in poverty levels during this period. In sharp contrast in the period from 1976-77 to 1987-88, a high rate of economic growth together with employment and labour force growing around the same level results in decline in poverty even though unemployment increased very slightly. These favorable domestic developments were accompanied by a rapid increase in overseas migration, mainly to the Middle East, with almost one-third of the increase in the labour force in the first five years of this period finding jobs overseas. Remittances also increased rapidly reaching a peak of around \$2.7 billion, through formal channels, and since these reflected earnings of mainly skilled and semi-skilled workers sent to their families in Pakistan, it stimulated demand for products and jobs in small and medium enterprises and in the housing sector. Real wages increased in all sectors of the economy in response to a tightening of the labour market and poverty declined significantly during this period.

<sup>25</sup> See for example Amjad (2003).

The period 1963-64 to 1969-70 showed that despite an impressive growth rate, low employment growth and a decline in real wages till at least 1967-68 contributed to a rise in poverty. In the period 1971-72 to 1976-77, low economic growth but a fast rate of employment generation including in the public sector, increase in real wages as new labour legislation increased the bargaining position for workers and more secure tenancy rights, together with the start of overseas migration to the Middle East and remittances led to a decline in poverty mainly during the latter part of this period.

It may be useful to track labour market developments more closely post-2002 which has seen a revival in economic growth and based on projections for 2005-06 the economy would have grown on average at around 6 to 7 per cent in the last four years. This has been the result of a much better performance of the agricultural economy and very high growth in large scale manufacturing. The share of employment of agriculture, manufacturing and construction has shown an increase in July-September 2005 as compared to 2003-04. The direct employment generation resulting from this high growth in manufacturing has been dampened by increasing capital-intensity in production. Textiles are now far less labour intensive and consumer durables (motor vehicles, scooters, air conditioners) are relatively capital-intensive. The large increase in remittances post 9/11, 2001 to around \$ 4 billion or about 7 per cent of GDP in 2002-2003, a level which they have subsequently maintained, may not have had the same impact on employment as in the late 1970s and early 1980s as they appear to be coming mainly from professionals for investment in Pakistan in real estate and stocks, but have contributed significantly to a construction boom mainly in the housing market. Growth of formal sector employment in the last few years has taken place in telecommunications, media and the IT sector. There has also been a significant increase in employment in services related to restaurants and other food facilities in major urban centers.

These favorable developments in the labour market have led to a reduction in unemployment from 8.3 in 2001-02 to 7.7 per cent in 2003-04 and further to 6.8 per cent in July-September 2005. Also between 2001-02 and 2003-04 real wages increased by around 10 per cent in this period based on Labour Force Survey data. Wages of unskilled construction workers, masons and carpenters also increased by 11.1, 6.7 and 4.8 per cent respectively in 2003-04 compared to the previous year. Wages in the agriculture sector according to data collected by the Agricultural Prices Commission have not shown any real increase between in the same period.<sup>26</sup>

The revival of economic growth and recent labour market developments could explain the 6 percentage points decline in poverty levels, from 32.1 per cent in 2001 to 25.4 per cent in 2005 according to the data based on the HIES 2005. However, these would need to be carefully analyzed to be able to establish how broad based this reduction in poverty has been and the factors responsible for the decline?

To conclude, the overall analysis of the growth-employment-poverty nexus in Pakistan clearly suggests that whereas growth is a necessary condition for poverty reduction, it is not sufficient. Only if the pattern of growth embraces those sectors where the poor work

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<sup>26</sup> See Kemal (2005)

and is accompanied by an increase in employment both domestic and overseas, reflected partly in increases in real wages as the labour market improves, will growth have a favorable impact on reducing poverty.

### **III.2 Pakistan's Poverty Reduction Strategy and Medium Term Development Framework 2005-10**

#### *III.2.i Poverty Reduction Strategy Paper*

Pakistan's Poverty Reduction Strategy Paper (PRSP) finalized in December 2003 (currently being revised) and the Medium Term Development Framework (MTDF) 2005-2010 both reflect the high priority the government attaches to employment generation as a major element of its poverty reduction strategy and for redressing the serious unemployment situation and low level of skills and productivity of its workforce.

While the MTDF 2005-10 subsumes the PRSP issued in 2003 in a separate Chapter 5 which outlines its main features, the PRSP has continued to be monitored separately by a PRSP secretariat in the ministry of finance. PRSP II which is now under preparation will complement the MTDF 2005-10 and will be completely aligned with the Millennium Development Goals (MDGs). There is merit, however, in discussing them separately as certain elements of the poverty reduction strategy are outlined and monitored more closely as part of the PRSP.

The PRSP explicitly recognized employment as an essential component of the poverty reduction strategy by embedding it in its macro economic framework and investment program for accelerating economic growth as well as in separate section outlining measures for employment creation. The main elements of the employment strategy outlined in the PRSP are:

- Growth must emanate from sectors that have greater potential to generate employment.
- Targeted policy interventions for quick relief through short-term employment opportunities.
- Agriculture, housing and construction, small and medium enterprises, information technology and telecommunication identified as key sectors with strong potential to generate jobs.
- Importance of developing supporting infrastructure (aviation, ports, railways and roads) as a huge catalyst for economic activity, employment and economic growth.
- Conduct a review of labour regulations and laws that constrain competition and/or impose high and unnecessary compliance costs.
- Creating a business environment that is supportive of small and medium enterprises.
- A rural development strategy to increase productivity and incomes through i) overcoming water shortages facing agriculture through investment in water infrastructure and improved efficient water management; ii) encourage corporate agricultural farming by leasing out uncultivated state lands; iii) develop and

support livestock farming that provides 25-30 per cent of income of small farmers and landless livestock producers; iv) targeted programs for boatless fishermen working as laborers and small boat owners; and (v) accelerated distribution of state owned land to small farmers.

- Technical/Vocational education in all districts of Pakistan through area-specific skill programs and developing a demand driven public sector technical education and vocational training (TEVT) system through active involvement of the private sector.
- Targeting through easier provision of micro credit on soft terms, provision of equal opportunities for women in remunerated employment by accommodating women-oriented work patterns and improved facilities for the education, training and skills development of women.
- Encouraging growth of women entrepreneurs through the establishment of an SME bank and customized financing schemes.
- Elimination of child and bonded labour.

### *III.2.ii Medium Term Development Framework 2005-10*

The MDTF aims to reduce the rate of unemployment from around 7.5 per cent in 2004-05 to 4 per cent by the end of the Plan period 2009-10. It is based on a projected average growth rate of 7.6 per cent over the five year period and an implied employment elasticity of around 0.4. This would lead to an employment growth of around 3 per cent which being higher than the projected growth of the labour would result in a significant fall in the unemployment rate, table – 2.II.

According to the MDTF, “The employment strategy for the Plan period is a unique combination of flexible employment relationship (indicated by a high level of labour and job turnover) and economic and social security of employees (illustrated by an unemployment benefit system) along with labour market policy of activation (which upgrades the skills of the unemployed and thus supports the ongoing transformation of the economy). Furthermore, this strategy promotes equity in income distribution through setting of high enough wages to bring a household out of the poverty trap. It aims at the elimination of the “working poor” along with generation of employment opportunities.”<sup>27</sup>

The employment flexibility policies principally aim at increasing the demand for labour through public works program (Tameer-e-Pakistan and Khushal Pakistan Program), encouraging overseas employment and growth of employment generating sectors namely agriculture, small scale manufacturing, information technology and construction.

The employment activation policies encompass technical and vocational training to the unemployed, increasing employability of the educated to meet demands of the private and social sectors, micro-financing facility for the self-employed, setting up of SME bank, micro-credit facilities through Khushali Bank, micro-credit scheme of Zarai Taraqiati Bank for self-employment, the Pakistan Poverty Alleviation Fund to promote micro

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<sup>27</sup> MDTF (2005) page 188.

finance with around \$ 350 million available in resources over the Plan period and the establishment of a labour market information system.

**Table-2.II**  
**Employment Projections**

(In million)

Year	Population	Labour Force	Employed Labour Force	Employment Growth rate (%)	Unemployed Labour Force	Unemployment Rate(%)
2004-05 (Benchmark)	153.45	46.66	43.15	3.36	3.51	7.5
2005-06	156.32	47.60	44.36	2.80	3.24	6.8
2006-07	159.13	48.59	45.66	2.92	2.93	6.03
2007-08	161.93	49.71	47.04	3.04	2.67	5.37
2008-09	164.74	50.90	48.53	3.16	2.37	4.66
2009-10	167.52	52.21	50.12	3.28	2.09	4.0

Source: Planning Commission (2005)

An important strategic thrust of the MTFD is the development of a “knowledge economy” to compete in the global economy and therefore emphasis is placed on investing in education and skills development, science and technology and research and development.

### *III.2.iii Some Key Questions Related to the Poverty Reduction and MTFD Employment Strategy*

There are many common elements especially those related to leading sectors for employment generation between the PRSP and the MTFD employment strategy. Yet there is no doubt that the MTFD presents a more rigorous framework related to increasing the demand for labour, active labour market policies for minimizing labor market mismatch and security for workers through a social protection system and a targeted safety net for those in need. The Framework also put forward the proposal for a minimum wage to reduce poverty and income disparities which is not part of the PRSP.

On the employment projections in the MTFD if the country can achieve a growth rate of around 8 per cent and a rapidly rising investment rate to 26 percent of GDP by 2009/10 then many of the elements underlying the employment strategy could be realized resulting in a rate of growth of employment of over 3 per cent and a significant fall in the unemployment rate even if it is not halved.

There are, however, still some important issues and concerns in the MTFD employment strategy that need to be addressed. These relate to:

1. There is little discussion on the direct employment generating impact of the proposed PSDP especially as regards infrastructure development which would account for around 50 per cent of the plan outlay.

2. The resources allocated for active labour market policies for re-skilling of the unemployed or appropriate skilling of those first time labour entrants appears to be very meager at around Rs. 5 billion in relation to the size of the labour force.
3. Similarly schemes for micro-credit and direct poverty eradication programs need to be analyzed in terms of number of people it would cover. Again in terms of resources allocated these appear to be fairly small in relation to the problem being addressed.
4. The use of the minimum wage to lift the working poor who are mainly employed in the informal economy and in rural farm and non-farm activities is a bold initiative but needs to be worked out in terms of mechanisms for fixing the level of the minimum wage and more importantly its enforcement and its impact on employment.
5. The various schemes currently in operation provide social protection to a very small segment of the labor force (around 2.25 per cent)<sup>28</sup> and that too those mainly employed in the formal or public sector. Extending this including unemployment benefits to cover all segments of the labour force i.e. the informal economy and agricultural workers would entail extremely high costs the financing of which is not covered in the MTFD. Also there needs to be an analysis of the safety net provided by Zakat and Bait ul Maal to see the extent of its coverage and concrete suggestions on how this could be enlarged. Sayeed (2004) based on a World Bank study suggests that if all Zakat proceeds go to the poorest quintile of the population, its income will be augmented by a mere 2 per cent.

### III.3 Key Areas for Policy Analysis and Proposed New Initiatives

#### How to Ensure a Stable Macroeconomic Framework that Spurs Economic and Employment Growth?

Achieving a high rate of economic growth is an essential pre-condition for reducing unemployment and poverty in Pakistan although as our analysis shows it may not in itself prove to be a sufficient one. The MTFD therefore rightly targets a rate of growth of around 8 per cent which is only slightly higher than what would be needed to absorb the growth in the labour force estimated in the MTFD to be around 3 per cent.

The labour force estimates in the MTFD have been derived on the assumption that the crude activity rate of 30.4 per cent observed in 2003-04 would continue through the 2005-10 period. These could rise as a result of slowing down of population growth and higher levels of economic activity as they have been doing in the recent past. Also an increasingly educated female labour force could push up their labour force participation rates. At the same time higher levels of enrolment at primary, middle, matric and tertiary education could reduce the crude activity rate. On balance the assumed crude activity rate is possibly underestimated in the MTFD. This is all the more reason for aiming for a high growth rate averaging 7.4 per cent of GDP over the five year period.

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<sup>28</sup> See Sayeed (2004).



The key question in being able to achieve this rate of growth which though high is not improbable given Pakistan's capacity to grow at an average of around 6 per cent during the period 1960-90, (which came to be known as the Pakistani rate of growth), before the slow down in the 1990s. This would critically depend on attracting private investment, both foreign and domestic, and an almost three fold increase in public sector investment by the end of the plan period. The macro framework outlined in the end of the MTDF is not altogether convincing on how the proposed public investment would be financed. The needed fiscal policies to raise these resources need to be spelt out.

Some of the key issues and the importance of maintaining a high rate of growth as envisaged in the MTDF 2005-10 for reducing unemployment in the light of recent economic development has been discussed in Part I of this paper.

An important issue is whether there is enough flexibility built into the PSDP in the MTDF to shift resources towards more employment generating projects in the medium term. Again while this requires more close scrutiny of the MTDF it would appear that the PSDP room for flexibility is seriously constrained by the throw forward of a number of mega infrastructure projects launched in the last three years. It may therefore constrain the PSDP's ability to shift resources towards more labour intensive projects if the need arises for example if the economy grows at a lower than the projected rate. This issue is discussed further in a subsequent section.

#### *Increasing Productivity and Incomes in the Rural Economy while Maintaining its Labour Absorptive Capacity*

With almost half of the labour force engaged in the agriculture sector and with around 70 per cent of the labour force working in rural areas the strong emphasis on the development of the rural economy in both the PRSP and the MTDF is more than justified. In relation to agriculture the importance of needed water resources and how best to deliver them are also rightly emphasized in both these documents. The same is the case for the development of the livestock, poultry and diary industry in the rural areas as well as other initiatives outlined earlier.

One of the proposals outlined in the MTDF as part of the poverty reduction strategy is the distribution of state owned lands to landless labour which has proved very successful, as in the Punjab, in reducing poverty levels of this vulnerable group. It would be helpful if the MTDF was to provide some estimates of the expected land acreage to be so distributed and the number of landless labour that this scheme would target. The MTDF recognizes that the current level of land distribution is unlikely to cover landless household on a large scale. It does, however, point out that transparent, targeted and coordinated re-distributive initiative would have important implications for many poor household who benefit from land distribution program.

What is not so clear in the MTDF is whether the giving out of non-irrigated state land for corporate farming would reduce the land available for distribution to landless labour and whether it may still be better to develop these lands with public investment and then distribute them amongst the landless.

Indeed the whole issue of introducing corporate farming even on unirrigated state land as outlined in Chapter 18 on Agriculture Development needs more careful examination. If the idea is then to extend this scheme to even irrigated state land or allowing foreign investors to undertake corporate farming by buying out small landholdings, it could seriously undermine the labour absorptive capacity of the rural economy. At this stage it seems pre-mature to encourage corporate farming even if one wishes to use this mechanism to stop the fragmentation of land into very small land holdings.

To be pragmatic the agriculture sector must provide a breathing space for the economy to absorb the high rate of growth of the labour force. The need is to increase productivity of those employed in the sector through making available the relevant technologies many of which already exist for local use.<sup>29</sup>

Also pricing policies for the outputs of the agriculture sector needs to take into account the economic conditions of small marginal farmers without or limited marketable surplus and landless non-farm households in the village communities whose number is close to one-half of the entire households in many villages in Pakistan.

A serious effort should also be undertaken to study the behavior of the land market and to explore the possibility of owning land by those who do not have the initial capital to do so keeping in mind that the extreme disparities in land ownership and incomes of those who own land as compared to those who do not. The schemes outlined earlier for the distribution of state owned land to the landless must be viewed in this context.

#### **III.4 Creating a Favorable Environment for Entrepreneurship Development and Enterprise Development Especially for Small and Medium Enterprises**

It is entrepreneurs, in small and big enterprises, in the formal and informal economy, who play a major role in bringing in new investment thus raising production and job creation. Business initiatives should not be taken for granted. A favorable policy environment needs to be created by simplifying and reducing regulatory procedures for setting up new businesses, encouraging competition in product markets and by having greater transparency in awarding contracts and regulating businesses.

Women entrepreneurship needs to be promoted through training in basic business skills and improved access to credit and market opportunities.

Pakistan's PRSP but more especially the MTFDF spells out a detailed strategy and concrete policy measures for the development of SMEs. It also suggests a uniform definition for SMEs which would make it easier to track growth of this sector. Measures outlined in the MTFDF include: i) technology up-gradation and enhancement of business skills; ii) increase in competitiveness of SMEs including through provision of subsidized focused short duration training module to workers and their shop floor managers; iii) incentives for investment in the form of reduced taxes for enterprises which sign up for up-gradation of business products; iv) improve quality standards to compete in the global

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<sup>29</sup> See, Hirashima (2003).

economy; v) improve market access and product information; vi) strengthening of legal, taxation and institutional framework; and vii) improved access to financial resources and services including a substantial increase in share of total bank financing for SMEs and credit as venture capital for new start-ups especially those engaged in export-oriented contract manufacturing.

The MTDF reiterates the demand of the sector for the redrafting and implementation of less intrusive labour laws and involvement of trade bodies in the inspection process. The MTDF, however, takes the view that since important elements of social equity are involved incentives would be offered in the form of reduced costs of credit, inputs and tariffs if owners voluntarily comply with Employees Old Age Benefit Insurance and Employees Social Security Institution.

The role of the Small and Medium Enterprise Development Authority (SMEDA) in actively promoting the growth of this sector and the SME Bank to provide financial support to SMEs including financing schemes for women entrepreneurs are highlighted in both the PRSP and the MTDF. The latter also lists a number of high priority activities in manufacturing, design and services including call centers for investment by SMEs. Assistance from the Asian Development Bank has also been sought by the Government to encourage reforms and growth of this sector.

Given the dominant role of SMEs amongst private sector enterprises (90 per cent employ less than 99 workers in manufacturing) and the fact that the vast majority of new jobs will be created by them the high priority being given to encourage growth of this sector is well placed and many new initiatives are planned.

Yet it needs to be realized that it is impossible to micro manage the growth of this sector given its size despite some well intentioned assistance to a small number of enterprises. What needs more careful analysis is the overall incentive structure especially the regulatory framework for setting up new businesses and encouraging competition in product markets and the impact of such measures on the growth of SMEs. What would be very helpful is an analysis based on for example the lines of the earlier published Census of Small Scale Manufacturing Enterprises to track the growth of this sector as was done for the period of the 1970s and 1980s.

This is all the more important as growth in manufacturing in recent years is attributed mainly to a few large scale enterprises from established large industrial houses in textiles and other key sectors. Also it is not quite clear whether any significant investment has taken place in SMEs in the past few years especially in manufacturing.

There is therefore an urgent need to conduct an analysis of the growth of the SME sector in the recent past which should include the impact of trade liberalization on SMEs capacity to compete in the global economy. The issue of the labour regulatory framework on inhibiting growth and new investment needs to be judged looking at relative performance of enterprises in this sector. While opinion based surveys may be helpful in this regard they are no substitute for an analysis based on actual performance and identification of factors which help explain varying performance of SME enterprises.

### III.5 Increasing the Employment Intensity of the Public Sector Development Program

Experience in the infrastructure and construction sectors has shown that investment programs using employment-intensive construction techniques when compared to conventional equipment-intensive techniques are: i) at least 30 per cent cheaper; ii) able to reduce foreign exchange requirements by 30 to 40 per cent; and iii) create 3 to 5 times more employment per unit of investment without compromising the quality of the end product. With the same level of public sector investment the Government can strongly influence the rate of job creation by: i) diverting resources to more employment-intensive programs; and ii) using more employment-intensive techniques for approved projects.

The Public Sector Development Program (PSDP), covering Federal and Provincial Programs, is envisaged to increase from 3.1 per cent of GDP in 2004-05 to 6.3 per cent in 2009-10. The annual PSDP is to triple from around Rs. 202 billion in 2004-05 to Rs. 597 billion in 2009-10 with a total planned development expenditure of Rs. 2,042 billion over the five-year period, table-2.III. An additional Rs. 108.5 billion is planned for Azad Kashmir, FATA and Northern Areas.

**Table-2.III**  
**Sectoral Breakdown**

Sector	Plan Outlay (2005-10)	(Billion Rupees) % share
Physical Infrastructure	993.2	48.6
Social Sectors (MDG Goals)	681.5	33.4
Balanced Development	270.1	13.2
Accelerating output growth (production supporting sectors)	66.3	3.2
Total	2042.0*	

\*Includes others Rs. 30.9 million and excludes expenditures planned for Azad Kashmir, FATA and Northern areas.

Source: MTFD (2005)

Of the total public sector development plan 13.5 per cent is for the development of water resources, 19.6 per cent for power and 14.9 for transport and communication. Education and training are 5.9 per cent, higher education a significant 4.9 per cent, science and technology 2.5 and IT 1.3 per cent. Local/District Governments are only allocated 2.9 per cent of the total outlay under balanced development.

While a more detailed analysis would be required the MTFD outlay suggests that taking into account the on-going mega infrastructure projects that would be completed during 2005-10 the direct employment generating impact of the PSDP may not be as high as

expected and the allocation of expenditures and choice of projects may need to be reviewed.

The employment intensity of the PSDP as outlined in the MTDF may for example be increased by shifting some resources towards projects for local level development such as public works programs and by increasing resources allocated for Local/District level implementation while ensuring that sufficient capacity is built up at this level to be able to execute such projects in a timely, efficient and cost-effective manner.

The employment impact of already selected public sector infrastructure projects could be increased by selecting more labour-based technology and implementing them through small contractors using locally produced raw materials. The MTDF outlines a number of measures and training programs for officials in charge of monitoring and implementation of the PSDP to ensure its timely and cost effective implementation. Such training could include examining ways and means of increasing the labour intensity of selected projects including the mega infrastructure projects.

### **III.6 Developing a Globally Competitive Workforce**

The increasing pressures of competitiveness in the global economy have made Pakistan very conscious of the low level of education and skills of its workforce. This is not only reflected in the PRSP and MTDF but also in the Prime Minister's 5-point program which targets an output of 300,000 skilled workers every year - almost doubling from the 160,000 being produced annually through the existing formal training system.

Effort to develop a "knowledge economy" which would provide Pakistan the cutting edge at the global level include significantly increased resource allocations for: i) higher education, with enrolment at tertiary level education increasing from around 4 per cent at present to 8 per cent by 2010, ii) science and technology, and research and development; and iii) improvements in ICT infrastructure.

The MTDF envisages a major increase in the number of institutions (Polytechnics, Technical and Vocational Institutes) with the ultimate target of at least two in each district (of which one will be for women). It also plans for a major increase in the annual intake for skills and technical education to 400,000 by 2010 as compared to 105,000 in 2004-05. Of this 330,000 are planned as annual intake in public institutions while the remainder is expected to be part of private sector involvement. The introduction of the skills and technology stream in 2000 high schools (equally divided among boys and girls) will allow 240,000 children of age groups 14-15 to enter the program each year. The total cost envisaged for these measures is Rs. 33.78 billion.

A national body, National Technical Education and Vocational Training Authority (NTEVTA), is to be set up, which has now been done as a Commission, which would undertake training needs assessments, forecast technical changes and demand, and plan alternative pathways for those who drop out or could not finish normal school. It would also undertake in conjunction with the provincial counterpart TEVTAs national planning, curriculum development, standardization of technical education, training of trainers,

national accreditation of private polytechnics and institutes and develop strong linkages with the industrial end users.

While there is considerable merit in increasing the number and improving the quality of skills of the workforce it is equally important to ensure that the increase in supply matches market demand and skill mismatch is minimized. In monitoring changes in demand the newly set up National Technical Education and Vocational Training Commission working closely with the Provincial TEVTAs needs to actively involve employers and workers organizations to track changes in private sector demand for skills and workers' needs for re-killing and most appropriate ways of provision of skill training especially for those already in the workforce.

While mechanistic projections of demand for skills is rarely warranted a careful analysis of the expected fast growing sectors and more importantly placement of existing graduates from these institutions and wages for skilled workers should provide a good idea of whether this large increase is justified given the high cost of technical education as compared to more general education. It may also be important to relate the expected increase in demand for skills with skills demanded overseas for which Pakistan could effectively compete.

The planned increase in the capacity of the TEVT system also needs to pay attention to the quality of the graduates, their acceptance by the private sector and how the increased demand for good quality trainers would be met. Successful training efforts based on public-private partnership and tripartite Skills Development Councils need to be replicated and up-scaled.

Some basic short term training programs that respond to local needs can also be very effective in generating employment and reducing poverty. The ILO's TREE (Training for Rural Economic Empowerment) project implemented with national partners including the National Rural Support Program and Directorates of Technical Education has been very successful in training people mostly for self employment in three districts in the NWFP and Punjab Province. It has targeted persons belonging to low income families, rural women, unemployed young males and people with disabilities with a very high success rate. Pilot programs such as the TREE project and other successful initiatives need to be up-scaled and expanded to different parts of the country.

### **III.7 Striking the Best Possible Balance between Flexibility in the Labour Market for Enabling Enterprises to Adjust While Providing Security for Workers**

In respect to the functioning of the labour market and its impact on employment and poverty alleviation there is a distinct difference in approach between the PRSP and the MTFD. While the former views the labour market and the regulatory framework that governs it primarily from its impact on efficiency and competitiveness of enterprises the latter also views it in relation to its impact on equity and its role in alleviating poverty.

The essential argument in the PRSP is the importance of lowering the cost of doing business as this would encourage job creation and therefore the need for the consolidation of around 101 labour laws into laws and enforcement so as they may have a positive

impact on employment and economic growth. A proposed labour market study<sup>30</sup> also argues that labour market regulations and practices in Pakistan appear to be stringent, contributing to undesirable labour market outcomes and poverty, and hindering overall growth. It argues that to circumvent the rigidities of labour laws that apply to units with 10 or more workers, employers have resorted to a combination of sub-contracting of production, harnessing of capital intensive production processes, hiring of contract labour, and fragmentation and legal subdivision of production facilities into smaller enterprises. The study claims that as a consequence Pakistan has at 36 per cent the highest share of temporary or contract employees as a percentage of total employees in the formal manufacturing sector as compared to its two South Asian neighbors India at 15 per cent and Bangladesh at 3 per cent.

Without pre-empting the results of the cited study it could be said that the deteriorating labour market situation reflected in rising unemployment, stagnant and declining wages in the 1990s till recently and resulting weakening position of trade unions have all lead to a very flexible labour market and flexible labour market arrangements and that the labour regulatory framework in such a situation is easily ignored and difficult to implement. The increase in contract labour arrangements and other measures may well be a reflection of these developments.

This is an opportune time to discuss the existing labour regulatory framework as the labour legislation promulgated in October 2002, the IRO 2002, has curtailed workers' rights and the Committee of Experts that reviews the implementation of International Labour Standards has made it clear that various provisions of the Ordinance are not in conformity with Convention 87 (Freedom of Association and Protection of the Rights to Organize) and Convention 97 (Right to Organize and Collective Bargaining) to which Pakistan is a signatory.<sup>31</sup> It was also unfortunate that the promulgated IRO 2002 completely disregarded the agreement reached between the employers' and workers' representatives, and the government in the National Tripartite Labour Conference held in August 2001.

The PRSP makes it quite clear that the Government aims to formulate a labour policy that would ensure protection to workers' rights in all sectors and fair working conditions while enhancing labour productivity and encouraging enterprise efficiency and competitiveness<sup>32</sup>. Also a Labour Inspection Policy will be formulated which will adopt an innovative approach to labour inspection that is flexible, transparent and fair and encourage enterprise compliance with labour policies and laws. The Government is also in the process of consolidating and rationalizing various labour laws into six broad

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<sup>30</sup> Akhlaque and Vodopivec (2005)

<sup>31</sup> See ILO, *Report of the Committee of Experts on the Application of Conventions and Recommendations*, Application of International Labour Standards 2005, Geneva, 2005.

<sup>32</sup> The First Draft of the Labour Protection Policy 2005 was circulated in February 2005 for discussion. The Draft Policy expands the scope of its application by including 'all categories of workers engaged under informal arrangements....' And it covers five main areas including: basic rights; working conditions; working environment; social security and living environment. The Draft Policy clearly recognizes the linkage between development and labour protection. And seeks commits to be supported by a new Labour Inspection Policy.

categories in line with ILO Conventions ratified by Pakistan to reduce cost of doing business.

This new labour legislation needs to be developed through tripartite social dialogue and consensus between employers' and workers' representatives, and the government. The need for such consultations and dialogue between stakeholders is emphasized in the PRSP.

### **III.7.i Minimum Wage**

The MTDF proposes the establishment of a minimum wage to be set by the Government in such a way so as to ensure elimination of the working poor to a very large extent. This is seen as an essential part of the measures for providing a safety net and security to workers.

The minimum wage law of 2001 which replaced an earlier law dating back to 1969 has not only revised the minimum wage, but has also extended its application to employees of all industrial and commercial establishments as the earlier law was restricted to those establishments that employed at least fifty workers. The minimum was set at Rs. 2,500 per month which is currently being renegotiated. According to the Labour Force Survey over half the employees have salaries below the minimum wage.<sup>33</sup>

There are arguments for and against a minimum wage law as an effective policy for poverty reduction. An argument against is that it distorts the labour market and might drive up wages but may drive down employment. Arguments for minimum wages point to the possibility that labour markets, especially those where the poor are to be found, are already distorted, and a minimum wage might serve to correct the distortion. It could also have a favorable impact on productivity.

The fact that in Pakistan labour markets are segmented, along lines of gender or social grouping suggests that labour markets are not competitive in the first instance.<sup>34</sup> Many such sections of the population are especially disadvantaged and this is then reflected in their wages. Real wages of rural labour for example have not gone up in recent years while wages of workers in other sectors have increased.

The issue of a national minimum wage policy as proposed in the MTDF, therefore, needs to be seriously pursued as an effective measure for poverty alleviation by expanding its scope to all workers regardless of sector, industry or type of establishments and not only to workers of commercial and industrial establishments. Such a minimum wage should also take into account variations in labour market conditions across regions. Clearly there are serious hurdles in the way of the implementation of a national minimum wage especially in the informal and rural economy. Initially it may more serve as a guideline in fixing wages in such sectors and indirectly serve to improve the bargaining position of disadvantaged groups in the labour market.

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<sup>33</sup> Note: The discussion on the minimum wage is based on Gazdar (2004).

<sup>34</sup> See Gazdar (2004)



### **III.8 Improving Productivity, Conditions of Work and Incomes in the Informal Economy**

It is somewhat surprising that given the fact that almost 70 per cent of the non-agricultural labour force is employed in the informal economy and that most new jobs have over the recent years been created in this sector both the PRSP and the MTF do not give sufficient importance to raising incomes, productivity and conditions of work in this sector. However, a number of measures outlined in both these documents especially the provision of micro credit and other direct support measures to assist the working poor would be targeted at this sector.

Yet there is perhaps real need to explicitly recognize this sector in the Government's strategy for enhancing employment and incomes and alleviating poverty. Most micro enterprises and especially self-employed women are found in this sector and many of the measures outlined for the support of the SME sector are not really applicable to this sector.

For the Government to recognize the existence of the informal economy would in itself be an important step as it could lead to measures to recognize the assets of those working in this sector and to be able to use it as collateral for gaining access to credit and other services.

Policies must aim to stimulate the economic environment under which the informal economy operates especially linkages with the more dynamic sectors of the economy together with innovative approaches for initiating a growth process and institutional reforms to integrate the informal economy into the economic mainstream.

To improve working conditions in the informal economy integrated policies are needed to raise productivity, improve working conditions, develop affordable social protection, set up skills upgrading programs, ensure a legal and institutional framework for property and labour rights and giving a voice to those who work in this sector by encouraging workers to organize themselves.

The "product market" divide between the formal and informal economy needs to be overcome through the use of value chain analysis and marketing approaches and tools to identify links in the production chain which can be favorably opened up for producers in the informal economy. There is need to strengthen the capacity of policy makers at the local level to provide a conducive policy framework and support structures for market access for informal sector operators.

Developing and empowering women entrepreneurs should be a major target of public agencies as well as NGOs working in the informal economy. The SME Bank and its women entrepreneurship development program may be well beyond the reach of women working in this sector. A survey carried out by the ILO of women borrowers in Punjab, Balochistan and NWFP who obtained micro-finance services from three NGOs namely National Rural Support Program (NRSP), Sungi Foundation (SF) and Traqi Trust (TT)

between 1996 and 2001 found that the majority (71 per cent) of women entrepreneurs reported a positive change in their status in the family and community after their enterprises had improved through the use of credit. While the survey revealed that the repayment rate among women borrowers is fairly satisfactory the interest rate charged on loans varied between 10-20 per cent but reached the level of 34 per cent when calculated on the basis of the outstanding balance.<sup>35</sup>

The setting up of a Micro Bank is a good start in meeting the financial needs of the informal economy but if it is to have any real impact its operations would need to be drastically increased building upon its experience.

The other area which needs urgent attention is improving conditions of work in the informal economy. As the Labour Force Survey 2003-04 has shown the highest incidence of occupational injury and disease are the self-employed. The returns to investment and campaigns to increase awareness on occupational safety and health in the informal economy can be very high with a favorable impact on productivity and incomes of those employed.

### **III.9 Maximizing Development Benefits from Overseas Migration and Remittances**

Overseas migration and resulting remittances has played an extremely important role in reducing pressures on the domestic labour market and in reducing poverty especially from the mid-1970s to the mid-1980s. The MDTF clearly identifies overseas migration as one of the major areas of demand for Pakistani workers during 2005-10.

The post 9/11 increases in remittances clearly contributed to improving the macro fundamentals and the turnaround in the economy that followed. Since these increases have not been the result of any significant out migration flow its impact on this account has been minimal. Also it would appear that this increase is coming from mainly more well to do overseas Pakistanis and its impact has been much more on the real estate market and housing construction rather than on stimulating demand for consumer goods as had happened in the 1980s.<sup>36</sup> To that extent its impact on stimulating demand and employment has been much less as compared to the 1980s.

The MDTF does identify skills in demand overseas as well as countries especially in South East Asia and the Middle East where Pakistan migrant workers could find gainful employment.

What may be very useful at this stage is to conduct a sample survey on the use of remittances sent by overseas Pakistanis to their families in Pakistan and if possible on the reasons for their increase by interviewing overseas Pakistanis in their host countries. The results of such a survey could assist in formulating policies for the more productive use of these remittances and thereby help in stimulating growth and employment.

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<sup>35</sup> Sabrina de Gobi et.al. (2004).

<sup>36</sup> See Anjad (2004).

In recent years donations by overseas Pakistanis have been used through the setting up of a National Commission for Human Development supplemented by government funds to launch programs for elementary education and improved health facilities at the local level. Overseas Pakistanis may also be attracted to contribute to local economic development projects in areas from where they migrated. Such a project proposal has been supported by the UK Resident Kashmiri Community which numbers around 500,000 for the creation of sustainable job creation and livelihood opportunities in certain districts in Azad Kashmir. The project is being developed by the ILO in partnership with DFID and the Government of Azad Kashmir. Similar proposals could be developed with other Pakistani communities living abroad.

### **III.10 Mainstreaming Gender Equality**

Women in Pakistan still remain an overworked, neglected and underpaid human resource that if educated, empowered and integrated into productive and remunerative economic activities could make a major contribution to increasing productivity, stimulating economic growth and reducing poverty in Pakistan. A holistic approach towards the economic empowerment of women is to ensure their workers' rights by ensuring non-discrimination and equality at the workplace; by developing their skills levels for effective participation in the labour market, especially by developing their entrepreneurial capabilities; by strengthening their participation in trade unions for effective bargaining and voice representation particularly for securing adequate social protection and by encouraging the private sector to develop affirmative action strategies. The ILO Women's Economic Concerns and Working Conditions project is a step towards demonstrating this approach.

There have been some impressive developments in empowering women in the last few years especially in increasing significantly their representation in the national and provincial legislature and in local bodies. Both the PRSP and the MTFD outline in great detail these achievements and both the documents have separate chapters outlining strategies for bringing about significant improvements in the status and active participation of women in economic activities.

The employment chapters in these documents, however, do not focus sufficiently on the gender disparities in the labour market reflected in the very low participation rates of females and very high levels of unemployment.

Of the few women who do participate in the labour market and are part of the labour force in that they are willing and actively seeking work, the unemployment levels are extremely high. Overall unemployment rate of females in 2003-04 was 12.8 per cent almost double that of the overall rate. This has come down to 10.3 per cent as shown in the July-September 2005 First Quarter Labour Force Survey but is still much higher than that of males at 5.9 per cent. Unemployment of females is especially high in urban areas at 17.4 per cent according to this latest survey. In Balochistan and NWFP Provinces unemployment rates for females were around 30 per cent in 2003-04.

These still very low participation rates and relatively high unemployment rates amongst females especially in urban areas need urgent action as it could act as a strong disincentive to invest in female education which is the most important means of empowering women in Pakistan. Attention must be paid to improving the environment and conditions in which women work as this may be a discouraging factor in women wishing to work outside their households. Also the question of improving facilities to encourage mobility of women, including the educated, from their households to their possible places of work needs to be acted upon as this could also discourage women to go to relatively far away places for work even if employment exists in those areas.

Some measures have already been initiated to encourage self-employment and women entrepreneurship through the setting up of the First Women Bank and actions by the Pakistan Rural Support Program and other NGOs mentioned earlier with a measure of success but these still remain marginal in terms of their overall coverage and impact.

Poor women feature prominently among the chronic poor in Pakistan as in the rest of South Asia. Labour market segregation along gender lines restricts the employment opportunities for women. Despite legal provisions to protect women's ownership rights – which might prevent women from slipping further into poverty – discriminatory and patriarchal property and inheritance customs continue to prevail.

It would be important to build into the employment strategy in the MTRDF concrete ways and means of addressing the gender discrimination in the labour market as well as the high rates of unemployment especially among the young and educated women. A more targeted approach for the educated unemployed and chronically poor women may be warranted. As regards the former matching education and skills more closely to market demand especially in new emerging sectors such as IT and media and in the case of the latter more targeted programs for chronically poor women could be spelled out.

Finally, while it is true that the present Government has taken many bold steps to empower women over the past few years what is perhaps missing is a clear and strong signal to all those engaged in policy making and in the administrative and police structure of the strong commitment and resolve of the Government to ensure that its policies on empowering women and improving their status are carried out.

#### **IV Conclusions**

A review of Government's policies as is reflected in its Poverty Reduction Strategy and the MTRDF 2005-10 shows that the Government is giving high priority to the creation of productive and remunerative employment and embedding this goal in its poverty reduction programs. This is a sharp break from earlier plans and programs.

The paper has reviewed the overall policy environment and incentive structure for the expansion of employment in the economy including in key sectors and the importance and urgency of improving the education and skill levels of the country's workforce to compete in the global economy.

In so doing the paper has identified some critical gaps and come up with suggestions on how to ensure that the goals that have been set in the PRSP and MTFD can be effectively achieved. Some of the suggestions relate to:

- The critical need to maintain a high economic growth rate to productively absorb the very high growth rate of the labour force.
- To ensure a favorable economic environment that translates high economic growth into more and better jobs for women and men in Pakistan.
- Facilitate the growth of employment generating sectors in a competitive environment.
- Build in more flexibility in the PSDP to switch to more employment generating projects as the need so arises and examining ways of increasing the employment impact of the existing and planned projects.
- The importance of maintaining the existing labor absorptive capacity of the agricultural sector while increasing productivity and incomes of those employed in the sector. Proposals to provide access to land for landless peasants including through the distribution of state lands be actively pursued and in this context measures proposed for introducing corporate farming need to be critically examined.
- While targeted measures for encouraging the growth of SMEs especially through SMEDA and other agencies are welcome, given the vast size of this sector, the real need is to ensure an overall favorable environment to encourage its growth.
- In developing its ambitious skill training program there is need to monitor closely to market demand and ensuring cost effectiveness and reasonable rates of return on investments in skills training. In ensuring this the role of the newly set-up NAVTEC working with the provincial TEVTAs and with the active involvement of employers' and workers' organizations will be critical.
- Recognition of skills including those acquired on the job and outside the training system as part of a national qualifications framework would make the existing system more flexible to rapidly changing skill requirements.
- Other active labor market policies (ALMPs) in addition to training such as provision of employment services closely linked to skill centers at the district or tehsil level should be considered for better matching supply and demand in the labor market.
- In carrying out the planned reforms in the labor regulatory framework there is need to ensure the best possible balance between flexibility for enterprises to adjust to changing market demand and security for workers while fully respecting international labor standards. It is equally important that the changes introduced should be developed through social dialogue and tripartite agreement.
- There is merit in considering the setting up of a national minimum wage for rural workers for lifting the working poor out of poverty and this measure outlined in the MTFD needs serious discussion and consideration.
- Strengthening the institutional capacity of the labour administration system is required.
- An affordable social protection system and social safety net should be put in place through innovative programs and micro-finance initiatives.

- The need for the Government to recognize the existence of the informal economy, which is not given the attention it deserves in the PRSP and the MTRF, as this in itself could play an important part in putting in place measures that lead to recognition of rights and assets owned by those working in the sector.
- Maximizing the development benefits from overseas migration and remittances and to tap resources from overseas Pakistanis for local economic development projects in the areas from where they migrated and where many members of their families still reside.
- The employment chapters in both the forthcoming PRSP and the MTRF 2005-10 need to address the wide gender disparity and to focus on targeted measures for reducing high levels of unemployment amongst young women.
- The problem of youth unemployment especially among the educated needs to be specifically targeted and made an integral part of the employment strategy in the PRSP and MTRF 2005-10.
- To make employment central in economic and social policy making institutional capacities in key economic and social ministries including the Ministry of Labour, Manpower and Overseas Pakistanis and employers' and workers' organizations need to be strengthened. The technical capacity of the newly set-up Policy Planning Cell in the Labor and Manpower Division needs to be built up and assistance provided to formulate employment and labor market policies and analyze labor market developments.
- The government is committed to improve the labor market information system to be able to better monitor employment and labour market developments. This is essential to design appropriate employment and skills training policies in the face of changing economic and labour market conditions but also to effectively monitor the implementation of employment strategies outlined in the PRSP and MTRF. The lack of such monitoring has been reflected in the quarterly progress reports on the PRSP. This deficiency should be overcome by setting up an appropriate monitoring mechanism and benchmarks against which employment targets set in the PRSP and MTRF are evaluated.

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