

# Need for an employment guarantee scheme

By Shahid Kardar

ONE of the pillars of Pakistan's Poverty Reduction Strategy Paper (PRSP) to eradicate extreme poverty and hunger is targeting and expanded coverage of the anti-poverty and social protection programmes for the poor and vulnerable. To fulfil this commitment, the Government of Pakistan has designed several instruments to help the poorest segments of the population.

These include transfers in cash and kind for consumption through Zakat and Baitul Mal, access to concessional credit for entrepreneurial ventures and better employment opportunities through public works programmes (for example, the Khushal Pakistan Programme).

However, partly because of inadequate government funding, the small size of individual assistance to those eventually helped through these schemes and doubts about the efficacy of this support reaching the most in need of assistance, Pakistan is a long way off from its commitment to a 50 per cent reduction in the proportion of the population with incomes of less than a dollar a day as a millennium development goal to be achieved by 2015.

The poverty reduction goal is unlikely to be achieved even with a growth rate of seven per cent per annum over the next decade unless there is employment-intensive growth

per cent of the labour force (which is also heavily under-employed) needs to shed or transfer labour to other sectors to enhance its own productivity and improve its international competitiveness.

The discussion above having highlighted the limitations of the conventional areas of augmenting employment opportunities points to the need for direct government action to reduce distress and poverty, especially in rural areas.

It is, therefore, proposed that the government should consider the possibility of designing programmes that give a statutory right to employment, for example, in public works schemes like construction and maintenance of local roads, irrigation or water supply schemes, etc. for a minimum number of days, say, for 125 days a year to at least one person from every household during the lean parts of the agri-

sources to meet between one-third to 40 per cent of their expenditures on subsistence living — the additional cost per annum of such a scheme to help around 3.5 million poorest households will not exceed Rs. 75 billion, just over one per cent of GDP (since some support for the poorest households is also being provided as Zakat from official funds or as private charity).

To make this cost estimate more realistic and check duplication of efforts to achieve the same objective — poverty reduction — budgetary funds earmarked for poverty alleviation programmes funded through Pakistan Baitul Mal should be reduced and diverted to such a scheme.

This percentage will fall as the number of households below the poverty line decline, if an economic growth rate of 6.5 per cent can be maintained over the next decade or so and we factor in the automatic generation of additional employment opportunities from the multiplier effects of the spending on public works to be carried out under these employment guarantee schemes.

Issues that will, of course, need to be addressed in the design would be possibilities of leakages, ghost workers and corruption of government functionaries during award of work, which will also have to be combated through effective monitoring by both government and local communities.

The procedures to verify the eligibility of those needing support under such a scheme will have to be rigorous, if inclusion in the programme is essentially based on an administrative decision, in the absence of a database for tracking individual

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## employment-intensive growth.

Unemployment, particularly in rural areas, has been a perennial problem which has become accentuated in recent years. The rate of growth of employment has been below the rate of increase in the labour force, particularly in view of the acute lack of skills among those looking for work in the rural areas.

Moreover, since employment generation from the more capital-intensive production processes now being developed in the manufacturing sector is, and will continue to be, slow, and the rate of job creation per unit of rupee invested in industry is falling, industry is not likely to play the role of the lead sector in providing adequate employment opportunities.

Given the state of science and technology in Pakistan we can only import technology whose labour-intensity is low, and declining over time, since these technologies are being developed in economies in which labour availability and cost is a key constraint. This suggests that the share of regular wage employment in total employment will continue to remain small, at least in the foreseeable future, in comparison with the share of self-employment. The latter is an obvious outcome in a poor country like ours where the poverty-stricken households cannot afford to remain unemployed, and most of the working poor are engaged in self-employment or work as casual daily wage labourers.

The other sectors, services and agriculture, which could theoretically provide productive employment to the rapidly growing workforce, can at best play limited roles under present conditions. Agriculture crop production growth, despite the huge untapped potential for enhancing yields, has slowed down while growth of employment in the service sector is constrained by lack of education and technical skills. Moreover, agriculture which already accommodates 55

cultural seasons and then accord them priority while allocating budgetary funds. Such an employment guarantee scheme is being successfully managed in Indian state of Maharashtra for over 20 years and funds have been announced by the Indian government in its budget for this year.

The determination of the wage rate that would be paid to those found eligible for support under an employment guarantee scheme will also be important for its success. A rate higher than the market wage rate would encourage shifting of labour from existing activities to such programmes, raising the financing requirements and thereby the burden of these schemes, while a rate significantly lower than the minimum wage would not provide an adequate subsistence income. In other words, it would have to be a wage rate based on the poverty line to improve self-targeting of beneficiaries, while minimizing the substitution of labour from other employment to employment under such a guarantee scheme.

Considering Pakistan's poverty line estimated at around Rs. 900 per capita per month and a worker to population ratio of approximately 0.3 (which is the ratio of an average of less than two bread earners per household in an average family/household size of under 6.5) the national minimum wage rate works out to around Rs. 3,000 per month (Rs. 120 per day) for 25 working days per month — a rate more than the official minimum wage that employers are obliged to pay. An average minimum wage of Rs. 120 per day for 125 days work will raise income of poor households by approximately Rs. 15,000 per year, thereby pushing close to half of the poor households above the poverty line, including those assisted under Zakat.

Since the seven million poorest households living below the poverty line already have some

tive decision, in the absence of a database for checking eligibility and ensuring better targeting. The mechanism for removing existing or new households to the list will also need to have clarity.

Leakages on the basis of bogus lists of beneficiaries and widespread political interference, patronage and abuse and exclusion of many in need will be common issues, to tackle if beneficiaries are selected on the basis of administratively determined criteria and identification procedures. For better targeting, the selection of beneficiaries will have to be on the basis of proxy means tests (by collecting information on wealth, property owned, condition of housing, occupation, locality in which living, number of earners and dependents, etc.).

This would help in assessing the extent to which beneficiaries meet the eligibility criteria, although the physical nature of the work that would be available to those accessing the benefits and the lower wage rate (being below the market rate) under the programme would enable self-selection, since there would be little incentive to enlist for such hard work other than by those in real need. Moreover, better access to information on the identity of those being covered under the scheme and the participation of local communities in the enlistment of those in search of work would improve both transparency and targeting of the programme.

Initially, there will also be a need to design a distribution formula of the budgetary allocations that is not solely based on provincial and district populations but is driven by levels of poverty, identifying areas with higher concentration of the poor, estimated on the basis of a poverty mapping of the country, until the scheme is adequately funded to cover all potential beneficiaries.

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