



احساس
مزدور کا احساس

LABOUR WELFARE AND SOCIAL PROTECTION EXPERT GROUP (LWSPEG)

RECOMMENDATIONS TO IMPLEMENT ON MAZDOOR KA EHSAAAS



Poverty Alleviation and Social Safety Division and
Ministry of Overseas Pakistanis and Human Resource Development

Mazdoor Ka Ehsaas



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Contents

Message by the Prime Minister	2	2.3 Legislative developments	13
Introductory Note by the Special Assistant to the Prime Minister on Poverty Alleviation and Social Protection	3	2.4 Institutions for labour welfare	15
Message from the Special Assistant to Prime Minister on Overseas Pakistanis & Human Resource Development	5	2.5 Impact of digitizing payments on informal workers	16
Foreword	6		
Summary	8		
Acronyms	9		
SECTION 1		SECTION 3	
Introduction	10	Recommendations	17
SECTION 2		SECTION 4	
Situation analysis	11	Future course of action	19
2.1 Formal and informal sector workers in Pakistan	11	4.1 Institutions responsible for implementing the recommendations	19
2.2 Benefits available to workers in the formal sector	11	4.2 Key performance indicators (KPIs) for monitoring and evaluation (M&E)	19
		4.3 Functions of the proposed Mazdoor ka Ehsaas (MKE) Unit	21
		ANNEXES	
		Annex I. Notification for the constitution of the Labour Welfare and Social Protection Expert Group	22



Message from the Prime Minister

The primary duty of this Government is to care for those that are left behind, and guarantee opportunities for all citizens in all fields – from health to education to decent work and social protection. The *Ehsaas* programme is one of the main instruments through which the Government is providing for its marginalized citizens, building a welfare state based on the principles of *Riasat-e-Madina*. The Government I lead is committed to achieving universal coverage of social protection for workers, without discrimination in terms of the nature or sector of their employment.

For the country to extend these protections to everyone, we need to specifically benefit workers in the informal economy and agricultural sector. These citizens are often the most in need of such protections, but currently are the most likely to be excluded because they lack social status and an understanding of their legal rights.

The targeted *Mazdoor ka Ehsaas* recommendations laid out by the Labour Welfare and Social Protection Expert Group are a critical step to increasing social protection access and coverage to the informal sector. Our prophet Muhammad (PBUH) was the first to stand for the rights of workers when he said to ‘*pay the worker his wages before his sweat has dried*’. The *Mazdoor ka Ehsaas* programme will help extend social protection to informal and agricultural labourers with the objectives of providing these workers with increased security and dignity, as well as the resources to help escape poverty traps.

My Government is committed to expanding social protection without putting any additional burden on businesses. This can be a win-win for everyone in Pakistan. Social protection is a powerful instrument for inclusive economic growth. It can directly stimulate economic growth by promoting consumption, generating greater demand and supporting entrepreneurship. Social protection is also a human capital investment as it enables households to invest in building assets and skills. As human capital development is a significant contributor to the wealth of a nation, expanding social protection is a key enabler for greater prosperity for all.



At this time of global pandemic, extending and strengthening the government’s social protection programme is more necessary than ever. For many of our country’s citizens, the threat of COVID-19 has far-reaching implications beyond health. The crisis has meant that the 27 million Pakistanis (almost 13% of the population) who work in the informal sector have been affected the most by the measures required to stop the spread of the virus.

Although we have worked with provincial Governments to implement emergency response measures for immediate relief to households, short-term assistance is not enough. As the country emerges from the COVID-19 lockdown, it is our responsibility as policymakers to develop a strong social protection system that covers informal workers, that both helps them respond to the more effects of this crisis, as well as enhance their capacity to manage future economic and social risks, such as unemployment, exclusion, sickness, disability and old age.

As such, the *Mazdoor ka Ehsaas* programme is critically important for our country, both as we respond to the COVID-19 crisis, and to lay the foundations of a sustainable future. I welcome the recommendations contained in this report, and look forward to working with my Government to implement them.

Imran Khan

Introductory Note

by the Special Assistant to the Prime Minister on Poverty Alleviation and Social Protection

The Government of Pakistan is committed to its vision of creating a welfare state with social protection as one of its salient pillars. Launched in March 2019, *Ehsaas* – the Government of Pakistan's multisectoral and multi-component poverty alleviation and social protection programme – is striving to achieve this vision. Amongst several other objectives, the *Ehsaas* strategy aims to address the glaring weaknesses in existing social protection arrangements for those working in the informal sector – there is almost non-existent extension of labour welfare measures for this segment of the population.

Presently, a large number of workers remain outside the ambit of social protection. Workers in agriculture and livestock sectors, artisans, construction workers in informal settings, domestic workers, daily wagers, taxi drivers, micro-entrepreneurs and home-based workers, to name a few, are yet to access social security.

Extension of labour welfare measures for the informal sector in a country as large as Pakistan is a huge task. The historic wrongs of past decades cannot be undone in one day. An evidence-based process has to be pursued to plan and implement a sustainable program.

Therefore, immediately after launching *Ehsaas*, I established the *Ehsaas* Labour Welfare and Social Protection Expert Group (LEG), in a tripartite arrangement. This group is one of the several expert committees constituted under the framework of *Ehsaas*. The mandate of LEG was to propose evidence-based practical recommendations to address the above-mentioned challenges. The LEG brought together



distinguished experts representing the Government at the federal and provincial levels, employers, trade unions, academia, private sector, development partners and NGOs. The Group has made strenuous efforts during the last almost 18 months to widely consult, deliberate and realistically propose crucial areas of interventions for expanding Social Protection with maximum multiplier gains for the poor and the society at large.

I am pleased to learn that the Group has finalized their recommendations to implement *Mazdoor ka Ehsaas* – with a focus on universalizing the social protection system in Pakistan and with a particular focus on including informal economy workers in the fold of social protection.

Formalizing informal workers through the registration and protection of their rights is unquestionably one of the fundamental challenges the country is facing at the moment. The need for addressing this issue has become more pronounced considering the recent outbreak of COVID-19 and potential risks of income and job disruption for the vulnerable informal workers in Pakistan. Labour Force Survey 2017-18 microdata suggests that 24.89 million workers are at-risk for jobs disruption and income losses. This includes 11.37 million paid-employees working in the formal and

informal economy who earn on a daily/weekly/ ornightly/piece rate basis and the 13.52 million self-employed workers who earn their livelihoods by working in the vast informal economy will be at-risk.

We assume that these 24.89 million workers are household heads and support an average household size of 6.45 family members (Census of Population and Housing, 2017). With this projection, we arrive at a figure of 162.78 million members of the population who are likely to be adversely affected through the loss/disruption of paid employment/self-employment of their family household heads.

Pakistan is also a major labour-sending country in the world with almost 11 million Pakistanis working in different countries – with the majority in the Gulf Cooperation Council countries. It is feared that with the COVID-19 related contraction in global economies, migrant workers may be adversely impacted in terms of permanent or temporary unemployment, or reduction in incomes.

The Government of Pakistan, with the support of all Provincial Governments and development partners, has taken unprecedented steps to counter and minimize the impact of COVID-19 pandemic. The ongoing Ehsaas Emergency Cash is an example of that, which is largely aimed at protecting daily wage workers whose livelihoods have been adversely impacted by the COVID 19 crisis.

However, considering the magnitude of the challenge, as well as uncertainty and evolving nature of the situation, expectations of persistent efforts remain inevitable.

This report cannot be more contextually relevant considering the need to address the post COVID-19 labour market challenges. I hope recommendations of this report will be guiding principles for policy makers to formulate labour, social protection, agriculture and industrial policies around these leverage points.

Dr Sania Nishtar



Message

From the Special Assistant to Prime Minister on Overseas Pakistanis & Human Resource Development

Islam gave sanctity to the rights and dignity of the labourers much before the enforcement of labour welfare legislations. Our Holy Prophet (PBUH)'s life has the most inspiring examples of ensuring dignity and respect for the rights of labour.

The incumbent government under Prime Minister Imran Khan came into power with a promise to ensure 'insaf' for all segments of society specially for the poor & downtrodden. It is the top priority of this Government to establish a welfare state where state takes care of all its citizens especially the working people in formal as well as informal sectors of the economy as these people contribute the most towards the economy of the country.

The Ministry of Overseas Pakistanis & HRD is committed to PM's vision of 'Ehsaas (compassion)' by to ensure equitable distribution of resources in society and giving all our workers a right to a basic standard of living. In line with this is the government's "Mazdoor Ka Ehsaas" programme which aims to address the issues faced by workers and to formalize the informal sectors so all could be brought within the network of social security and welfare benefits be extended to them. Legislation on labour related matters is the responsibility of Provincial governments with an oversight role assigned to Ministry of OP & HRD in terms of international commitments. A Tripartite Labour Expert Group (LEG) has been formulated comprising of government officials, workers' and employers' representatives and independent labour experts to make recommendations on the extension of labour welfare measures for workers in the informal sector, identify legislative gaps, measures for the effective implementation, application and enforcement of



legislation for the welfare of informal economy workers and review the institutional arrangements for the provision of social protection to these workers and their dependents. I hope that by robust implementation of these recommendations, all the workers can be brought within the ambit of labour legislation and have access to social benefits. I am confident that under the present regime the rights of workers will be effectively protected.

The government will do its utmost to ameliorate and improve the socioeconomic conditions of workers both in Pakistan and overseas. I also urge the provincial governments to accelerate their efforts to protect rights of workers.

Syed Zulfikar Abbas Bukhari

Foreword

The Ehsaas Programme is Pakistan's largest ever poverty alleviation initiative. Mazdoor ka Ehsaas, literally "compassion for workers", is about reducing inequality and investing in people. To take stock of the existing situation of workers in the informal sector in Pakistan – who make up the lion's share of the country's labour force – and recommend ways forward, the Labour Welfare and Social Protection Expert Group (LWSPEG) was created in May 2019. The creation of the Expert Group represents a unique opportunity to draw together federal government departments, provincial governments, international development partners, researchers, the private sector, non-governmental organizations (NGOs), labour rights groups, and representatives of workers and employers from across Pakistan.

This arrangement is broader than the tri-partite mechanism for addressing, inter alia, issues related to labour welfare and the implementation of Pakistan's labour laws.

The Expert Group offered a unique opportunity for all of these stakeholders to sit together around one table and flesh out avenues for ensuring that every worker in Pakistan – whether they work in the formal or informal sector of economy – is afforded the protection and minimum standard of living pledged in the Constitution of Pakistan. This report presents the findings of the Expert Group's discussions and its recommendations for action.



Acronyms

BISP	Benazir Income Support Programme
EOBI	Employees' Old-Age Benefits Institution
ESSIs	Employees' Social Security Institutions
FPCCI	Federation of Pakistan Chambers of Commerce & Industry
KPI	Key performance indicator
LFS	Labour Force Survey 2017-18
LWSPEG	Labour Welfare and Social Protection Expert Group
MKE	Mazdoor ka Ehsaas ("compassion for workers")
MKE Unit	Mazdoor ka Ehsaas Unit
MKEP	Mazdoor ka Ehsaas programme
NADRA	National Database and Registration Authority
OICCI	Overseas Investors Chamber of Commerce and Industry
OP&HRD	Overseas Pakistanis and Human Resource Division
PASS Division	Poverty Alleviation and Social Safety Division
PKR	Pakistani Rupee
USD	United States Dollar
WWF	Workers' Welfare Fund



Executive Summary

RECOMMENDATIONS TO IMPLEMENT ON MAZDOOR KA EHSAAAS

Ehsaas, Pakistan's largest ever poverty alleviation initiative, has a policy announcement for the welfare of informal sector workers. Mazdoor ka Ehsaas, literally "compassion for workers", focuses on extending minimum social protection services to the informal sector workers. To recommend ways to achieve this, a broad-based Labour Welfare and Social Protection Expert Group (LWSPEG) was created in May 2019.

The group had individuals representing federal government, provincial departments, international development partners, researchers, the private sector, non-governmental organizations (NGOs), labour rights groups as well as representatives of workers and employers from across Pakistan.

The primary aim of the Labour Expert Group was to support the state to provide a minimum standard of living to all workers without discrimination. The Group was required to: review legal and implementation status of labour welfare measures, such as minimum wage and occupational health and safety, identify gaps in legislative developments related to labour welfare, recommend measures for effective implementation, application and enforcement of labor laws and review institutional arrangements for the provision of social protection for workers and their dependents. The Group was also required to devise a program to gradually extend labour welfare measures for such workers who are currently not covered in the existing programs.

Situation analysis:

LFS 2017-18 informs that there are an overwhelming majority of around 23.8 million agricultural sector workers and 27.3 million works in the informal sector. earn less than the minimum wage of Rs. 17,500. An overwhelming majority of these workers do not have access to social protection arrangements, exposing them to immense risks in the event of job loss, health problems or old age.

Despite the significant number of workers registered with the EOBI, Provincial SSIs and WWF, there is no single registry that provides a comprehensive overview of workers registration with benefit schemes.

Legislative Development:

There are over 100 labour laws in Pakistan, at both the federal and provincial levels. However, these laws do not recognize informal sector workers and hence they are excluded from the current labour regulatory and institutional framework. In the post-devolution, there have been a number of developments but a lot more needs to be done.

The Expert Group recognizes that expanding social protection to all workers has to be progressive and in small steps. Including one segment of vulnerable workers at a time is more practical.

Evidence on the impact of digitization of payments shows remarkable improvements in terms of e.g. reduction in payment leakages, time and cost of delivery etc. However, it can not be achieved without reliable, fool-proof connectivity and widespread on boarding onto the new system to make sure that digital payments can be authenticated and accessed seamlessly by all eligible workers.

Recommendations:

To improve social security coverage for every worker, the Expert Group recommends that the PASS Division devises a mechanism to register all informal



sector workers, including those in the agricultural sector. Furthermore, the following steps have been recommended:

PASS Division to establish a Mazdoor ka Ehsaas Unit (MKE Unit) to work for the welfare of informal sector workers, agriculture sector workers as well as workers in the formal sector who are not protected by current social security measures.

Develop various contributory packages for the extension of health facilities and old age pension benefits to all workers, including those in the informal sector.

The proposed social security and insurance packages should primarily be contributory, with a host of flexible options for health, injury, death and pension coverage.

Contributions of informal sector workers may be supported through innovative financing arrangements like CSR contributions or contributions of the Pakistani diaspora abroad or through an endowment fund.

In collaboration with the partner bank, insurance company and NADRA, develop a simple process for the collection of registered workers contributions.

To educate informal sector workers about the programme, well-designed communications strategy and media campaigns should be rolled out.

All registered informal sector workers should have bank accounts and/or branchless banking accounts for financial transactions.

A data sharing protocol for sharing data with provincial departments.

Simplification of all worker welfare schemes and creating a one-stop shop for extending welfare measures to all registered workers in the formal sector.

Provinces must consolidate and simplify the existing labour laws and broaden their coverage to include informal workers.

LFS questionnaire may be improved to cover earnings of self-employed workers.

1. Introduction

On the 27th of March 2019, the Prime Minister of Pakistan announced the Ehsaas Programme – the largest holistic initiative to tackle poverty in the country’s history. The Ehsaas policy announcement No. 47 concerns *Mazdoor ka Ehsaas*, literally “compassion for workers”. Through this announcement, the Poverty Alleviation and Social Safety (PASS) Division notified¹ the constitution of a Labour Welfare and Social Protection Expert Group (LWSPEG). Co-chaired by the Secretaries of the Overseas Pakistanis and Human Resource Division (OP&HRD) and the PASS Division, the expert group comprises members of both the public and private sectors. These include representatives of workers’ and employers’ federations, provincial government departments, relevant development partners, the Pakistan Bureau of Statistics, labour lawyers and labour policy researchers (Annex I).

The overall objective of the Labour Welfare and Social Protection Expert Group is to support the state to provide a minimum standard of living to all workers without discrimination, as promised in the Constitution of Pakistan. In this way, *Riyasat-e-Medina* commits itself to fulfil its constitutional, moral and international commitments. The specific tasks of the Expert Group are to take stock of the existing situation of workers in the informal sector in Pakistan and, having done so, to:

- i. Recommend the extension of labour welfare measures, such as minimum wage and occupational health and safety for workers in the informal economy, including workers in the agricultural sector.
- ii. Review the status of legislative developments related to labour welfare, in order to inform recommendations.
- iii. Identify gaps in legislative development concerning informal sector workers, and provide recommendations to fill these gaps.
- iv. Recommend measures for the implementation, application and enforcement of legislation for the welfare of workers in the informal sector.
- v. Review institutional arrangements for the provision of social protection for workers and their dependents in the context of decentralization, following the 18th Constitutional Amendment, and offer recommendations to address constraints.

Between its notification and the time of writing (October 2019), the Expert Group held nine regular meetings in around 3 months, alongside a number of side meetings.

As discussions progressed, several additional organizations were requested to put forth proposals on how they can collaborate with the Government on labour welfare. Among their ranks were the National Database and Registration Authority (NADRA), the State Life Insurance Corporation, Meezan Bank, the Securities and Exchange Commission of Pakistan (SECP) and the National Information Technology Board (NITB). Representatives of certain non-governmental organizations (NGOs) working on labour welfare were also invited to share their inputs, including HomeNet Pakistan, the All Pakistan Brick Kiln Owners Association and the Centre for Labour Research. Similarly, representatives of the Pakistan Workers’ Federation, the Employers’ Federation of Pakistan and the International Labour Organization (ILO) presented their recommendations. Representatives of provincial government departments presented progress achieved in their provinces, with a total of 14 presentations delivered during the Expert Group’s meetings.

The final draft of the report was discussed in the tenth meeting of the Expert Group. Based on the discussion in the meeting, the report was once again shared with stakeholders for their input. Final report has been prepared after incorporating the input received on the final draft.

¹ Vide No. F. No. 8-6/2019(A-IV), dated 2nd May, 2019.

2. Situation analysis

2.1 Formal and informal sector workers in Pakistan

According to the most recent national Labour Force Survey 2017-18, there are 61.7 million employed workers in Pakistan, of whom 23.8 million are agricultural workers and 37.9 million are non-agricultural workers. Of the country's 37.9 million non-agricultural workers, 27.3 million (72%) work in the informal sector. Only 10.6 million non-agricultural workers (28%) are employed in the formal sector.

In terms of the distribution of Pakistan's 27.3 million informal sector workers by industry, 8.88 million work in the wholesale and retail trade sector, 6.22 million in the manufacturing sector, 4.43 million in construction, 4.37 million in social services' sectors, and 3.14 million in the transport, storage and communication sectors.

Analysing the employment status of these 27.3 million informal sector workers reveals that the majority fall in the categories of "paid employees"² (13 million workers, or 48%) and "own account" or "self-employed" workers (11.2 million, or 41%). The bulk of those workers categorized as "paid employees" earn a monthly wage of less than the minimum wage of PKR 17,500.³ This is true for 9.8 million workers – 75% of the 13 million paid employees identified by the Labour Force Survey.

Data on the occupational classification of paid employees indicates that most of those who earn less than the minimum wage work as primary and secondary school teachers; religious professionals; waiters; cooks; sales assistants in shops; brick layers; painters, welders and flame cutters; vehicle mechanics and repairers; cabinet-makers and related workers; tailors, dressmakers, furriers and hatters; sewing

and embroidery-related workers; car, taxi and van drivers; domestic cleaners and helpers; construction workers; workers in manufacturing; freight handlers and messengers; package deliverers; and luggage porters.

Information on the occupational classification of self-employed workers reveals that most work as real estate agents and property managers; hairdressers; stall and market sales' persons; street food sellers; shopkeepers; shop supervisors; welders and flame cutters; motor vehicle mechanics and repairers; bicycle repairers; electrical mechanics and fitters; butchers, fishmongers and related food preparers; cabinet-makers and related workers; tailors, dressmakers, furriers and hatters; sewing and embroidery-related workers; motorcycle drivers; car, taxi and van drivers; drivers of animal-drawn vehicles; and street vendors who sell items other than food.

The Labour Force Survey also reveals that agricultural workers represent the highest proportion of workers who suffered from occupational injuries or diseases in 2017-18. Such ailments were experienced by 0.96 million agricultural workers, 41.6% of the total number of workers (2.31 million) who suffered from occupational injuries or disease. The remaining workers who experienced work-related injuries or illnesses include 0.4 million construction workers (17.3%) and 0.39 million workers in the manufacturing sector (16.9%).

2.2 Benefits available to workers in the formal sector

In general, formal sector workers in Pakistan are eligible to avail themselves of a number of benefits

² The category of "paid employees" includes regular paid employees with fixed wages, casual paid employees, paid workers by piece rate or work performed, and paid non-family apprentices.

³ Information on the earnings of 'own account' or 'self-employed' workers cannot be estimated from the LFS data.



through welfare schemes introduced by the Government. For instance, persons insured through the Employees' Old-Age Benefits Institution (EOBI) are entitled to an old-age pension after retirement, an invalidity pension in the event of permanent disability, an old-age grant or a survivor's pension when an insured person dies. Workers registered with Employees' Social Security Institutions (ESSI) at the provincial level are entitled to health care and cash benefits. Their families may also benefit if they reside in the same province. While the Workers' Welfare Fund (WWF) was initially established to provide housing facilities for workers, it now offers a range of other welfare services beyond housing. These services include scholarships for education and technical skills training for workers' children, death grants and marriage grants. WWF-registered workers are also eligible for membership in trade unions or workers' welfare associations.

Despite the large number of workers registered with the Employees' Old-Age Benefits Institution, provincial Employees' Social Security Institutions and

the Workers' Welfare Fund, there is no single registry that provides a comprehensive overview of workers' registration with benefit schemes.

Overall, formal sector workers are provided with appointments or contracts, termination letters and social security in the form of free health services, housing, transportation, occupational injury benefits and financial aid. It is important to recall that informal sector workers are not eligible for these benefits, leaving them highly vulnerable. Similarly, workers in the formal sector who are not covered by any social security or social protection arrangement – such as casual workers or daily wage labourers – are also vulnerable. Conservative estimates suggest that as few as 8% of workers in Pakistan have some form of social security coverage. The overwhelming majority do not have access to social protection arrangements, exposing them to immense risks in the event of job loss, health problems or old age. It is pertinent to note that enterprises or establishments can be “registered” or “un-registered”. Similarly, workers can also be either “registered” or “un-registered”.



Social protection is an important means of mitigating risks for workers, particularly the most vulnerable – namely, workers in the informal sector. Beyond this, the benefits of social protection are myriad. Addressing social protection for informal sector workers is one of the means of promoting their transition from the informal to the formal economy. Access to social protection strengthens households’ resilience to disasters and enables them to accept business related challenges. As such, it makes livelihoods more sustainable and boosts overall national economic resilience. Around the world, social protection is largely considered the responsibility of the state, with services delivered by national and sub-national governments. Whereas, it is necessary to protect workers against shocks, it is also important to prevent them from becoming dependent on social protection.

2.3 Legislative developments

The Labour Welfare and Social Protection Expert Group’s analysis of the existing legislative regime (at the federal and provincial levels) found that the scope of current labour laws tends to be restrictive. Thus, a large number of workers is not recognized by the existing legislation. The Expert Group concluded that an effective means of achieving universal coverage would be to broaden the application of Pakistan’s labour laws. Promising examples exist of expanding the scope of such legislation. For instance, Sindh’s Industrial Relations Act now covers agricultural workers in the province, an extension enabled by including agriculture within the definition of “industry”. However, workers in small-scale establishments or own-account workers

⁴ Industry is defined in Section 2(15) as “any business, trade, undertaking, manufacturing or calling of employment”, which includes any “calling, service, employment, handicraft, industrial occupation or avocation of worker”. Domestic servants are defined in Section 2(7-a) as any person working full-time in connection with the work of any house hold for any consideration, whether in cash or in kind. Employees are defined by Section 2(8) as any person employed for wages or otherwise to do any skilled, unskilled or manual work. Wages are defined in Section 2(30) as encompassing payment, in cash or in kind.

are not covered by existing labour legislation – including those who work in small shop or kiosks; street vendors; drivers of rickshaws, taxis or tongas (light carriages), and construction workers, among others. Such workers could be brought within the ambit of existing laws by extending the definition of, for instance, “shops and establishments” to include small-scale business ventures.

At present, there are over 100 labour laws in Pakistan, at both the federal and provincial levels. The most relevant laws which regulate social security and protection for workers – and which could be invoked to ensure social protection for informal sector workers without amendments – include:

The Industrial and Commercial Employment (Standing Orders) Ordinance, 1968 and its provincial variants, which define the minimum service conditions for workers. The overarching West Pakistan Shops and Establishment Ordinance, 1969 is applicable to almost all remunerated activities (business, trades and professions) or any work connected with or incidental to such activities. As such, it applies to factories, shops, residential hotels, restaurants, eateries, theaters, private dispensaries, maternity homes, societies, charitable and other trusts, among others. Therefore, under Section 1(4) (c), the application of Standing Orders may be extended to a broader range of commercial and industrial establishments than originally intimated in the 1969 ordinance.

The Provincial Employees’ Social Security Ordinance, 1965 and its provincial variants are applicable to all classes of persons, industries and establishments (without distinction) which the Government may notify in the Official Gazette. Thus, the benefits conferred by this ordinance could be extended by re-defining⁴ “industrial, commercial, agricultural establishments” in Section 2(11) of the ordinance.

The Employees Old-age Benefits Act, 1976 could be extended by a notification under Section 1(4)(ii). Such an extension would make this law applicable to all industries and establishments

even those with only one worker.

As noted above, it is important to recall that the overwhelming majority of enterprises in Pakistan are not registered. This makes it difficult for the Government to identify workers across the country and enroll them in social protection schemes. Workers with no fixed workplace, including the self-employed (such as taxi/rickshaw/tonga drivers, street vendors), construction workers and domestic workers, among others – are particularly hard to identify. The culture of concealing business activities from the authorities, often to avoid controls or taxes, is a major challenge for including informal sector workers in social protection initiatives.

Another challenge is the fact that informal sector workers are not recognized by Pakistan’s current labour regulatory and institutional framework. Therefore, they have not been covered by labour laws, institutions and policies. Despite this challenge, the Expert Group agrees that it is feasible for the Federal Government to implement schemes that aim at universal coverage of social protection for workers, without discrimination in terms of the type, nature or sector of their work. This is the most appropriate option to cover the whole community of workers, encompassing both the formal and informal sectors of the economy.

The Expert Group recognizes that it is not possible to expand Pakistan’s social protection network to cover all workers in a single step. This overall goal may be achieved in small steps, by including one segment of vulnerable workers at a time.

The Expert Group also notes with caution that the process of simplifying and consolidating labour laws in the provinces is extremely slow and should be expedited. To date, provincial governments have been unable to fulfil their responsibilities in terms of worker registration due to capacity constraints, challenges related to the use of technology, and other factors. Pakistan’s current labour management systems do not prevent the Federal Government from pursuing the universal registration of informal sector workers, particularly as their registration for the purposes of extending social security is in accordance with constitutional provisions on workers’ welfare.



To pilot this approach, the Federal Government may begin with the universal registration of workers in the federally-administered Islamabad Capital Territory (ICT).

2.4 Institutions for labour welfare

At present, Labour Departments in Pakistan's provinces and administrative areas have limited capacity to implement and govern the application of labour laws and standards, as noted above. They lack both human and financial resources. For instance, the Labour Department in Gilgit-Baltistan is responsible for monitoring the application of labour laws over mountainous terrain spanning over 72,000 square kilometres. However, the Department is managed by only two officers and nine labour inspectors, while the Government of Gilgit-Baltistan strives to meet a minimum target of at least 11 officers and 20 labour inspectors. During its analysis of institutional arrangements for labour welfare across the country, the Expert Group was made aware of limited capacities in all

provinces, without exception. Across the board, there is an acute shortage of human resources and funds, a lack of capacity building for available and new officers, limited provision of necessary facilities, a lack of field offices and insufficient transport resources. These capacity gaps severely inhibit the capacity of provincial Labour Departments to implement labour laws within their jurisdictions.

As Pakistan's urban population grows rapidly – and brings with it a proliferation of industries, shops, small establishments, self-employed mobile businesses and other forms of informal employment – there is an urgent need to upgrade provincial Labour Departments. Advancements are needed in terms of human resources, including staff capacities to use information and communications technology (ICT), as well as to prioritize partnership-building to improve labour management and governance systems. There is a need to develop a basic template at the provincial level for gathering reporting information on the implementation of labour standards and the application of labour welfare laws, which should be uniform across

all provinces. Current limitations impede the effective implementation of labour laws. Implementation is particularly weak with regard to informal sector workers, leaving them largely unprotected.

The Expert Group is in agreement on the need to create a specialized Occupational Group for Labour Administration – staffed with qualified officers and labour inspectors – in order to improve labour administration, in line with national and international labour standards. Labour inspectors need to be equipped with the necessary skills, tools and transportation options to perform their assigned functions effectively.

2.5 Impact of digitizing payments on informal workers

Ensuring that all workers in the informal sector have their unique identity registered, and their identity is linked to a digital payment account, can have important impacts on workers' welfare. It can also strengthen the effectiveness of benefit systems by delivering benefits to workers through their digital accounts. The Expert Group studied an example by a welfare programme to digitize wage payments to informal sector workers, which reduced payment leakages by 40%, amounting to savings of USD 38.5 million per annum. These savings were more than nine times the USD 4 million it cost the Government to shift to the new digital system. As leakages decreased, earnings rose by 24% per household, while fiscal outlays for the Government remained unchanged. This initiative also reduced the time beneficiaries spent collecting payments by 19% (totaling 21 minutes per transaction). The new payment system's customer satisfaction rating stands at 92%. Another intervention which introduced rural-to-urban migrants to mobile money increased remittances by 30%. This, in turn, enhanced consumption in migrants' rural households by 7.5% and triggered a reduction in extreme poverty.

In order to maximize benefits and minimize risks, a number of design considerations must be borne in mind when digitizing payments for informal sector workers. It is important to ensure reliable,

foolproof connectivity at all locations, alongside widespread onboarding onto the new system. This is essential for making sure that digital payments can be authenticated and accessed seamlessly by all workers who qualify for them. Clear communications are required on the reform process, coupled with a well-designed and simple process to redress grievances. Without these elements, some workers may be left out of the reform process, remaining uncertain of how to contribute towards or collect their benefits, and causing them to feel disenfranchised. Arranging for an independent agency to implement low-cost, high-frequency monitoring surveys (such as through calls to beneficiaries' mobile phones for feedback) has proven successful in the past. In one case analysed by the Expert Group, such surveys – whose results were tied to employer and government staff's key performance indicators (KPIs) – reduced the number of beneficiaries who did not receive transfers by 7.6%.

It is also vital to reconcile administrative data on funds and in-kind transfers with beneficiary data under various programmes. This is key for ensuring that the new system does not have leakages or exclude workers who qualify for transfers. It is equally important to rigorously measure impacts on workers as these reforms are rolled out, in order to better understand improvements in welfare and minimize any potential adverse effects or emerging risks.

Furthermore, giving workers the choice to access digital benefits from any authorized service provider (that is, enabling “portability”) can improve service delivery. It also has the potential to empower workers by providing flexibility and convenience, which are especially desirable for migrant workers. Strengthening and expanding the “cash-in cash-out” agent network for the easy conversion of digital payments to hard currency, and vice versa, will give workers the confidence and flexibility to enter the digital economy without worries or hesitation.

3. Recommendations

As this report has highlighted, the Labour Welfare and Social Protection Expert Group is greatly concerned that the overwhelming majority of workers in Pakistan’s informal sector, as well as in the agricultural sector, do not have any social security coverage. As a first step towards providing social security coverage for every worker under the Mazdoor ka Ehsaas programme, the Expert Group recommends that the PASS Division devises a mechanism to register all informal sector workers, including those in the agricultural sector. To this end, the Expert Group recommends that:

1 Essentially being a welfare-oriented initiative, PASS Divisions should establish a Mazdoor ka Ehsaas Unit (MKE Unit) to continuously work for the welfare of informal sector workers, agriculture sector workers as well as workers in the formal sector who are not protected by current social security measures.* The MKE Unit should negotiate with relevant stakeholders and develop a set of affordable packages for health services, occupational injury compensation, life insurance and old age benefits for all workers. In tandem, the MKE Unit should develop a database of all workers in collaboration with the National Database and Registration Authority (NADRA).

2 The MKE Unit, in collaboration with partner insurance company and the partner bank, should develop various contributory packages for the extension of health facilities and old age pension benefits to all workers, including those in the informal sector. This is vital to respond to the urgent need for an arrangement that offers healthcare-related support (such as health insurance) and old age benefits (such as pensions) for workers in the informal sector.

3 The proposed social security and insurance packages should primarily be contributory, with a host of flexible options for health, injury, death and pension coverage. As growing numbers of registered workers opt for this scheme, the size of workers’ monthly contribution will decrease substantially.

Therefore, it is necessary to ensure effective programme design, based on actuarial studies, and wider communications measures in order to prompt a large number of workers to opt for these packages.

4 The contributions of informal sector workers may be supported through innovative financing arrangements – such as corporate social responsibility (CSR) contributions or contributions of the Pakistani diaspora abroad – or through an endowment fund, to be managed by the MKE Unit. The MKE Unit may explore different financing options, such as CSR-based collaborations with potential donors.

5 The MKE Unit, in collaboration with the partner bank, insurance company and NADRA should develop a simple process for the collection of registered workers’ contributions. The partner bank and NADRA should explore and employ all options for this purpose, including cellular company franchises, internet banking, mobile applications, automated teller machine (ATMs), and branchless banks such as “Easy Paisa/Easy Load”, among others.

6 A well-designed communications strategy and media campaigns should be rolled out to educate informal sector workers about the programme, the proposed social security packages, the contributions they would have to make and the benefits they would receive.

* Secretary PASS Division strongly disagreed with this recommendation on account of the Rules of Business 1973 under which, in his opinion, the function belongs to MoOPHRD. He felt that creation of such a unit in any other Ministry/ Division will seriously compromise the effectiveness of such a unit. The committee with a majority disagreed with Secretary PASS Division.

7 All registered informal sector workers should have bank accounts and/or branchless banking accounts for financial transactions of their income, old age or other benefits, salaries etc. In addition to the positive effects described above, such accounts can assist the implementation of minimum wage rates. The partner bank and partner insurance company may consider the disbursement of benefits to the heirs of active account holders in the event of a registered insured worker's death.

8 All data collected on informal sector workers will be shared with provincial Labour Departments under a data sharing protocol to enable them to use this data to inform their programme design and policy-making.

9 In the long-term, the Expert Group recommends simplification of all worker welfare schemes and creating a “one-stop shop” for extending welfare

measures to all registered workers in the formal sector.

10 Since informal sector workers are not recognized by the current legal and regulatory framework, the Expert Group encourages provinces to consolidate and simplify the existing labour laws and broaden their coverage to include informal sector workers in its ambit. As a result, substantial steps are also needed by the provinces to strengthen the labour departments in terms of providing necessary infrastructure and human resources.

11 The LFS questionnaire may be improved to cover the earnings of self-employed workers.



4. Future course of action

4.1 Institutions responsible for implementing the recommendations

The **PASS Division** will be responsible for housing the Labour Welfare and Social Protection Expert Group and the MKE Unit (including a broad-based Fund Management Committee), for meetings with the donors in order to secure their commitments. The Division will also be responsible for developing a request for proposals (RFP) for the selection of an insurance company, for finalizing the programme details, for the monitoring and evaluation (M&E) of the programme, and for data sharing protocols.

The **OP&HRD** will be responsible for pursuing provincial Labour Welfare Departments to share social security (EOBI, ESSIs and WWF databases) with NADRA.

NADRA will be responsible for providing data, the design and implementation of the programme, ensuring data access for the PASS Division and OP&HRD, and data sharing with the provinces or for research purposes.

The **partner insurance company** will be responsible for programme design, actuarial analysis, costing, developing scenarios, updating data and reporting.

The **partner bank** will be responsible for developing options for the collection of workers' contributions and the payment of cash benefits.



4.2 Key performance indicators (KPIs) for monitoring and evaluation (M&E)

The Mazdoor ka Ehsaas Unit is created/ established in the PASS Division for programme management, overall coordination and basic research.

The fund management team is notified and begins work.

An effective communications and advocacy campaign is developed and rolled out.

Number of informal sector workers registered under Mazdoor ka Ehsaas by sector, occupation, district, province, age and sex.

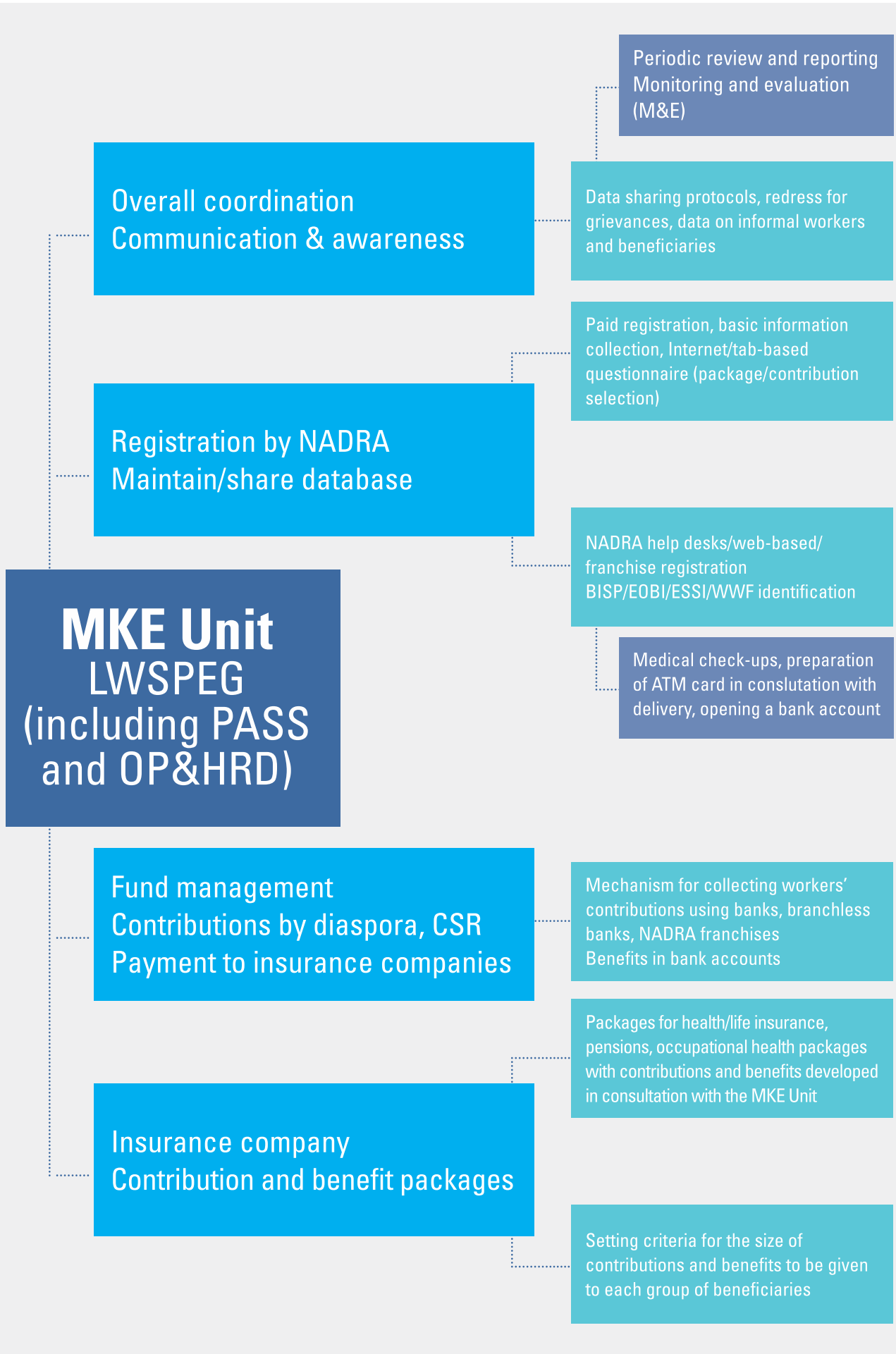
Number of workers with social security coverage under Mazdoor ka Ehsaas by sector, occupation, district, province, age and sex.

Number of workers with social security coverage under Mazdoor ka Ehsaas who have a bank account.

Number of workers with social security coverage under Mazdoor ka Ehsaas by the type of protection they have subscribed for (e.g. health insurance, pension schemes, OSH coverage by packages/ options), disaggregated by sector, occupation, district, province, age and sex.

Number of claims received, processed and matured by the partner insurance company, and the corresponding amounts disbursed, disaggregated by sector, occupation, district, province age and sex.

Contributions received by workers, employers, philanthropists, the private sector and donors (NGOs/ INGOs).



4.3 Functions of the proposed Mazdoor ka Ehsaas (MKE) Unit

As noted above, the Expert Group proposes the establishment of MKE Unit in the PASS Division.

The Labour Welfare and Social Protection Expert Group will continue to guide and oversee performance of the MKE Unit.

The MKE Unit or some similar arrangement will guide the operations of the Mazdoor ka Ehsaas programme.

The MKE Unit will be responsible for:

- i. Overall coordination with stakeholders involved in the implementation of the Mazdoor ka Ehsaas programme (MKEP).
- ii. Devising a communications strategy and a media campaign for the MKEP.
- iii. M&E and reporting on the MKEP.
- iv. Devising details of the data to be collected by NADRA and data sharing protocols, merging data from existing programmes (including the Benazir Income Support Programme (BISP), EOBI, ESSIs and WWF beneficiary data and benefits information).
- v. Engagement with NADRA on data issues and data collection procedures.
- vi. Selecting a partner insurance company, developing packages, specifying contributions, outlining details and procedures for the collection of contributions, benefit packages and operational details.
- vii. Enabling NADRA, the partner insurance company and the partner bank to ensure that all informal workers have or have opened bank accounts which are linked with social security and insurance benefits.
- viii. Coordinating meetings of the Labour Welfare

and Social Protection Expert Group or some other similar broad-based group.

A Fund Management Committee within the MKE Unit will oversee the collection, disbursement and utilization of funds as per Government rules.

The Fund Management Committee will make efforts to tap potential donors (including INGOs, NGOs, FPCCI/ OICCI) to contribute to the MKEP's funding.

Interest on bank deposits will be used as a government contribution for workers belonging to low income groups.

The Expert Group and the MKE Unit will devise a simple form for data collection and the selection of packages (for insurance and sums covered) which is easy to fill out.

The MKE Unit will ensure that appropriately simple technological applications are developed and constantly improved (for instance, through an innovation challenge fund).



Annex I

Notification for the constitution of the Labour Welfare and Social Protection Expert Group

To be published in Part-II
of the Gazette of Pakistan

Government of Pakistan
Cabinet Secretariat
Poverty Alleviation and Social Safety Division

Islamabad, the 2nd May, 2019

NOTIFICATION

No. F.No. 8-6/2019(A-IV)392. The Prime Minister on 27th March, 2019 has announced the *Ehsaas* Programme Policy Document which contains 115 policy actions. In line with Para-47 of Ehsaas Programme Document, a **Labour Welfare and Social Protection Experts Group** is notified with following **Composition** and **TORs**.

2. The Composition of the Labour Welfare and Social Protection Expert Group is as under:
 - i. Secretary, Overseas Pakistanis and Human Rights Development (OPHRD) (**Co-Chair**)
 - ii. Secretary, Poverty Alleviation and Social Safety Division (**Co-Chair**)
 - iii. Directors Labour Departments (**Punjab, Sindh, KP, Balochistan, Sindh, GB, AJK and ICT**)
 - iv. General Secretary, Pakistan Workers Federation
 - v. President, Employers Federation of Pakistan
 - vi. Director Labour Force Survey, PBS
 - vii. Professor Dr Aliya H. Khan, Labour Economist
 - viii. Raja Faiz ul Hasan Faiz, Lawyer
 - ix. Dr Lubna Shahnaz, Labour Economist
 - x. Mr Iftikhar Ahmad, Labour Specialist
 - xi. Country Representative, International Labour Organization
 - xii. Representative of the World Bank
 - xiii. Representative of the Asian Development Bank
 - xiv. Joint Secretary PASSD (**Secretary of the Group**)
3. The Terms of Reference are as follows:
 - i. Recommendations for the extension of labour welfare measures, including minimum wages and occupational health and safety, to the workers in the informal economy including agriculture workers.
 - ii. Review of the status of legislative development pertaining to welfare measures for recommendations accordingly.
 - iii. Identifying gaps in the process of legislative development for informal workers and provide recommendations to fill the gaps.
 - iv. Recommend measures for effective implementation, application and enforcement of legislation for welfare of workers in informal sector.

- v. Review of institutional arrangements for provision of social protection to workers and their dependents in the post 18th amendment context and make recommendations to address the constraints.
4. Following are the Rapporteurs of Group:
 - i. Mr Saram Bukhari,
 - ii. Ms Abida
 - iii. Ms Rabia
 5. The Labour Welfare and Social Protection Experts Group may co-opt more members as required. Poverty Alleviation and Social Safety Division shall provide secretariat support to the Group.
 6. The Group will submit its report to Dr. Sania Nishtar (Chairperson) who will garner consensus on its recommendations for final submission to Prime Minister within six months.

(**NASIR JAMAL**)
Senior Joint Secretary

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- n. Ms Xiaohong Yang, Representative of Asian Development Bank, Islamabad
- o. Joint Secretary PASSD (Ex-Officio Secretary of the Group)

Copy to:

1. Chairperson, PACC/BISP, Islamabad
2. Secretary, Cabinet Division, Islamabad
3. Secretary, Prime Minister's Office, Islamabad
4. Secretary, Finance Division, Islamabad
5. Secretary, Planning & Development Division, Islamabad

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