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EVALUATION OF SOCIAL SAFETY NETS IN PAKISTAN

SOCIAL POLICY AND DEVELOPMENT CENTRE

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Social safety nets are necessary components of efforts to alleviate poverty because macroeconomic policies, through their 'trickle-down' effect, are unlikely to be effective, even in periods of high growth. This is primarily because of the difficulty in micro targeting and reaching poor and disadvantaged people. Direct approaches through special programs for poverty alleviation become even more important when a country like Pakistan has recently been through an economic crisis and real incomes have stagnated. Attempts to stabilize the economy through steep reductions in fiscal and current account deficits as part of the on-going extended structural adjustment program with the International Monetary Fund are probably hurting households, especially those at the bottom of the economic ladder. This process of structural adjustment in the country has caused tax hikes (especially on consumption), cut backs in public expenditure (particularly on development and social services) and the phasing out of food subsidies (for example, on wheat). It has led to depreciation in the exchange rate and enhanced tariffs on public utilities (such as power and gas). All these adjustments reduce economic opportunities and by increasing the cost of living further lower the living standards of poor people.

The spectre of growing unemployment and rising incidence of poverty brings with it major social implications. During the decade of 90s the unemployment rate has doubled while the proportion of population below the poverty line has increased from about one fifths to over one thirds of the population. To mitigate the situation, existing safety nets need to be improved rather than dismantled, and new ones developed. Such actions are a natural complement of a structural adjustment program.

Given this backdrop, the objective of this paper is to evaluate the existing social safety nets in Pakistan. Section II describes various types of social safety nets and identifies which are available in Pakistan. Section III sets up the general criteria for evaluating a particular safety net. Sections IV to X describe the major existing social safety nets and evaluate them on the basis of the criteria. Finally, Section XI gives the conclusions and highlights the policy implications.

II TYPES OF SOCIAL SAFETY NETS

To be effective, social safety nets must be designed on the basis of an understanding of the extent and nature of poverty. They must respond to the needs of those groups most likely to be affected by the process of structural adjustment. As such, there are generally at least three types of programs. The first is long-term financial assistance to those who are unable, more or less, permanently, to provide for themselves through work. This group includes handicapped and disabled people, orphans, widows, etc. The second type of program is designed for those who are able to work but whose incomes are low and irregular. The goal here is to smooth income and consumption in slack seasons.

Of great importance in the present context of Pakistan is the third type of programs. These are for people normally capable of earning adequate incomes but who are temporarily unable to earn a living because of shocks or downturns in the economy such as, in Pakistan, the prevailing recession. Recent estimates are that almost 40 per cent of new entrants to the labor force, including these with relatively high levels of education, are unemployed even after almost a year of job search. Such programs provide short-term assistance (such as unemployment benefits), promote employment through public works programs and offer micro-credit for income generation.

Transfers to people living in poverty can take various forms. *Cash transfers* are the traditional form of support. They include private charitable contributions and are considered to be a fairly efficient transfer method because they do not distort consumption or production choices. However, the need for a means test, targeting problems and the scope for leakage (benefits being pre-empted by higher income groups) make them difficult to administer. They also tend to create a state of permanent dependence on the part of beneficiaries.

In-kind transfers are designed primarily to provide basic food security to poor households. The transfer mechanisms include quantity rationing (along with a price subsidy), food stamps and food for work. If well designed, in-kind transfers can be an effective equivalent to cash transfers but are usually more complex to administer. Related to these are *generalized price subsidies* for food items or for other basic commodities and services. Their disadvantage is that they can distort consumption choices and do not specifically target poor people. They are, however, easy to administer.

In Pakistan, the principal form of cash transfers to the poor is through the publicly administered *Zakat* system (along with private charitable contributions). The *Ushr* is also designed to subsidize poor people in rural areas but it has floundered on grounds of inadequate collections. Cash transfers have acquired importance more recently by the launching of the cash *Atta (Wheat flour) Subsidy Scheme (ASS)* through the *Bait-ul-Maal*. A traditional social safety net has been the generalized wheat subsidy, a primary source of expenditure by both federal and provincial governments. However, it has been criticized for problems of targeting and leakages, and is expected to be phased out under the IMF program.

In the area of social security, the federal government operates an employees' old age benefits insurance scheme through a semi-autonomous institution, the Employees' Old Age Benefits Institution (EOBI). The coverage of workers under this scheme remains limited. There are proposals for more elaborate private pensions schemes with matching employer contributions and tax breaks by government. The House Building Finance Corporation (HBFC) continues to operate a subsidized housing finance scheme but it has problems too. It has been accused of having an urban and middle class bias, loans are not being paid back, and in recent years, access to funding has become a serious problem.

Plans are afoot for launching ambitious micro-credit schemes for self-employment by commercial banks and other institutions such as the Small Business Finance Corporation and the Pakistan Poverty Alleviation Fund. This is considered pivotal in the creation of opportunities especially for educated youth at a time when employment prospects have significantly worsened. However, experience with such schemes (such as the Yellow Cab scheme) has not been encouraging because of poor targeting and high default rates in repayment of loans. Perhaps the largest operational micro-credit scheme is the joint venture of the commercial bank, Habib Bank (HBL) and a large non-governmental organisation, the National Rural Support Program (NRSP). HBL provides the bulk credit line and NRSP undertakes retail lending operations.

III CRITERIA FOR EVALUATION OF SOCIAL SAFETY NETS

A number of criteria can be developed for evaluation of social safety nets as follows:

(i) *targeting efficiency:* measured by the extent to which a program's expenditure actually reaches poor people rather than the relatively well-off segments of the population. Programs which promote self-targeting by the poor are also ranked high on this criterion. For example, if the wage rate in a public works program is kept low enough to attract unemployed workers only and not divert workers from other jobs. Alternatively, provision of a subsidy for a coarse or low quality foograin is likely to be availed only by relatively low income households.

(ii) *extent of program coverage:* the proportion of poor households which receive benefits from the program;

(iii) *degree of ease of access:* the level of transactions costs imposed on eligible households in accessing to the program, as indicated by the simplicity and transparency of procedures, documentation requirements and level of discretion with program officials in the disbursement of benefits. Programs with relative ease of access can be ranked 'high' on this criterion.

(iv) *percentage of program expenditure dedicated to benefits:* measured by how much of the program budget is spent on benefits rather than on administrative costs;

(v) *adequacy of support:* the extent to which the benefit reduces the poverty of a recipient;

(vi) *income equivalence of transfer:* the extent to which the transfer is equivalent to a cash transfer and does not distort consumption choices of beneficiaries. For example, an open-ended subsidy on a good or service may lead to over-consumption and waste;

(vii) *absence of negative incentive effects:* anti-poverty interventions can change behaviour. For example, an unemployment benefit may reduce the motivation for job search. On the other hand, school food programs can raise school participation and reduce dropout rates;

(viii) *extent of self financing / progressive financing:* programs which raise funding through well-defined and earmarked sources are likely to be more sustainable fiscally. A program is more secure if it is supported by higher income households rather than general budgetary sources which are vulnerable to inflation and cut-backs when the fiscal position worsens as has happened in Pakistan during the last few years;

(ix) *degree of independence from private transfers:* a transfer should ideally not displace corresponding transfers by households or private sector entities. An example of substitution is the Zakat whereby compulsory deductions may lead to a, more or less, matching reduction in private charitable contributions;

(x) *degree of impact on development:* programs can contribute either directly or indirectly to development. A public works program, for example, could lead to the creation of improved irrigation or farm-to-market roads and thereby contribute to higher agricultural productivity.

In subsequent sections the above ten criteria are applied to the following schemes: *Zakat*, *Bait-ul - Maal*, *Ushr*, the wheat subsidy, EOBI, housing finance by HBFC and the HBL - NRSP micro-credit scheme. There is need to introduce an important caveat to the analysis. Rankings on different criteria of each scheme given below are based on a subjective assessment and could be considered arbitrary in some cases.

IV ZAKAT

The *Zakat* and *Ushr* Ordinance was passed in 1980. *Zakat* is a form of religiously mandated charity under Islam and officially collected only from Sunni Muslims. An autonomous *Zakat* council administers the Central *Zakat* Fund, maintained by the State Bank of Pakistan (SBP), which does not form part of the federal consolidated fund. This council is supported by the *Zakat* and *Ushr* wing of the Ministry of Religious Affairs. Disbursement in the provinces is regulated by the provincial *Zakat* councils. The most important tier is the local *Zakat* committee, which identifies the *Mustahqin* (the needy and the indigent). It is estimated that there are about 1.5 million *Mustahqin* at present. These committees, of which there are about 39,000, have seven elected, non-official, unpaid members, including two women. Each committee can spend up to 10 per cent of its allocated funds on administration.

Zakat is deducted compulsorily once a year from Sunni Muslims at the rate of 2.5 per cent on the value of specified financial assets. Collections in 1997-98 are estimated at Rs 4.1 billion, a drop from the peak of Rs 4.7 billion collected in 1993-94. More than 50 per cent of the revenue comes from a tax on savings bank accounts and about 16 per cent from fixed deposits. The judgement by the Supreme Court has allowed all sects to file a declaration seeking exemption from payment of *Zakat* on financial assets. This puts in jeopardy the mechanism of compulsory deductions and the level of contributions.

The Central *Zakat* Fund retains a portion of the proceeds which it invests on a non-interest basis. The outstanding cash balance in January 1997 was almost Rs 11 billion. Provincial disbursements are based on population, although this criterion is not strictly followed. Distribution of funds by the provincial *Zakat* council is formula driven, with 60 per cent going to local *Zakat* committees and 40 per cent to institutions (*deeni madaris (religious schools)*), public hospitals, vocational training institutions, etc.).

Those eligible to receive *Zakat*, either directly or indirectly, include needy, indigent and poor people (especially widows and orphans) and people with handicaps or disabilities. Local *Zakat* committees give two main types of support: a monthly subsistence allowance of Rs 250 to each *Mustahqin* with an additional Rs 50 per child, and a rehabilitation grant up to Rs 3000. These two grants constitute about 70 per cent of the support. Grants for *Jahez* (marriage dowry), educational and medical expenses make up the remaining 30 per cent. All payments are made through banks.

Zakat performs well on a number of criteria. The support provided in the form of subsistence allowance appears to be adequate. According to the World Bank (1995) this allowance is about three times the average income gap of people living in poverty, but a proper conclusion requires knowledge of the number of dependents. Since the allowance is in cash, there is full income equivalence of the transfer. Administration costs as a whole are low, primarily because of voluntary inputs provided by members of the local committees. One of the strongest points in favour of *Zakat* is its access to an earmarked source of revenue. However, contributions are likely to be adversely affected by the Supreme Court judgement on compulsory deductions. Reliance on a specific source not only ensures sustainability, but the nature of the tax (on financial assets) is such that the burden falls mostly on upper income households. Therefore, the *Zakat* has the potential of playing a strong redistributive role.

Problems with the *Zakat* include its degree of targeting efficiency. There is conflicting evidence on this. According to the World Bank (1995) and Jehle (1995), about half the benefits went to the lowest quintile of households in 1991. Therefore, the other half went to households which cannot be considered poor. However, Naseem Shah Shirazi (1996) uses the 1991 Household Income and Expenditure Survey (HIES) data to show that 94 per cent of *Zakat* (official and private) was received by families in the lowest quintile of the income distribution.

Access to the benefit is another problem. A number of stages are involved in defining a *Mustahqin*, and there is inevitably some patronage involved at the local level. The number of *Mustahqin* has grown slowly despite the significant increase in the number of people below the poverty line. With only 1.5 million *Mustahqin*, it is clear that the program covers only a small proportion of poor households. This demonstrates problems of access and inadequate program coverage.

Being a recurring cash transfer, *Zakat* runs the risk of creating a state of dependency among recepients and reducing the incentive to search for productive work. However, most of the *Mustahqin* are disabled and widows who are not in a position anyway to join the labor force. Also, given the selective application of *Zakat* on particular financial assets only it may lead to some distortion in portfolio choices. Accordingly, this scheme is ranked ‘medium’ on the criterion of absence of negative incentive effects.

Also at issue is the interaction with private transfers. To the extent that *Zakat* is deducted at source, there is the possibility that private transfers may be correspondingly reduced. This has been the basis for the argument that *Zakat* payments should be largely voluntary. There is need for research to determine if the overall payment of Zakat is enhanced or left largely unchanged by deductions at source.

A summary of the ranking obtained by *Zakat* on the ten criteria is given in Table 1. This scheme gets a score of ‘high’ in three criteria relating to percentage of program coverage dedicated to benefits, income equivalence of transfer and extent of self-financing / progressive financing. It has a ‘medium’ score on the following five criteria: targeting efficiency, extent of program coverage, degree of ease of access, absence of negative incentive effects and adequacy of support. In the remaining criteria, viz., degree of independence from private transfers and impact on development, it gets a 'low' score.

V BAIT-UL-MAAL

Pakistan *Bait-ul-Maal* (PBM) was established in February 1992 under the provisions of the Pakistan *Bait-ul-Maal* Act of 1991 mainly to provide assistance to those in need (such as the minorities) who are not covered by *Zakat*. PBM is administered by an autonomous board of management consisting of the chairman *(Ameen)*, five non-official members (appointed by the federal government) and three official members. Administrative costs are low, at about 2 per cent of total funds.

Funds for the *Bait-ul-Maal* essentially come in the form of non-lapsable grants from the federal government. Originally, the grant came from the proceeds of the excise duty on bank advances, but since this duty was abolished in 1997-98, funding has dropped sharply from Rs. 1 billion in 1996-97 to Rs 0.2 billion in 1998-99. The PBM also receives small grants from the Central *Zakat* Fund and provincial and local governments.

The PBM provides two main benefits: the *Individual Financial Assistance* (IFA) scheme which in 1997-98, disbursed Rs 14 million to about Rs 5,000 beneficiaries, and the *Food Subsidy Scheme* (FSS), renamed the *Atta Subsidy Scheme* (ASS). In 1997-98, ASS provided about 240,000 families with a monthly cash stipend at Rs 200. Of the beneficiaries, 29 per cent were widows, 19 per cent were disabled people or invalids and the remaining 52 per cent were families

TABLE 1
EVALUATION OF SOCIAL SAFETY NETS IN PAKISTAN

Criteria	Zakat	Bait-ul-Maal	Ushr	Wheat Subsidy	EOBI Social Security	HBFC Housing Finance	HBL - NRSP Micro-Credit Scheme	SUMMARY OF SCORES			
								High	Medium	Low	Total
Targeting Efficiency	M	M	M	L	H	L	M	1	4	2	7
Extent of Program Coverage	M	L	L	H	L	L	L	1	1	5	7
Degree of Ease of Access	M	M	M	H	L	L	L	1	3	3	7
Share of Program Expenditure of Benefits	H	H	H	L	H	L	M	4	1	2	7
Adequacy of Support	M	M	L	H	M	M	M	1	5	1	7
Income Equivalence of Transfer	H	H	H	M	H	M	H	5	2	0	7
Absence of Negative Incentive Effects	M	M	L	L	L	M	H	1	3	3	7
Extent of Self-Financing/Progressive Financing	H	L	M	L	M	H	L	2	2	3	7
Degree of Independence from Private Transfers	L	M	M	M	M	M	H	1	5	1	7
Degree of Impact on Development	L	L	L	L	L	M	H	1	1	5	7
SUMMARY OF SCORES								18	27	25	70
High	3	2	2	3	3	1	4	18			
Medium	5	5	4	2	3	5	3	27			
Low	2	3	4	5	4	4	3	25			
Total	10	10	10	10	10	10	10	70			

living below the poverty line. The total disbursement was Rs 0.6 billion. Until 1994, the PBM ran a food stamp scheme, now abandoned, which reached 4.2 million people.

Applying for assistance from the PBM is a time consuming procedure. Three local people (including a local *Zakat* committee member) must attest the application form, which is then processed both at the district and provincial levels. However, the Prime Minister and other high-level functionaries can sanction amounts in open *kutcheries* (public gatherings) or elsewhere for individual financial assistance.

PBM's limited coverage is one of its biggest problems. With only 240,000 people receiving the atta subsidy, it is clear that subventions from the PBM make only a minor dent on poverty in Pakistan. Also, there is a likelihood of overlap with recepients of *Zakat*. Unlike the *Zakat*, it no longer has any identifiable source of income. Its exclusive reliance now on budgetary support makes it particularly vulnerable to changing fiscal conditions, as has been demonstrated by the steep fall in government contributions in 1998-99.

Transparency also appears to be a serious problem in terms of the level of discretion which exists with high-level functionaries in allocating funds from the PBM. The recent arrest of a former Chief Minister of Punjab on allegations of embezzlement of funds from the PBM raises the question of the effective use of taxpayers' money made available to this scheme.

Based on the above, PBM gets a 'high' score in only two criteria relating to the income equivalence of transfer and the percentage of program expenditure dedicated to benefits. It performs poorly on three criteria including extent of program coverage, extent of self-financing/ progressive financing and degree of impact on development. The five criteria in which it gets a 'medium' score are shown in Table 1.

VI USHR

A religious tax, *Ushr*, is levied under the *Zakat* and *Ushr* Ordinance on agricultural produce exceeding 948 kg of wheat, or the equivalent value of other crops. Like *Zakat*, it is paid by Sunni Muslims. According to religious statutes, the rate of *Ushr* is 5 per cent of the value of crops at a farm site for irrigated land and 10 per cent in the case of non-irrigated (*barani*) land. Even though, in practice, a uniform rate of 5 per cent is being applied, the revenue potential of the tax is sizeable.

Unlike *Zakat*, the collection and distribution of *Ushr* are completely decentralized down to the local *Zakat* committees. Collection began in 1983, and revenues peaked at Rs 0.3 billion in 1984-85. Since then, the local committees have largely failed in the task of assessment and collection and, at present, are collecting less than Rs 10 million across the whole of Pakistan. An attempt was made in the Finance Act of 1990 to transfer the collection responsibility to the provincial Boards of Revenue (BOR), but this proposal has not been effectively implemented. The *Ushr,* which has the potential to become a major source of help to poverty-stricken rural households, is essentially moribund today.

The issue is whether the tax should be revived and its collection improved through a stronger tax administration (by involvement of provincial BORs) or should the focus on development instead be on the agricultural income tax (AIT) as emphasized by the IMF. If the objective is to develop social safety nets in rural areas, where poverty is high and likely to increase, then development of *Ushr* is clearly a better strategy. Like *Zakat*, it has the potential to emerge as a significant redistributive mechanism. The problem with the AIT is that its revenue accrues to the provincial consolidated fund and may be used for purposes other than for alleviating poverty.

Like *Zakat*, the administration of the *Ushr* by local committees, with voluntary inputs by members, minimises overhead costs and increases the share of program benefits. Also, subventions to the poor are in the form of cash transfers. Therefore, this safety net scores ‘high’ on the two criteria of income equivalence of transfers and share of program benefits in expenditure.

In view of extremely low collections, *Ushr* performs very poorly in terms of extent of program coverage and the adequacy of support to the limited number of beneficiaries. In addition the *Ushr* being a tax on agricultural produce is likely to have excise type effects as highlighted by Zahid [1980], implying a negative impact on production. Therefore it is ranked ‘low’ on the criterion of absence of negative incentive effects.

Potentially, *Ushr* is characterised by a high degree of self-financing because it has access to a earmarked source of revenue. But it is given a 'medium' ranking on this criterion because of weakness of the existing tax collection machinery. It was also argued originally that *Ushr* could be used to finance the provision of education and health services, but this was ruled out by a strict religious interpretion. Therefore, it gets a 'low' ranking in terms of its impact on development.

Altogether, *Ushr* scores 'high' on two criteria, 'medium' on four criteria and 'low' on four criteria.

VII WHEAT SUBSIDY

The wheat subsidy has the merit of being a generalized intervention, with no problem of program coverage, except perhaps of rural households living in inaccessible areas. At the federal level, the subsidy consists of the difference between the import price and the issue price to mills. At the provincial level the subsidy is represented by the difference between the procurement price offered to domestic farmers and the issue price plus the transport and incidental costs. In 1997-98 the subsidy bill was Rs 4.2 billion to the federal government and Rs 7.0 billion to the four provincial governments combined. The total subsidy has varied year-to-year with a peak of over Rs 11 billion in 1997-98 and a trough of less than Rs 1 billion in 1993-94.

There is potentially a high degree of wastage because of target inefficiency. The first issue is how much of the subsidy actually gets through to consumers in the form of lower prices and how much is pre-empted by mill owners, middlemen and corrupt officials. Zaman [1996] has demonstrated that the wheat subsidy does not contribute much to bringing down prices. Wheat availability, which is regulated, can be manipulated. The second issue is that the subsidized wheat prices could affect the domestic producers by lowering farm incomes, particularly those of small farmers.

The third issue is that even if some of the benefits of the subsidy trickle through to consumers then, since it is a general, population-wide subsidy (in the absence of rationing), a major share of the benefit may be pre-empted by upper income households. Based on the consumption patterns of *atta* in the country, it is estimated that almost 85 per cent of the consumption is by households in the upper four quintiles. This is a measure of the potential extent of program leakage.

Given its generalised nature and no quotas, the wheat subsidy gets a ‘high’ score on the criteria of extent of program coverage, degree of ease of access and adequacy of support. However, its principal problem is the lack of targeting efficiency. Also, in view of corruption and other leakages only a small proportion of the subsidy may reach final consumers. As such, it gets a ‘low’ score on share of benefits in program expenditure.

There are also serious concerns about its negative incentive effects including the impact on the level of domestic wheat production, to the extent that it keeps farm gate prices low. It has also been alleged that rent seeking in access to wheat quotas from the food department has led to substantial overinvestment in milling capacity. The dependency of the wheat subsidy on federal and provincial budgets and the government commitment to phase it out as part of the IMF program indicate that the source of financing is highly uncertain.

Altogether, the wheat subsidy gets a ‘high’ score on the three criteria of program coverage, degree of ease of access and adequacy of support. It merits a ‘low’ score on five criteria, viz., targeting efficiency, share of benefits in program expenditure, absence of negative incentive effects, extent of self-financing and degree of impact on development. On the remaining two criteria, as shown in Table 1, it has an intermediate ranking.

VIII EOBI

The Employees Old Age Benefits Institution (EOBI) started functioning as an autonomous body at the federal level under the Employees Old Age Benefits Act of 1976. Applicable to all enterprises with 10 or more employees, it aims to provide pensions to workers who earn less than Rs 3000 a month. EOBI takes care of all the functions including collection of employer contributions, investment of funds and payment of pensions through banks. It has a network of offices from which employers can get the necessary forms. Overhead costs are estimated at less than one per cent of the pension fund.

Policy making and overall supervision of the institution rests with a 19-member board of trustees, with representation from federal ministries, provincial labour departments, employers and employees. The

Secretary of the Federal Ministry of Labour acts as the chairman. The institution's accounts are subject to audit both by the government and an external auditor.

Employers pay periodic contributions (at 5 per cent of wages) for their registered workers. By June 1997, more than 37,000 employers were making contributions for 1.2 million registered workers. The annual growth rate in contributions in the 1990s is 6 per cent, and the annual income from such contributions is currently estimated at about Rs 1 billion. The federal government traditionally gives a grant of up to Rs 1 billion from the budget each year, although it was slashed for the first time in 1997-98 because of fiscal constraints. Even so, EOBI has built up a fund of over Rs 27 billion.

Anyone who has worked for at least 15 years and is 60 years of age (55 years for females) is eligible for a monthly pension provided the employer makes the EOBI contributions. The amount of pension is determined by a formula based on the number of years worked. The minimum an individual can receive is Rs 675. There is provision for a reduced pension (claimed by workers who retire before the age of 60), a pension for invalids (for the duration of the illness), a survivor's pension and old age grants. Currently 128,000 workers are receiving pensions, and the annual amount paid out by EOBI in pensions or other benefits is about Rs 1 billion.

The only form of social security currently available to low paid workers in Pakistan is the EOBI. Targeting efficiency has been enhanced by limiting the coverage to workers with wages below Rs 3000 per month. Therefore, this program scores 'high' on the criterion of targeting efficiency. But program coverage is low. The 1.2 million registered workers make up only 20 per cent of the number of employees in urban areas. This is due partly to the preponderance of small establishments (employing fewer than ten people) in the country. It is also probably the result of large-scale evasion by employers (although, theoretically a worker can prevent this by registering directly). This scheme can be extended without its financial viability being affected significantly because of the rapidly expanding labor force and a large proportion of young workers. It is not surprising that EOBI has built up a fund of Rs 27 billion, although part of this build-up has been financed by annual government contributions from the budget.

However, the pension scheme also has some negative impacts. First, all contributions are by employers (although this may be reflected in a lower wage rate). These contributions are *ad valorem* in character and add to the cost of hiring labour (to the extent that they do not lower wages) and, therefore, have an anti-employment bias. In this sense, they go against the interests of the very group that they are designed to protect. Second, informal social security at the joint household level is widely prevalent in Pakistan. Pension payments from EOBI may, therefore, at least partially substitute for private transfers among members of a household (for example, a working son supporting a retired father).

Based on the above, EOBI is assigned a 'high' ranking on the three criteria of targeting efficiency, income equivalence of transfers (in view of cash pensions) and share of benefits in program expenditure. As opposed to this, it performs poorly on the criteria of extent of program coverage, degree of ease of access, absence of negative incentive effects and degree of impact on development.

EOBI gets a 'medium' ranking on the remaining three criteria. In particular, on the criterion of self-financing / progressive financing it should ideally have obtained a 'high' ranking in view of its link to a payroll tax paid by employers. But it has been awarded a 'medium' ranking because of its dependency on a federal subsidy, which has recently been phased out.

IX HOUSING FINANCE BY HBFC

Established in 1952 under an act of parliament, the Housing Building Finance Corporation (HBFC) now has 11 zonal offices and 58 district offices throughout the country. It provides financial assistance for house construction and purchase to lower and middle income groups. The original subsidized credit provided by the SBP has been discontinued, and the sole source of funding for the program now is the amount recovered from past loans. This amounts to about Rs 2 billion annually. To be eligible for a HBFC loan, an applicant should have clear land title and be able to pay off the loan in regular installments. The average interest rate is 13 per cent, with the interest rate rising with the size of loan.

Since January 1999, the maximum limit for a HBFC loan has been raised to Rs 2 million. During 1997, HBFC disbursed Rs 1.3 billion to more than 9000 borrowers. 55 per cent of the loans during the last five years were below Rs 100,000, 40 per cent were between Rs 100,000 and Rs 200,000 and the remaining 5 per cent were above Rs 200,000. Default rates are as high as 30 per cent.

The HBFC scheme fails to meet most of the evaluation criteria. All the symptoms of bad financial intermediation are present. These include a distorted pattern of lending (bias towards large cities and for medium-sized loans), high overhead costs, low rates of recovery and the resulting inability to compete in the capital market for funds. To become effective in improving shelter conditions for poor people in the country, HBFC needs substantial revamping.

Accordingly, the scheme is ranked 'low' in as many as four criteria, including targeting efficiency, extent of program coverage, degree of ease of access and share of benefits in program outlays. It scores 'high' only on the criterion of self-financing, as new loans are financed from amounts recovered from past loans. In the other five criteria the HBFC scheme gets a 'medium' ranking.

X MICRO-CREDIT SCHEME OF HBL-NRSP

Registered in November 1991 as a non-profit public company under the Companies Ordinance 1984, the National Rural Support Program (NRSP) operates in 13 rural areas of Pakistan. It replicates the successful programs of Aga Khan Rural Support Program (AKRSP) in the Northern Areas and rural micro-credit programs of Grameen Bank, Bangladesh. The program aims to reduce poverty among small farmers and landless labourers through micro-credit rural financing with community participation. The Government of Pakistan has provided a Rs 500 million grant to set up an endowment fund and, since July 1997, NRSP has obtained access to a credit line facility with Habib Bank Ltd (HBL).

NRSP's partnership with Habib Bank is a breakthrough in the rural micro-credit financing history of Pakistan. Between July 1997 and November 1998, credit disbursement has increased from Rs 0.1 billion to almost Rs 1 billion, and the number of borrowers has gone up from 23,000 to 52,000 in almost 4,000 community organizations. One fourths of the expected loan is initially pledged by the borrower as collateral. Peer pressure and social reputation of the individual and the community organization are effectively used as a collateral tool. Even though the annual rate of interest is 18 to 20 per cent, the recovery rate is high. This has been achieved by developing an effective credit disbursement procedure.

The credit disbursement procedure has eight well-defined steps. The first step is the introduction of the credit program to rural communities and community based organizations (CBO) through field visits by social organizers of NRSP. This is followed by identification of needs involving both a social and technical appraisal. This leads to the determination of terms and conditions of the credit and subsequent disbursement. At all stages the beneficiary of CBO is involved.

The NRSP has clearly developed an effective procedure for disbursement of credit, which has enabled high rate of recovery of loans from low-income communities at market interest rates. It has also promoted the overall process of community mobilization and higher savings. The issue here is whether the field staff, especially the social organizers, have the capacity to expand the program. With Habib Bank funding available, NRSP's operations can be widened if staff capacity is increased and communities mobilised.

It is not surprising that this scheme scores high on as many as five criteria including the degree of impact on development (given its focus on employment and income generation through crop and livestock activities in agriculture), degree of independence from private transfers (because a minimum savings contribution of 25 per cent is required), absence of negative incentive effects (in fact, the scheme may encourage savings and greater community organisation and participation) and income equivalence of the transfer.

Potentially the scheme could have been ranked 'low' in terms of share of benefits because of high overhead costs arising from the extensive field inputs provided by social organizers. Instead, it has been given a 'medium' ranking on this criterion because of the exceptionally high loan recovery rates. As opposed to this, there was a case for assigning a 'high' ranking in targeting efficiency but the ranking has been lowered in view of the regional bias currently in its activities and the fact that the necessity of a matching contribution through savings may preclude the poorest communities.

The program is ranked 'low' on the extent of program coverage (given the small number of borrowers currently) and in degree of ease of access (because of the minimum savings requirement). Also, despite high rates of interest being charged from borrowers NRSP has not been able to raise finances in the capital market and has had to rely on a credit line from NRSP. This justifies the 'low' ranking on the criterion of self-financing.

Altogether, the HBL - NRSP micro-credit scheme is ranked high on four criteria, 'medium' on three criteria and low in the remaining three criteria.

XI POLICY IMPLICATIONS

The paper has developed a methodology for appraising social safety nets on the basis of performance on ten criteria. This methodology has been applied to the major existing social safety nets in Pakistan, including three schemes (*Zakat*, *Bait-ul-Maal* and *Ushr*) essentially involving cash transfers to the poor, one generalised subsidy (on wheat), one social security scheme for low paid workers (the EOBI) and two credit programs (for housing and rural micro-credit). New schemes have recently been proposed including a public works program and a food stamp scheme. But these have yet to become operational and, therefore, have not been assessed in the paper.

Evaluation of each of the seven existing schemes on the basis of ten criteria enables some important generalisations. First the combined program coverage of all the schemes is low and highlights the likely limited impact of social safety nets in Pakistan. Cash transfer schemes in aggregate reach less than 2 million persons. Not all are poor, given a degree of mistargeting. Therefore, bulk of the poor (estimated at 35 million in 1997) remain uncovered and outside the reach of social safety nets. The inadequacy of program coverage is also indicated by the low combined value (in income equivalent terms) of all transfers. As shown in Table 2 the total value in 1997-98 was less than Rs 12 billion, equivalent to only 0.4 per cent of the GDP. According to SPDC [1999] transfers need to approach almost3.5 per cent of the GDP or about Rs 100 billion to make a major dent on poverty in Pakistan.

The other, more or less, common problem observed with social safety nets is the difficult of accessing to them by the poor, many of whom are illiterate. Procedures for establishing eligibility are complicated and discourage potential beneficiaries. Improvements in transparency and simplification of procedures would go a long way in increasing the outreach of most programs. Simultaneously, this will curb the element of corruption and rent seeking.

TABLE 2
TOTAL INCOME VALUE? OF TRANSFERS UNDER DIFFERENT SCHEMES IN 1997-998

Rs. Million

Cash Transfers	**4500**
Zakat	4000[a]
Ushr	N
Bait-ul-Maal	500
Consumer Subsidies	**5000**
Wheat Subsidy	5000
Micro-credit Programs	**1000**
NRSP Program	1000[b]
Social Security	**1000**
EOBI	1000
Housing Finance	**300**
HBFC	300[c]
Total Value of Transfers	**11800**
	05% of GDP

N = Negligible
? Income equivalence in approximate terms
[a]Estimated
[b]Assumed Income Multiplier of 1
[c]Assumed Income Multiplier of 0.2

Also, it is necessary to recognise that some of the programs have important negative incentive effects. Four out of the seven programs appear to have this weakness. For example, the wheat subsidy could adversely affect domestic food production. The EOBI scheme creates disincentives against higher employment or wages and may be contributing to higher incidence of contract or casual workers.

Another major problem identified is the financial sustainability of many schemes. Inflows into *Zakat* have been rendered uncertain by the Supreme Court judgement making deductions at source of financial assets voluntary in character. Allocations for other schemes like *Bait-ul-Maal*, wheat subsidy and EOBI are a function of the budgetary position of federal and provincial governments. As pressures have increased to reduce the fiscal deficit under the IMF program most of these schemes have suffered.

Analysis of the distribution of rankings of each program on the various criteria, as given in Table 1, also enables the important generalization that every program has its own strengths and its weaknesses. For example, the *Zakat* has the strength that it has access to a earmarked and progressive source of revenue and has been able to keep overheads low because of voluntary and free inputs. But its targeting could be further improved, procedures simplified and the level of support per *mustahqeen* enhanced . The EOBI scheme targets well and also has a earmarked source of revenue but its coverage is very limited and there is need to develop it as the principal means of social security to low paid workers. This will necessitate changes in the system of contributions, expansion of coverage and the scope for contributions also by workers with matching by government. Similarly, the HBL - NRSP Micro-Credit scores high on number of criteria but it needs to be made more cost effective, the outreach expanded and the dependence on a credit line from commercial banks reduced. Therefore, as a general policy recommendation, the ability of each intervention to impact on poverty can be enhanced by bringing about changes which enhance ranking on criteria where currently the ranking is either low or medium.

In conclusion, an appraisal of social safety nets in Pakistan demonstrates the relatively low priority which government has traditionally accorded to direct interventions for poverty alleviation. With ten criteria and seven schemes, there are 70 possible rankings. As shown in Table 1, only 18 of the rankings obtained are ‘high’. It appears that most of the schemes have weak institutional structures, their funding is limited and uncertain, their targeting inefficient and their coverage very small. This at least partly explains the growing incidence of poverty in the country. Both government and NGOs need to be jointly mobilised to work towards poverty alleviation for preserving political and social stability at a time when the economy has stopped growing fast and both unemployment and poverty are rising rapidly.

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