

Labour and Employment in Pakistan

Dr. Hafiz A. Pasha



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ACRONYMS

ASEAN	Association of Southeast Asian Nations
BISP	Benazir Income Support Programme
BNU	Beaconhouse National University
BPS	Basic Pay Scale
CBA	Collective Bargaining Agent
CBA	Collective Bargaining Agent
CBN	Cost of Basic Needs
EOBI	Employees Old Age Benefits Institution
EU	European Union
FEI	Food Energy Intake
GDP	Gross Domestic Product
GOP	Government of Pakistan
GRP	Gross Regional Product
ILO	International Labour Organization
ILOSTAT	International Labour Organization Database
ITO	Income Tax Ordinance
LDC	Least Developed Countries
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
LIMS	Labour Information Management System
LUMS	Lahore University of Management Sciences
MBA	Master in Business Administration
MLF	Muttahida Labour Federation
MOF	Ministry of Finance

NAV	Net Value Added
NIRC	National Industrial Relations Commission
NLF	National Labour Federation
PBS	Pakistan Bureau of Statistics
PES	Pakistan Economic Survey
PML (N)	Pakistan Muslim League (Nawaz)
PPP	Pakistan Peoples Party
PRSP	Poverty Reduction Strategy Papers
PTI	Pakistan Tehreek-e-Insaf
PWF	Pakistan Workers Federation
QIM	Quantum Index of Manufacturing
RCA	Revealed Comparative Advantage
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SMEs	Small-Medium Enterprises
UN	United Nations
WDI	World Development Indicator
WEF	World Economic Forum
WPPF	Worker's Profit Participation Fund
WWF	Workers' Welfare Fund

PREFACE**The Need to Reform
Employment and Labour
Policies in Pakistan.**

A few decades ago, after the end of military dictatorship in Brazil, a Brazilian General exclaimed: "Development has been very good for Brazil. But it has been very bad for the Brazilians".

This might seem quite surprising to many, but it should not be. Very often, in countries North and South, East and West, both economists and politicians are treating the economy as a big, lifeless machine, producing goods, services, and growth. Abstract economic indicators are supreme. This machine is operating under a set of rules, like resource allocation by market forces, the terms of trade, and the competition of self-interested economic actors. Under some conditions and over limited time periods such an approach can produce positive results, at least in the eyes of its propagandists. Growth might (or might not) result. But such a technocratic approach to economics, which generally is formulated from the perspective of the economic powerful, too often forgets the obvious: The Economy is not a lifeless machine, but a complex net of cooperation of human beings. The economy is made up of people, and any economist who loses sight of this obvious truth will never truly understand it. It should not be disputed that the economy should serve the people, not the people the economy. Producing bread, houses, means of transportation is not a purpose in itself, but a way to serve the needs of people. And an economy which does not do this successfully is devoid of sense, and does not serve its basic purpose. Successfully producing millions of items which are of no use while millions of people walk without shoes, are hungry and lack decent shelter is not an indication of economic strength, but of a society which lost its way.

Some economists will object. For them, the economy should not be bothered, it should not be tampered with, it should remain pure from non-economic influences. The "invisible hand" of the free market will somehow assure that human needs will be fulfilled, quite miraculously. The problem is that this miracle generally does not happen. Miracles are extremely rare in economic matters. Instead, the experience in both industrialized and developing countries clearly demonstrates that political and social guidance of market forces, if properly done, is not necessarily hurting the economy, but can contribute to make it better. The market forces need positive legal, political, and social framework and guidance to work well, and to turn it into a tool of society, instead its dictator. Slave Labour and drug dealing are illegal,

even if this restricts the market – and few people would object to the wisdom of such rules. And protecting women and children, protection of the weak in general are no different. If market forces would produce famine, this should not be accepted but overcome by political and social intervention.

The author of this publication, the eminent economist and former Finance Minister Dr. Hafiz Pasha, is fully aware of such considerations. While being a highly competent and internationally respected economist, Dr. Pasha understands very well that a successful economy also needs a high dose of social justice to be both successful and sustainable. The publication at hand, “Labour and Employment Issues in Pakistan” is based on both rigorous economic analysis and on the intention to make Pakistan a better and more progressive society, serving all its members. Dr. Pasha in detail analyses the Labour force in Pakistan, the Labour market, employment and unemployment, demographic factors (like the “Youth Bulge”), gender discrimination in the Labour market, wages, skill/education of the workforce, and Labour in the informal sector of the economy, as well as the relevance of international Labour law for Pakistan. Anybody interested in such aspects of Labour and employment in Pakistan will find a wealth of information, sometimes surprising. For instance, we learn that unemployment in Pakistan is highest for workers with degree or post-graduate education – quite unusual in international comparison.

At the end of his study, Dr. Pasha presents his recommendations for an employment strategy and Labour policy, which are based on the analysis given before. These recommendations are based on sound economic judgment and the need of greater social justice in the Pakistani economy. The positive future of the country, its development and progress, as well as its stability all depend on utilizing all the human resources and all the talent Pakistan has, which means to also provide economic and social opportunity and chances of participation to individuals and groups which still are marginalized today. Dr. Pasha teaches us that social justice has to be an important element of a successful economic policy.

Friedrich Ebert Stiftung (FES) and we personally as its representatives in Pakistan sincerely hope this study will help stimulate a lively and constructive debate in Pakistan about economic policies and Labour and employment and contribute to a flourishing and progressive Pakistan. We are proud to have a long history of working jointly with Dr. Pasha for this goal.

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Chapter 1

THE LABOUR FORCE

The Labour force consists of all persons in the population aged 10 years or more who can be categorized as employed or unemployed. Employment is the case when a person has worked at least one hour during a particular reference period either in the form of paid employment or self-employment. An unemployed person is without work but currently available for work and seeking work.

This first chapter of the report quantifies the Labour force participation rate from 2003-04 to 2017-18 by location, gender and Province. This is followed by analysis of the growth rate of the Labour and identification of the determinants of this growth. Subsequent sections focus on the 'augmented' Labour force, on the variation in the Labour force participation rate by age and on international comparisons.

1.1. LABOUR FORCE PARTICIPATION

The Labour force participation rates are presented in Table 1.1. the overall participation rate in the country showed a rising trend from 43.7 percent in 2003-04 to 45.7 percent in 2012-13. Thereafter, it declined to 44.3 percent in 2017-18. However, while rural Labour force participation shows a similar trend, the rate of participation in the urban Labour force has demonstrated a somewhat upward trend. Also, the rural level of participation is high because of the employment of unpaid family workers, especially in agricultural activities.

Pakistan is characterized by a big difference between the rates of participation of males and females. In 2017-18 it was 68 percent for males and only 20 percent for females. This reflects the social taboos against higher education of women and work outside the home. However, it is reassuring to note that women's participation is increasing. It has gone up from almost 16 percent in 2003-04 to over 20 percent in 2017-18. However, the participation rate of males declined by almost three percentage points during this period.

There is also significant variation in Labour force participation rates among the Provinces. The highest rate is in Punjab, followed by Sindh, Balochistan and Khyber-Pakhtunkhwa. Punjab has a more dominant agricultural economy and, therefore, higher incidence of unpaid family workers. The participation rate in

Khyber-Pakhtunkhwa is substantially lower because of a large-scale migration by male workers to other parts of Pakistan and to the Middle East.

Table 1.1:	Labour Force Participation Rate by Location, Gender and Province – (%)			
	2003-04	2007-08	2012-13	2017-18
PAKISTAN	43.7	45.2	45.7	44.3
Urban	39.2	38.6	39.7	39.7
Rural	46.3	48.8	49.0	47.1
Male	70.6	69.5	68.9	68.0
Female	15.9	19.6	21.3	20.1
Punjab	47.0	46.6	48.3	47.9
Sindh	40.5	45.5	45.3	42.3
Khyber-Pakhtunkhwa	37.2	39.8	36.9	35.4
Balochistan	40.0	41.8	42.3	39.0
Source: PBS, LFS				

1.2. SIZE OF THE LABOUR FORCE

The size of the Labour force in 2017-18 was 65.5 million as shown in Table 1.2. It has increased annually by about 1 million since 2012-13. Earlier, the annual increase was larger at 1.6 million between 2007-08 and 2012-13

Table 1.2:	Size of the Labour Force by Location, Gender and Province – (Million)			
	2003-04	2007-08	2012-13	2017-18
PAKISTAN	45.23	51.78	59.74	65.50
Urban	14.52	15.60	18.51	22.59
Rural	30.71	36.18	41.23	42.91
Male	37.13	40.82	45.58	50.74
Female	8.10	10.96	13.76	14.76
Punjab	27.85	30.67	35.71	39.98
Sindh	10.40	12.65	14.73	15.19
Khyber-Pakhtunkhwa	5.07	6.27	6.72	7.72
Balochistan	1.91	2.19	2.58	2.61
Source: PBS, LFS				

According to the latest Labour Force Survey of 2017-18, 34.5 percent of the Labour force is resident in urban areas and the remainder, 65.5 percent, in rural areas. 77.5 percent of the Labour force is male and Punjab has 61 percent of the Labour force.

The annual growth rate of the Labour force is given for three sub-periods in Table 1.3. These are 2003-04 to 2007-08, during the tenure of the Musharraf Government, for 2007-08 to 2012-13 when the Pakistan Peoples Party (PPP) was in power and from 2012-13 to 2017-18, the five years of the Pakistan Muslim League-Nawaz (PLMN) Government.

Table 1.3: Annual Growth Rate of the Labour Force – (%)			
	2003-04 to 2007-08	2007-08 to 2012-13	2012-13 to 2017-18
PAKISTAN	3.4	2.9	1.8
Urban	1.8	3.4	4.0
Rural	4.1	2.6	0.8
Male	2.4	2.2	2.1
Female	7.5	4.6	1.4
Punjab	2.7	3.0	2.3
Sindh	4.9	3.0	0.6
Khyber-Pakhtunkhwa	5.3	1.7	2.8
Balochistan	3.4	3.3	2.3
Source: PBS, LGS			

The annual growth rates show substantial variation over the fourteen-year period. What explains this variation? One possible explanation is the growth performance of the economy. This relationship is examined in Table 1.4.

Table 1.4: Annual Growth Rate of the Labour Force and the GDP – (%)			
	Growth Rate		
	GDP (1)	Labour Force (2)	Ratio (2)/(1)
2003-04 to 2007-08	6.3	3.4	0.540
2007-08 to 2012-13	2.9	2.9	1.000
2012-13 to 2017-18	4.7	1.8	0.382
Source: PBS, LFS; MOF, PES			

The Table 1.4 shows widely varying response of the increase in the Labour force to growth in the GDP. In particular, the period, 2007-08 to 2012-13, shows a strong response of entry into the Labour at a time when the economy exhibited very little buoyancy. This is attributable to understatement of the number of unpaid family workers in 2017-18.

The conclusion is that a faster rate of entry into the Labour force takes place when the economy is growing rapidly as was the case in the period, 2003-04 to 2007-08. However, it is unlikely that the growth rate of the Labour force will diverge substantially from the population growth rate.

Following adjustment for the variation in the growth rate of unpaid family workers, the revised estimates of the Labour force participation rates are presented below in Table 1.5. The conclusion is that there has been little change. The national Labour force participation rate has remained unchanged at 45.7 percent. The only visible changes are at the Provincial level.

Table 1.5: Reported and Adjusted Labour Force Participation Rates – 2017-18 (%)			
	2012-13	As Reported in the LFS	Adjusted
PAKISTAN	45.7	44.3	45.7
Urban	39.7	39.7	40.4
Rural	49.0	47.1	48.9
Male	68.9	68.0	69.1
Female	21.5	20.1	21.7
Punjab	48.3	48.3	49.8
Sindh	45.3	42.3	48.6
Khyber-Pakhtunkhwa	39.6	35.4	36.5
Balochistan	42.3	39.0	40.2

Source: PBS, LBS; Authors estimates.

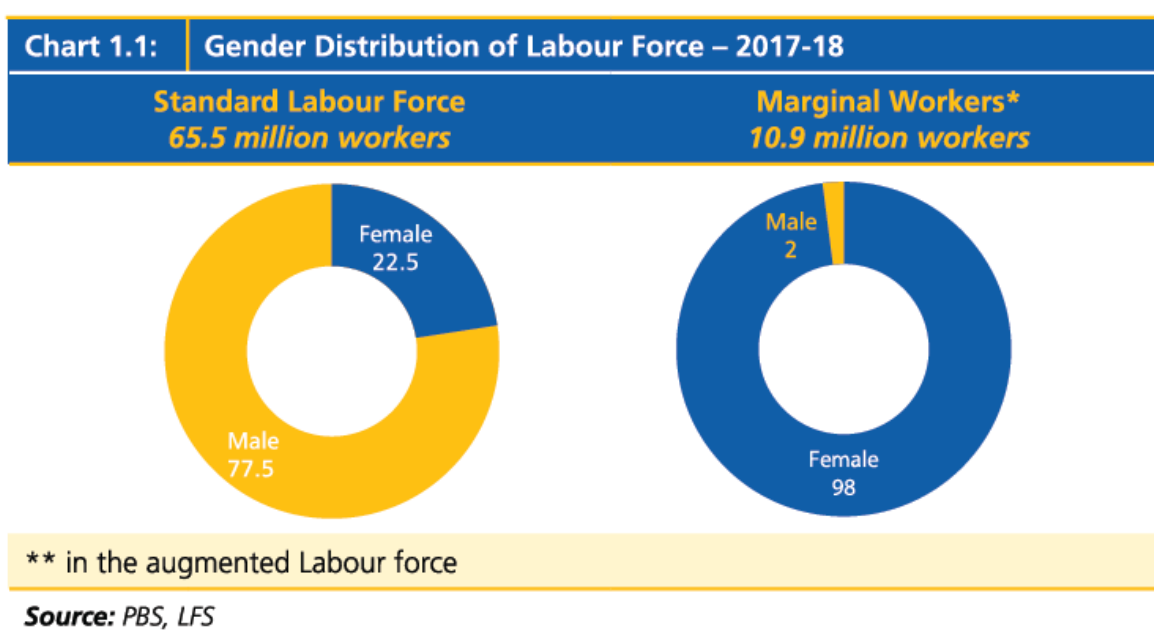
1.3. 'AUGMENTED' LABOUR FORCE

The 'augmented' Labour force includes workers in marginal economic activities, viz., subsistence agriculture, own construction of one's dwelling, etc. The resulting increase in the Labour force participation rate is given in Table 1.6. The number of workers added is almost 11 million. The pre-dominant majority is women.

Table 1.6: Augmented vs 'Conventional' Labour Force Participation Rate, 2013-14 to 2017-18 – LFPR (%)			
	Conventional	Augmented	Difference
2003-04	43.7	55.3	11.0
2007-08	45.1	53.6	8.0
2012-13	45.7	53.0	7.3
2017-18	45.7	53.0	7.3

Source: PBS, LFS

The resulting overall gender distribution of the Labour force in 2017-18 is given in Chart 1.1.



1.4. AGE DISTRIBUTION OF LABOUR FORCE

The revised estimates of the Labour force distribution by age group is presented in Table 1.7, for 2017-18. Pakistan reports Labour force participation for workers aged 10 years or more. The international practice is to consider Labour force participation from the age of 15

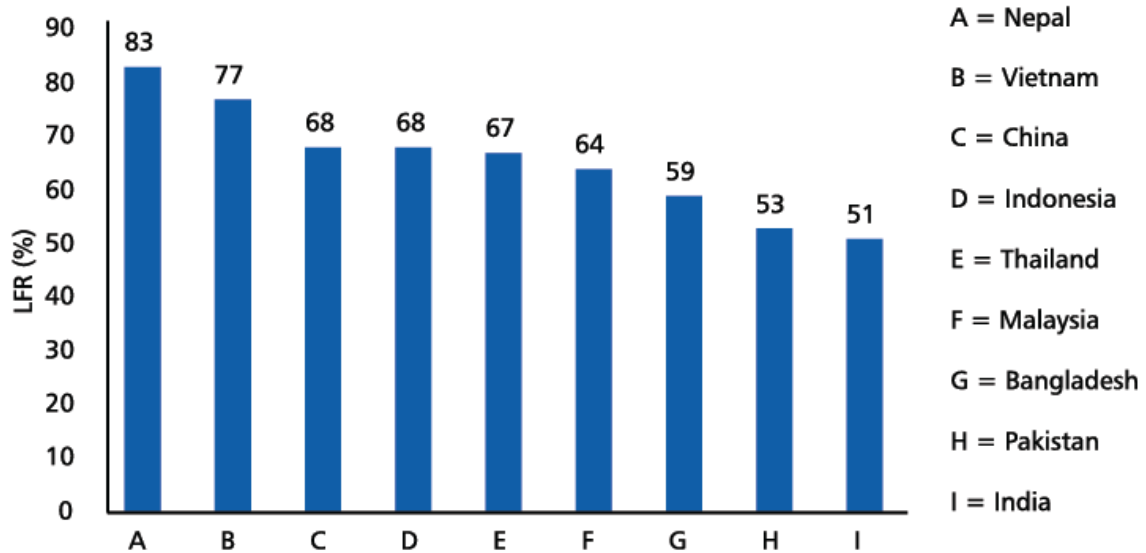
Table 1.7: Labour Force Participation Rates by Age Group		
Age Group	% of Population	% of Labour Force
10 – 14 years	12.7	8.2
≤ years	71.6	45.7
≤ 15 years	58.9	52.6

Source: PBS, LFS

years onwards. As such, Pakistan has child workers aged from 10 to 14 years. Their Labour force participation rate 8.2 percent in 2017-18. This implies that there are almost 2.2 million child workers in Pakistan.

A comparison is made finally in this chapter of the Labour force participation rates in a sample of Asian countries of population aged 15 years and above in Chart 1.2. These participation rates are generally higher in East Asian countries than in South Asia, with the exception of Nepal. This is primarily due to less engagement of women in the Labour force.

Chart 1.2: Labour Force Participation Rates of Population aged 15 years and above in Selected Asian Countries
(%)



Source: World Bank, WDI

Chapter 2

LEVEL, STRUCTURE AND GROWTH OF EMPLOYMENT

The lives of the over 30 million families of Pakistan hinge crucially on the quality of human capital endowment and the employment of their bread winners. The fundamental question, therefore, is whether the economy of the country is growing at a rate fast enough to provide adequate employment opportunities to the bulk of the almost 70 million members of the Labour force.

The objective of this chapter is to analyze the rate of growth of employment and identify its determinants. Section 1 highlights some of the issues related to the measurement of employment. Section 2 then presents the evolution of the employment to population ratio of Pakistan since 1981. Section 3 highlights the rate of absorption in employment of new entrants into the Labour force in different periods. This is followed by quantification of the rate of growth in employment of different types of workers in Section 4. Section 5 then examines the relationship between the growth in GDP and value added and in employment at the national and provincial level in Pakistan. This relationship is also identified at the sectoral level of the national economy.

2.1. MEASUREMENT OF EMPLOYMENT

A worker aged 10 years or above is considered as employed if he/she has worked at least one hour during the survey reference period and was either 'paid-employed' or 'self-employed'. Persons employed on permanent/regular footing but have not worked during the reference period are also treated as employed.

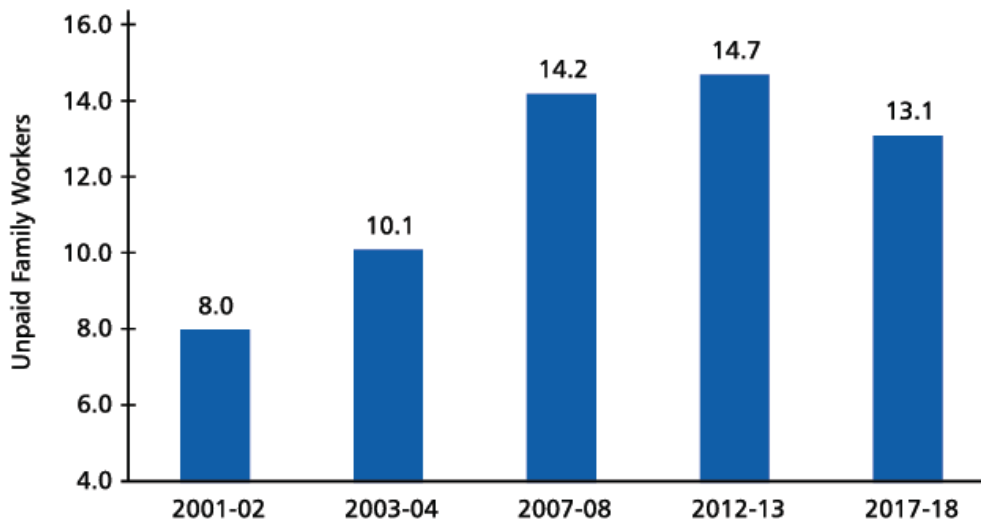
The problem arises with the inclusion of contributing family workers who are unpaid. They are considered as employed if they provide inputs to economic activities like subsistence farming, management of livestock and construction or repair of the home dwelling. There is inevitable some degree of subjectivity in the inclusion or exclusion by the survey of an adult member of the family being surveyed.

This problem of measurement is highlighted by the big variation in the level and growth rate of contributing/unpaid family workers over the years as shown in

Chart 2.1 below. The annual growth rate in employment of such workers was extra ordinarily rapid between 2001-02 and 2007-08 of almost 10 percent per annum. Thereafter, it flattened out and actually declined by 11 percent between 2012-13 and 2017-18. These workers account for close to one fourth of the total employment and the variation in their number employed has a significant impact on the growth rate of total employment.

Chart 2.1: Number of Unpaid Family Workers, 2001-02 to 2017-18

(million)



Source: LFS, PBS

This also raises the possibility that this may be the method chosen to artificially enhance the level of employment and thereby report a lower rate of unemployment. The PBS may have been put under pressure, especially during the tenure of the Musharraf Government, to arrive at a relatively low rate of unemployment.

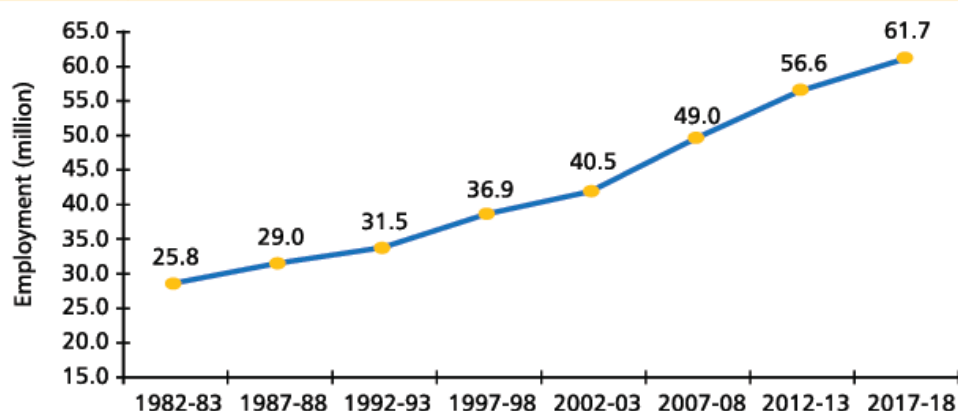
There is also the sampling error. For example, the Labour Force Survey of 2017-18 had a nationally stratified sample of 43,472 households. According to the PBS the estimated 95 percent confidence interval is ± 1.6 percent of the reported number for the country as a whole. In the absence of any collateral evidence, only the numbers reported are subjected to analysis.

2.2. LONG-TERM TREND IN EMPLOYMENT

The total number employed in Pakistan from 1982-83 onwards, at five yearly intervals is given in Chart 2.2.

Chart 2.2: Trend in Total Employment, 1982-83 to 2017-18

(million)



Source: LFS, PBS

The rate of absorption into employment over each five-year period of the incremental Labour force is given in Table 2.1. There is clear indication that only when the economy achieves a growth rate of 5.5 percent or more there is full absorption in employment of the incremental Labour force. This happened in two periods. The first period was 1982-83 to 1987-88 when the average GDP growth rate was even above 6 percent. The second period was from 2002-03 to 2007-08.

There is need to highlight the period, 2012-13 to 2017-18. The PBS was probably forced to show a small increment in Labour force to ensure that the unemployment rate remained low at below 6 percent during the tenure of the previous Government.

Table 2.1: Rate of Absorption of Incremental Labour Force in Employment, 1982-83 to 2017-18

	Number of Labour Force Entrants	Number of New Jobs Created	Absorption Rate (%)	GDP Growth Rate (%)
1982-83 to 1987-88	612	628	102.6	6.2
1987-88 to 1992-93	785	492	62.6	4.8
1992-93 to 1997-98	151	1098	81.3	3.2
1997-98 to 2002-03	1047	706	67.4	3.5
2002-03 to 2007-08	1602	1724	107.6	5.5
2007-08 to 2012-13	1704	1498	87.9	3.0
2012-13 to 2017-18	969	1026	105.9	4.9

Source: LFS, PBS

2.3. EMPLOYMENT GROWTH FOR DIFFERENT TYPES OF WORKERS

The annual growth rate in employment for workers by employment status and by occupation are given in Table 2.2 and 2.3 respectively. The growth rates have been given on a seven yearly basis to smooth out any annual fluctuations.

The Table 2.2 has a number of messages. First, contrary perhaps to perceptions, the number of employees has grown faster than the number of self-employed and is larger today. This highlights the fact that the Labour market of Pakistan is getting more organized, especially in recent years. Second, entrepreneurship flourished especially in the Musharraf years but has since slowed down. Third, as highlighted earlier, the number of unpaid family workers mushroomed from 2003-04 to 2010-11 but has actually declined in absolute number thereafter.

Table 2.2: Growth Rate of Employment by Employment Status – (%)			
	2003-04 to 2010-11	2010-11 to 2017-18	Share in Employment in 2017-18
Employers	10.0	1.9	1.4
Self-Employed	2.8	1.9	34.8
Contributing/Unpaid Family Workers	5.6	-1.7	21.4
Employees	2.9	4.3	42.4
TOTAL	3.6	1.9	

Source: LFS, PBS

Table 2.3: Growth Rate of Employment by Occupation – (%)			
	2003-04 to 2010-11	2010-11 to 2017-18	Share in Employment in 2017-18
High level ^a	3.6	-5.0	11.3
Medium Level ^b	4.2	3.7	49.3
Low Level ^c	3.0	2.4	39.4

^a Managers, Professionals plus Technical Personnel and Associate Professionals

^b Clerical Support Workers, Service and Sales Workers and Skilled Agricultural Workers

^c Craft and Related Traders Workers, Plan/Machine Operators and Assemblers and Elementary Occupations

Source: PBS, LFS

The surprising and worrying finding from Table 2.3 is the decline in the number of employed managers and professionals in the country. This number ought to have grown relatively fast as development proceeds. However, given issues in occupational classification, there is likely to be a significant downward bias in the estimate of this number.

Medium level occupations are playing a leading role. Not only are they the largest occupational category but they have also achieved the fastest growth. The relatively low growth of low-level workers has implications on the incidence of poverty in the country given that almost 40 percent of the population aged 10 years or above is not literate.

2.4. EMPLOYMENT GROWTH IN DIFFERENT SECTORS

Table 2.4 gives estimates of the growth rates by production sector in real value added and employment during the two seven-year sub-periods.

Table 2.4:	Growth of Real Value Added and Employment by Sector (Annual Growth Rate, %)						
	2003-04 to 2010-11			2003-04 to 2010-11			Long-Term ϵ^*
	Value Added	Employment	ϵ^*	Value Added	Employment	ϵ^*	
Agriculture	3.3	4.3	1.30	2.3	-0.3	-0.13	0.69
Manufacturing	5.7	3.6	0.63	3.9	4.3	1.10	0.82
Construction	8.1	6.3	0.78	6.8	3.1	0.46	0.63
Wholesale & Retail Trade	3.8	8.2	2.16	4.4	-2.5	-0.57	0.70
Transport & Communications	3.3	2.0	0.61	4.3	4.7	1.09	0.88
Community Services	6.9	-1.1	-0.16	7.0	6.4	0.91	0.37
TOTAL	4.9	3.6	0.70	4.5	1.9	0.42	0.60

ϵ^* is the employment elasticity with respect to value-added.
Source: PBS, LFS

The fastest growth in employment in the first period when the economy exhibited faster growth, was in construction, wholesale and retail trade and agriculture. This pattern of growth changed fundamentally in the second period. Employment in agriculture and wholesale and retail trade actually declined.

Instead, the fast-growing sectors in terms of employment were manufacturing, transport and communications are government and private services.

Table 2.4 also includes estimates of the elasticity of employment with respect to value added. The elasticity measures the percentage increase in employment with a 1 percent increase in value added. On a more long-term basis from 2003-04 to 2017-18, there appears to be wide variation in the elasticities. The highest elasticity is observed in three sectors, viz., manufacturing, transport and communications, wholesale and retail trade and agriculture. These are the sectors that need to be focused on in the economic growth strategy for maximizing the increase in employment.

2.5. OFF-FARM RURAL EMPLOYMENT

An important dimension of the process of development is the sectoral diversification of rural employment away from agriculture to other sectors of the rural economy. This section quantifies the level and growth of off-farm employment in the rural areas of Pakistan. The estimates are presented in Table 2.6.

Table 2.6:	Level and Growth of Non-Farm Employment in Pakistan (000)				
	2001-02 (1)	2007-08 (2)	Growth Rate (1) -> (2)	2017-18 (3)	Growth Rate (2) to (3)
Total Rural Employment	27150	34480	4.0	40750	1.7
Employment in Agriculture	16021	21008	4.5	22486	0.7
Off-Farm Employment	11129	13471	3.2	18264	3.0
Rural Unemployment Rate	7.55	5.08		5.03	

Source: LFS

Employment in agriculture expanded rapidly from 2001-02 to 2007-08. The unemployment rate came down sharply from almost 8 percent to 5 percent. This was the period of relatively rapid growth in agricultural output of almost 3.5 percent per annum. Thereafter, the increase in agricultural employment has slowed down. Throughout the sixteen years since 2001-02, off-farm employment has been growing steadily at 3 percent per annum. The diversion of employment away from agriculture has been, more or less, forced by the loss of momentum in agricultural growth after 2007-08.

Overall employment growth in rural areas of Pakistan has come down visibly from 4 percent prior to 2007-08 to 1.7 percent thereafter. An increase in employment in other sectors in the rural domain of 3 percent annually was not adequate to enable absorption of the rural Labour force. Therefore, there is the likelihood that since 2007-08 there has been greater rural to urban migration of workers, as discussed in Section 4.4.

The other question relates to the sectoral pattern of non-farm employment. Estimates are presented in Table 2.7. The two sectors with large employment and high rate of absorption are manufacturing and construction. There has been fast growth in rural construction activity due to the rapid increase in the inflow of remittances. The other sector with large employment is community, social and personal services, with a big share in the government sector, especially education. The low rate of growth in employment in services is a reflection of a decline in the pace of expansion of public services.

Sector	2001-02	2007-08	Growth Rate (%)	2017-18	Growth Rate (%)
Manufacturing	2356	2886	3.4	4549	4.6
Construction	1691	2101	3.6	3320	4.6
Wholesale and Retail Trade	2499	3166	3.9	3888	2.1
Transportation	1306	1521	2.5	1969	2.6
Community, Social and Personal Services	3021	3471	2.3	4118	1.7
Others	256	326	4.0	420	2.5
TOTAL	11129	13471	3.2	18264	3.0

Source: LFS

2.6. DETERMINANTS OF LABOUR SUPPLY AND DEMAND

The last section of this Chapter focuses on factors which influence the long-term growth in Labour supply, as measured by the size of the Labour force, and in Labour demand, corresponding to the level of employment. The estimates are based on econometric analysis of the relationship among variables from 1990-91 to 2017-18.

The size of the Labour force is dependent upon the population and the level of real wages, as follows:

● 1% growth in population leads to a 1.11% growth in labor force

● 1% growth in the real wage leads to 0.06% growth in labor force

Therefore, as expected, Labour force expands at a rate more than population growth due to the 'youth bulge'. During the intercensal period, the relatively fast growth in the Labour force of 2.6 percent was largely due to a population growth rate of 2.4 percent. However, Labour supply does not appear to be very responsive to any increase in real wages.

Turning to the determinants of employment growth, these are as follows:

● 1% GDP growth leads to a 1.5% increase in labor demand

● 1% growth in the volume of international trade in relation to the GDP induces an increase in employment of 0.87%

● 1% growth in real wages causes a decline in labor demand of 0.48%

As such, employment growth in Pakistan has been restricted by decline in the share of international trade in the GDP. Also, there is a trade off between the rise in employment and the rise in real wages, which have been increasing at a moderate rate in Pakistan.

Chapter 3

THE LEVEL AND PATTERN OF UNEMPLOYMENT

The rate of unemployment is often taken as the key measure of success in economic development of a country and of the quality of economic management by the incumbent government. Pakistan has experienced relatively low economic growth over the last three decades but has somehow managed to sustain a relatively low rate of unemployment.

Currently the estimated rate of unemployment is 5.8 percent, as per the latest survey of Labour undertaken by the Pakistan Bureau of Statistics in 2017-18. This year witnessed an economic growth rate of 5.5 percent, which has since come down to 3.3 percent in 2018-19. This is in comparison to an unemployment rate of over 8 percent in India when the GDP growth rate is 6 percent. Similarly, it is higher in other countries like Turkey at 12.8 percent; Brazil at 13 percent and Egypt at 7.5 percent.

Therefore, the real question is what is the 'true' rate of unemployment. This is determined in Section 1 of the Chapter. Section 2 then looks at the relationship between the 'true' rate of unemployment and the GDP growth rate. Section 3 describes the variation in the rate of 'open' unemployment among different types of workers.

3.1. THE 'TRUE' RATE OF UNEMPLOYMENT

The PBS defines 'open' unemployment as a state when a person aged ten years or above who, during the survey reference period, was 'without work', either in paid-employment or self-employed and was available for work of any type. Similarly, time-related underemployment is the case when a worker works less than 35 hours a week and is seeking or available for additional work.

There are two other sources of unemployment which are not recognized by the PBS but are included in the literature as measures of the employment situation in terms of the utilization of the work force. The first is wage related underemployment. This happens, for examples, when a qualified MBA from LUMS is forced to work as a waiter in McDonalds due to lack of better job opportunities. This is more likely to be the case when the economy is in a

depressed state. The data on wage distribution is available only from 2008-09 onwards in the PBS reports on the findings from the Labour Force Surveys.

The second type of underutilization is the 'discouraged worker' effect. This is the case when a worker who has a record of past employment get unemployed and undertakes an extensive job search to find new employment. However, he is unsuccessful and is compelled to withdraw at least temporarily from the Labour force with the hope that he will resume his search once economic conditions improve.

Estimates of the 'true' rate of unemployment are given for the years 2003-04 to 2017-18. The magnitudes from 2003-04 to 2007-08 are somewhat understated due to lack of information on the incidence of wage-related underemployment.

Overall, the findings are extremely revealing. First, the 'true' rate of unemployment is significantly higher on average by 2 percentage points. Consequently, the overall rate of unemployment is high in Pakistan ranging from a low of 6.3 percent in 2007-08 to a peak of 8.9 percent in 2003-04. These estimates are more in line with the relatively low growth of Pakistan's economy. It is interesting that the unemployment rate ranges from 8 to 9 percent in six out of the eight years. The biggest difference between the 'true' and 'open' unemployment rate is observed in the most recent year, 2017-18, of 2.7 percentage points.

	'Open' Unemployment Rate ^a	'Time-Related' Under-Employment ^a	'Wage-Related' Under-Employment ^b	'Discouraged' Worker Effect ^c	The 'True' Unemployment & Under-Employment Rate
2003-04	7.7	1.2	n.a.	-	8.9
2005-06	6.2	1.9	n.a.	-	8.1
2007-08	5.2	1.1	n.a.	-	6.3
2008-09	5.5	1.4	0.5	-	7.4
2010-11	6.0	1.2	1.0	0.3	8.5
2012-13	6.2	1.6	1.0	-	8.8
2014-15	5.9	1.1	1.0	0.4	8.4
2017-18	5.8	1.3	1.2	0.2	8.5

^a as reported by the PBS

^b 1/3rd of the percentage of Managers and Professionals who earned less than Rs 4000 in 2008-09 rising to Rs 15,000 in 2017-18. The rest is assumed to be time-related

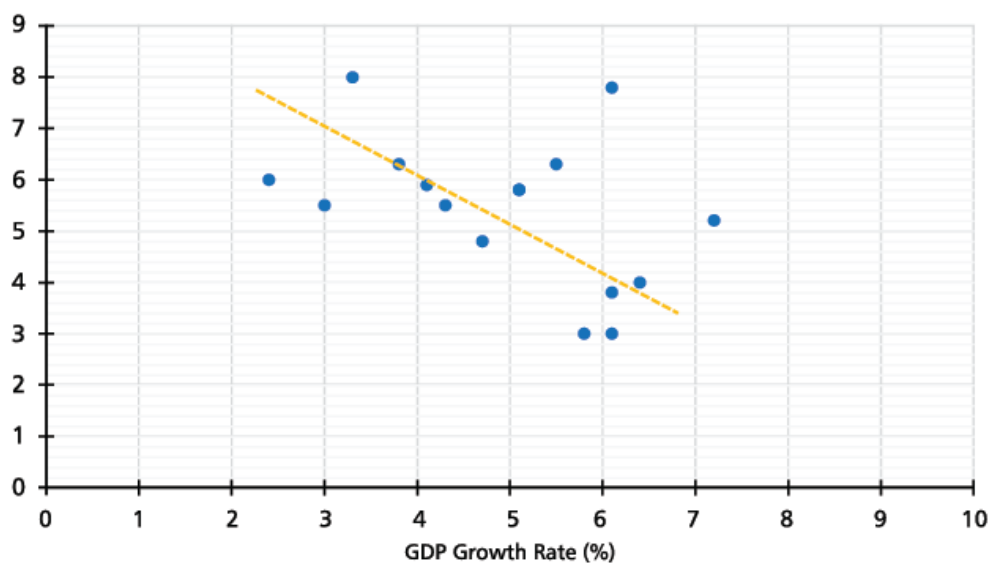
^c 1/3rd of decline in Labour force participation rate if any

Source: PBS, LFS

3.2. GDP GROWTH AND UNEMPLOYMENT

The relationship between the GDP growth rate and the 'open' rate of unemployment is shown in Chart 3.1. The unemployment rate does tend to rise sharply when the GDP growth rate falls. When the GDP growth rate is below 4 percent, the 'open' unemployment rate tends to rise above 6 percent. Alternatively, when the GDP growth rate rises to above 6 percent the unemployment rate falls to almost 4 percent.

Chart 3.1: Relationship between the GDP Growth Rate and the 'Open Unemployment Rate'



Source: LFS, PBS

However, there are some visible 'outliers'. These are largely a reflection of a lagged response of unemployment to growth. For example, the GDP growth rate went up sharply from 3.3 percent in 2001-02 to 6.1 percent in 2003-04 but the unemployment rate remained high at 7.7 percent. Similarly, the GDP growth rate was high at 7.2 percent in 2006-07 and unemployment low at 5.3 percent. The low level of unemployment persisted in the next two years even though the GDP growth rate plummeted to below 4 percent.

3.3. VARIATION IN 'OPEN' UNEMPLOYMENT RATE

The variation in 'open' unemployment rate between males and females is presented in Table 3.2. Clearly, the incidence of 'open' unemployment of females is higher in any state of the economy. However, the gap has tended to narrow.

Further, time-related unemployment rate is generally higher among females who face the prospect of finding more part-time jobs even if they are willing to be engaged in full-time work. In 2017-18, the time-related unemployment rate among females was almost 2 percent as compared to 1.2 percent in the case of males.

	2003-04	2010-11	2017-18
Male	7.2	5.1	5.1
Female	16.7	8.9	8.3
TOTAL	8.9	6.0	5.8

Source: LFS, PBS

The wage-related underemployment is also higher among females. Again in 2017-18, while 22.8 percent of male managers and professionals received a monthly salary of less than Rs 5,000 this was much lower than the 46.8 percent in the case of females. This clearly highlights the presence of gender discrimination in the Labour market.

The 'open' unemployment tends to be much higher in the case of younger workers as shown in Table 3.3. This reflects the fact that recent entrants into the Labour force may be engaged in a longer period of search for a suitable starting position. Also, employers may have a preference for workers with more experience.

Age Group	2003-04	2010-11	2017-18
10-14	12.8	10.3	9.3
15-19	13.2	10.6	10.4
20-24	10.3	5.4	11.6
25-29	7.1	2.4	6.5
30-34	4.5	2.1	4.4
35-39	2.9	1.6	1.6
40-44	2.9	2.5	1.9
45-49	3.5	3.4	2.3
50-54	5.1	5.3	3.8
55-59	7.1	5.3	5.1
60 and above	12.8	11.9	4.5

Source: LFS, PBS

The consequence is that the open-unemployment rate is U-shaped with respect to the age group of workers. It tends to be the lowest for middle-

aged workers and rises as workers get older. This is likely to be the case more in jobs which require physical inputs as in construction projects.

The incidence of open unemployment also tends to be significantly different between urban and rural areas, as shown in Table 3.4. It is significantly lower in rural areas. However, the incidence of time-related underemployment is higher. In 2017-18, it was 1 percent in the case of rural workers and only 0.8 percent for urban workers.

Table 3.4: 'Open' Unemployment by Location – (%)			
	2003-04	2010-11	2017-18
Rural	8.2	4.7	5.0
Urban	10.5	8.8	7.2
TOTAL	8.9	6.0	5.8

Source: LFS, PBS

An important source of variation in the unemployment rate is by the level of education of workers, as shown in Table 3.5. A worrying finding is the unemployment rises sharply in the case of more educated workers. For example, in 2017-18 it was 3.2 percent for illiterate workers and rose to a peak of 16.3 percent for highly educated workers with degree or post-graduate qualifications.

Table 3.5: 'Open' Unemployment Rate by Level of Education – (%)			
	2003-04	2010-11	2017-18
Illiterate	6.5	4.8	3.2
Literate	8.7	6.9	7.5
No Formal Education	6.5	4.2	4.4
Pre-Matric	7.7	5.5	4.5
Matric	10.3	8.0	6.4
Intermediate	10.9	10.6	11.5
Degree & Post-Graduate	8.8	8.8	16.3
OVERALL	7.7	6.0	5.8

Source: PBS, LFS

This can be seen as a big failure of the Labour market of Pakistan to absorb human capital. However, it also reflects problems on the supply-side. With the proliferation of higher education institutions, the annual output has been growing rapidly. It is as high as 12 percent per annum in the case of universities in the country. Consequently, there is a growing absorption problem. The unemployment rate of degree holders has nearly doubled from 8.8 percent in 2003-04 to as much as 16.3 percent in 2017-18.

Finally, we highlight the trend and level of 'open' unemployment in each province of Pakistan. The results reveal a very unusual relationship between the growth of a provincial economy and the 'open' unemployment rate. The latter is the highest in Khyber-Pakhtunkhwa at 8.1 percent even though it has the

highest GDP growth rate. The dynamism is largely provided by the inflow of remittances but the Labour market within the Province remains sluggish. This also explains the relatively higher out-migration of workers from this Province.

Balochistan is at the other extreme. It has a very low GDP growth rate but still a very low unemployment rate of 4.2 percent. This is probably attributable to the Labour shortage in the Province due to its relatively small population. Punjab has an unemployment rate close to the national average while Sindh performs somewhat better.

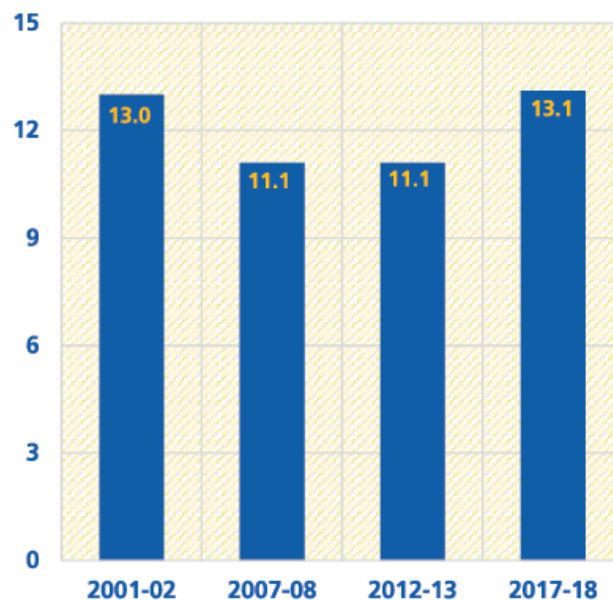
3.4. MIGRANTS' PRESSURE ON THE LABOUR MARKET

The Labour Force Survey also presents estimates of first generation migrants, both rural to urban within a province and among provinces. The share of migrants in the population aged 10 years or above in the Provinces is given in Chart 3.2 for different years.

The share of migrants in the population was 13 percent in 2001-02 which declined to 11 percent from 2007-08 to 2012-13 but has since risen once again back to 13 percent. This is a reflection of the slowing down in the growth of the rural economy.

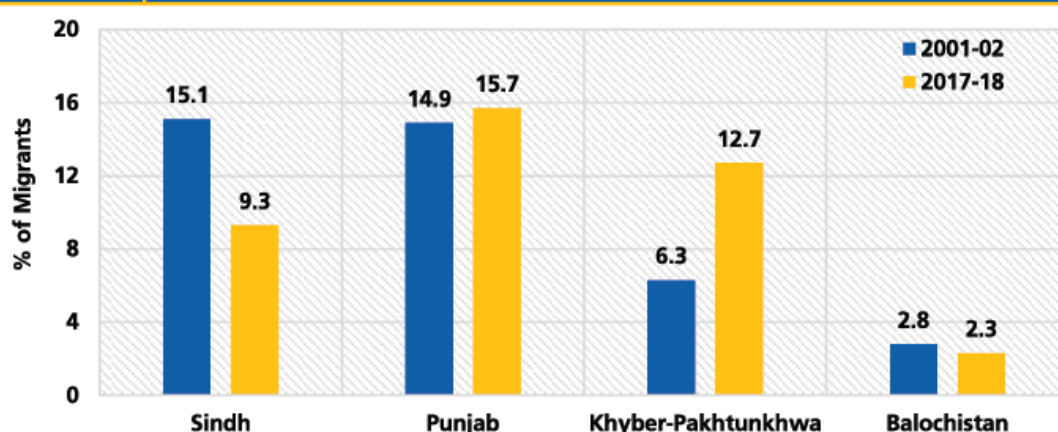
Contrary to perceptions, Karachi and the rest of urban Sindh are no longer the primary destination of migrants. The locus of migratory movement has shifted to Punjab and Khyber-Pakhtunkhwa as shown below in Chart 3.3.

Chart 3.2: Share of Migrant Population – (%)



Source: LFS

Chart 3.3: Share of Migrant in Population aged 10 years and above – (%)



Source: LFS

The share of migrants in the urban population of Pakistan aged 10 years or above is estimated in Table 3.6. The inflow of migrants increased very slowly between 2001-02 and 2011-12. Since then it has rapidly accelerated and has been increasing at a very high rate annually of almost 6 percent. 2.5 million migrants have entered urban areas since 2012-13 to 2017-18. This is exerting much greater pressure on the urban Labour market. Consequently, the unemployment remains high at over 7 percent despite higher economic growth.

Table 3.6: Number of Migrants in the Urban Population of Pakistan aged 10 years or above

	(million)				
	2001-02	2012-13	Growth Rate (%)	2017-18	Growth Rate (%)
Urban Population	47.0	63.3	2.7	75.4	3.5
% 10 years and above	68.3	71.9		71.6	
Share of Migrants (%)	22.6	17.0		18.8	
Number of Migrants	7.2	7.7	0.6	10.2	5.6

Source: LFS

Chapter 4

PREVALENCE OF DECENT WORK

The International Labour Organization (ILO) has described 'decent work' as employment which, first, provides for adequate earnings, second, is completed in decent work time, third, ensures stability and security of work, fourth, provides for equal opportunity and treatment in employment, fifth, is undertaken in a safe work environment and sixth, on retirement or unemployment ensures access to social security. The ILO also emphasizes on the need for proper representation of workers through collective bargaining rights and the end to work that has been abolished by International Conventions.

The setting of minimum wages has been prescribed by the Minimum Wages Ordinance of 1961. Following the 18th Amendment each Province has produced its own version of this law. The task of setting minimum wages has been given to a Minimum Wage Board with representation from workers, employers and the Government. Non-payment of minimum wages by a particular establishment can be tried by a Labour Court with imprisonment if the violation is established.

The minimum wage for workers (employees) was set at Rs 8,000 per month by each Provincial Government in 2012-13. This was raised to Rs 15,000 per month by 2017-18. This implied an increase in the real minimum wage of over 48 percent.

Section 1 presents estimates of coverage of minimum wage of employees by location, gender, occupation, sector and Province. A comparison is made of the coverage in 2012-13 and 2017-18 respectively. Section 2 identifies the distribution of workers by number of hours worked. Section 3 focuses on gender discrimination. Section 4 looks at the quality of the working environment and Section 5 on the presence of social security in the country.

4.1. COVERAGE OF MINIMUM WAGES

The estimates of percentage of workers receiving below the minimum wage are presented in Table 4.1. The results are perhaps shocking. Out of the 26.18 million employees in Pakistan in 2017-18 only 12.23 million received at least the minimum wage. This implies that a very high proportion, over 53 percent, earned less than the minimum wage.

The table 4.1 reveals, first, that almost 78 percent of female employees receive less than the minimum wage as compared to 49 percent in the case of male employees. Second, the incidence of such workers is higher in rural areas. Third, almost 61 percent employees in low level occupations get less than the minimum wage. Fourth, agricultural employees are relatively less remunerated and a shocking 89 percent have remuneration below the minimum wage. Fifth, perhaps surprisingly, the coverage of minimum wages is the lowest in Punjab.

	2012-13		2017-18	
	% of employees	% below the minimum wage	% of employees*	% below the minimum wage
All Employees	100.0	45.1	100.0	53.26
Male	86.1	40.7	84.0	49.0
Female	13.9	72.0	16.0	78.2
Location				
Urban	43.9	27.9	47.4	45.9
Rural	56.1	56.8	52.6	59.8
Occupation				
High Level	11.7	23.7	12.9	30.0
Middle Level	9.4	18.5	9.5	22.7
Low Level	78.9	51.4	77.6	60.8
Sector				
Agriculture	12.9	74.3	11.1	88.8
Industry	44.5	44.5	43.5	52.9
Services	42.6	36.8	45.4	44.7
Province				
Punjab	59.5	50.3	57.8	56.3
Sindh	26.1	39.2	26.6	54.4
Khyber-Pakhtunkhwa	11.2	36.5	11.8	41.1
Balochistan	3.2	26.0	3.8	36.1
*Number of employees is 26.18 million.				

Another surprising finding is that the percentage of workers receiving less than the minimum wage in 2017-18 was higher than in 2012-13. However, this may be attributable to the big increase proposed in the real minimum wage.

4.2. HOURS OF WORK

Turning next to working conditions in terms of number of hours worked during a particular working week, here also the results are perhaps unexpected. The norm is taken as 40 hours per week, equivalent to eight hours a working day, five days a week. It is surprising that almost 73 percent of workers, according to the LFS, are putting on average more than 40 hours a week. The incidence of over worked workers is higher among employees at 84 percent as compared to 77 percent in the case of the self-employed. Also, the percentage of workers providing inputs of more than 40 hours a week was 71 percent in 2012-13. As such, there is no doubt that Pakistan is a nation of hard working but underpaid workers.

Table 4.2: Percentage of Workers working more than 40 hours a week		
	2012-13	2017-18
EMPLOYMENT STATUS		
Employer	90.4	94.2
Self-Employed	79.3	77.0
Unpaid Family Worker	40.3	40.2
Employees	84.6	84.5
GENDER		
Male	83.4	84.5
Female	29.1	29.7
Total	71.2	72.5
<i>Source: PBS, LFS</i>		

4.3. GENDER DISCRIMINATION

The next indicator of decent work is that of equal opportunity and treatment in employment. In particular, the issue is of the extent of gender discrimination. The average monthly wage received by female workers was Rs 11,884 in 2017-18. Adjusting for the occupational distribution of male workers to corresponding to that for females, their average wage is estimated at Rs 19,550. This implies

that on average for the same job a female worker receives almost 40 percent less than her male counterpart. This demonstrates the evidence of substantial gender discrimination in the Labour market of Pakistan. The difference in wages is most pronounced in the case of skilled agricultural and craft workers.

	% of Workers	Female Wage	Male Wage	Percentage
Managers	1.23	50009	56944	-12.1
Professional	24.61	22869	31356	-27.1
Associate Professionals	57.4	19453	26764	-27.3
Clerical Workers	0.52	18809	27712	-32.1
Service & Sales Workers	2.38	14094	16865	-16.4
Skilled Agricultural Workers	0.10	5811	17535	-67.0
Craft Workers	20.53	5294	15885	-66.7
Plant & Machine Operators	0.82	11584	17539	-34.0
Elementary Occupations	44.08	6587	12770	-48.5
	100.0	11884	19943	

Source: PBS, LFS

4.4. SAFE WORKING ENVIRONMENT

The definition of 'decent work' also includes employment in a safe working environment. In Pakistan, the LFS reports that almost 4 percent had work related injury or disease in 2017-18. This is a high incidence and amounts to almost 2.5 million workers. The distribution of such workers is 42 percent in agriculture, 17 percent in manufacturing and 43 percent in various service activities.

The ILO has also emphasized on the need to abolish highly exploitative forms of work. The prime examples of this are bonded Labour and child workers. ILO has reported that there are almost 2 million bonded workers in Pakistan who are mostly enslaved after their inability to repay loans. The LFS reveals that over 11 percent of children, aged 10 to 14 years, are in the augmented Labour force. This implies that there are almost 3 million child workers in Pakistan. This is another evidence of the high level of deprivation and poverty among families in Pakistan. There is a dire need for a social safety net for such households to enable them to avoid sending children to work rather than to a school.

4.5. SOCIAL SECURITY

Turning to the need for provision of social security to workers, there is a need for pension schemes and unemployment insurance. Unfortunately, the coverage of social security is very limited in Pakistan. Of course, Government employees, both civilian and military, are entitled to superannuation. Further, retired employees of state-owned enterprises also receive pensions.

There is, in fact, a provision for larger coverage of social security in the country. The FBR collects, along with the income tax, contributions by employers to the Workers Welfare Fund (WWF) and Workers Profits Participation Fund (WPPL). The total amount collected Rs 26.4 million under these heads in 2017-18. These funds should have been earmarked for the benefit of workers. This is not the case currently. As such, there is a strong case for allocating 50 percent or more of these revenues to the EOBI for expansion of the social security to workers in the country. Also, there is a need for development of a contribution-based pension scheme for expatriate Pakistani workers.

Finally, there is the issue of providing collective bargaining rights to workers. There was a time in the decade of the 70s when the trade union movement was beginning to takeoff under the first PPP Government. However, this was crushed by the military regime of General Ziaul Haq.

Today, according to the ILO statistics, only 5.6 percent of workers are unionized in Pakistan and mostly in the public sector. As compared to this, the trade union density rate in China is as high as 45 percent. However, the presence of collective bargaining has had no negative impact on the phenomenal growth achieved by China.

Overall, the clear conclusion in this chapter is that the prevalence of 'decent work' is extremely low in Pakistan. Typically, workers put in long hours but are under-paid. There is substantial gender discrimination in access to jobs and in remuneration. Almost 2 million workers are bonded and 3 million children are working. 2.5 million workers have had work related diseases or injuries. The coverage of social security is very limited and the process of collective bargaining is virtually non-existent. The vision of the new Government is to greatly expand employment opportunities. In addition, there is a dire need to ensure more 'decent work' in the country. A sizeable part of the new EHSAS program should be focused on achieving this objective.

Chapter 5

THE 'YOUTH BULGE' AND 'IDLE' YOUTH

Pakistan has been witnessing a 'youth bulge' of population aged 15 to 29 years over the last four decades. Between the Census of 1981 and 2017, the annual growth rate in the population of youth has been 2.9 percent as compared to 2.5 percent of the overall population. Consequently, the share of youth in the population has increased from 23.7 percent in 1981 to 26.8 percent in 2017.

The youth bulge can be a blessing or a curse. If a fast-growing youth population with relatively higher level of education is fully absorbed in the Labour force and contributes to greater productivity then the rate of economic growth could rise significantly. Also, the dependency ratio will fall and contribute generally to higher savings and better living standards.

However, if the economy is unable to create adequate jobs for the youth entering the Labour force, then there would be a substantial waste of the incremental human capital. The overall unemployment rate could rise sharply along with a sizeable number of 'idle' youth, many of whom may have been discouraged by the absence of employment opportunities. This could lead to the deprived youth turning to religious fundamentalism, violence or crime. There is the risk that if the number becomes large enough then there could be a collective resort to public agitation of the Arab Spring type.

The objective of this Chapter is to assess the magnitude of the youth absorption problem in Pakistan. Section 1 quantifies the number of unemployed youth in the country by location. Section 2 then determines the number of 'idle' youth who are neither undergoing further education nor in the Labour force. This leads to the estimate of the combined number of 'idle' and unemployed youth. An effort is made to estimate this number by gender. Finally, Section 3 describes the types of youth programs that could be put in place including the recent initiatives by the Government like the EHSAAAS program.

5.1. UNEMPLOYMENT OF YOUTH

Table 5.1 presents the number of unemployed youth, male and female, in Pakistan in 2017-18. The number of unemployed male youth is 1.6 million, implying an unemployment rate of 8.6 percent. The corresponding number for

female youth is 722,000 with a significantly higher unemployment rate of 12.5 percent. Overall, the total number is 2.3 million and the youth unemployment rate is 9.5 percent. Over 45 percent unemployed workers are youth.

Table 5.1: Number of Youth Entrants into the Labour Force and number Unemployed, 2017-18 – (000)						
	Population	LFPR (%)	Labour Force	Unemployment Rate (%)	Unemployed	Outside Labour Force
MALE	26706	71.68	19142	8.57	1640	7564
15-19 years	11457	47.61	5455	11.57	631	
20-24 years	8375	84.56	7082	10.47	741	
25-29 years	6874	96.08	6605	4.05	268	
FEMALE	27616	20.88	5768	12.51	722	21848
15-19 years	10138	15.58	1579	6.54	103	
20-24 years	9205	23.29	2144	15.17	325	
25-29 years	8273	24.72	2045	14.37	294	
TOTAL	54322	45.86	24910	9.48	2362	29412
15-19 years	21595	32.57	7034	10.44	734	
20-24 years	17580	52.47	9226	11.56	1066	
25-29 years	15147	57.10	8650	6.49	562	

Source: PBS, LFS

5.2. 'IDLE' YOUTH

The number of 'idle' youth in 2017-18 is given Table 5.2. This is the number outside the Labour force who are also not enrolled in any educational institution like at the final stage of high school, college, university or technical training facility.

The number of 'idle' youth is very large. It not only reflects the lack of educational facilities but also the scarcity of entry jobs leading to a large 'discouraged worker' effect. In particular, the number of 'idle' female youth is very large at 19.6 million as compared to 4.8 million 'idle' male youth. However, almost half of the female youth are married and, therefore, not in a position to take up a job especially if they have young children.

Table 5.2: Number of 'Idle' Youth, 2017-18 – (000)				
	Outside Labour Force	Enrolled in Education*	Number 'Idle' Youth	Number Unemployed + Idle
Male	7564	2773	4791	6431 <i>Critical Magnitude</i>
Female	21848	2261	19587	10907**
TOTAL	29412	5034	24378	17338

*Technical and Vocational; Higher Secondary/Intermediate Colleges/Degree Colleges/Universities

**On the assumption that 48 percent are married and therefore not idle

Overall, if married female youth are excluded the total number of 'idle' and unemployed youth is 17.3 million. This is equivalent to 24 percent of the male youth population and 32 percent of the female population. This is indeed a tragic waste of the human capital endowment and creative skill of a very large number of youth of Pakistan.

5.3. YOUTH PROGRAMS

Direct intervention in the Labour market to tackle the massive youth absorption problem is probably the right approach. The 'Kamyab Jawan' Program launched by the Government is the appropriate response. It has to proceed at a rapid pace and at a scale to address the potentially rising frustration of unemployed and idle youth. The ruling party had promised during the elections build up to provide two million jobs annually if inducted into power. Instead, in its first year, there has been a big economic slowdown and a large number of workers have been rendered unemployed.

The resolution of the problem requires operations at two levels. First, at the more macro level this requires providing a stimulus to economic activity. Fortunately, the stabilization process is going well and the most serious problem of a large current account deficit has been effectively tackled. It is down by as much as 73 percent in the first five months of 2019-20. Therefore, there is some space for pursuing expansionary policies. These will include reduction in interest rates, larger allocations for development spending and incentives for higher exports.

Second, there will have to be interventions at the more micro level like the Youth Program. Initially, there should be greater emphasis for imparting more marketable skills to youth. This will require not only enrollment in Vocational and

Technical Institutions but also more internships in productive establishments. Both approaches are being adopted in the Youth Program. In addition, tax credits may be offered to employers for providing job opportunities to youth in their establishments.

The second and larger component of the Youth Program is the provision of credit to eligible youth at subsidized and even zero interest rate for relatively small loans. This must be based on the presentation of a feasibility of the proposed initiative by a youth or by a group of youth. In the short-run, given the slowdown, there may not be many new opportunities for profitable ventures. Therefore, this component of the Program may need to be up-scaled more gradually.

The proposed banking channels are public sector banks like the National Bank of Pakistan and the Provincial Banks. These banks may not have the capacity or motivation to handle small loans. As such, there should be greater resort to Micro-Finance Institutions like the Akhuwat Foundation, Rural Support Program and the Pakistan Poverty Alleviation Fund.

In conclusion, the Kamyab Youth Program is a potentially very important and strategic initiative. It will need to be upscaled based on initial success. The youth are the future of our country. They must stay in the mainstream of the national economy so that they can be the requisite contribution to Pakistan's development and have productive lives.

Chapter 6

THE LIVING WAGE AND THE MINIMUM WAGE

One of the fundamental steps that needs to be taken in the context of the appropriate Labour Policy is to set a minimum wage for elementary occupations which at least ensure that the worker and his/her family are above the poverty line. Therefore, based on the standard methodology of quantification of the Cost of Basic Needs (CBN) the minimum required income per capita will be determined in this Chapter. This will enable identification of the minimum wage for an earner with the average family size of six members. The gap between this living wage and the minimum wage announced by Authorities will be quantified.

In addition, the variation in this gap by location will also be highlighted. Further, based on the wage distribution of the employed in the LFS, estimates will be made of the percentage of workers who are not receiving a living wage.

6.1. THE LIVING WAGE

The method adopted for determination of the living wage is the Food Energy Intake (FEI) Approach. The minimum calorie standard in Pakistan used by SPDC [2018] is 2550 calories per day in rural areas and 2230 calories per day in urban areas. Accordingly, the cost of fulfilling basic needs was derived as Rs 4250 per adult equivalent in urban areas and Rs 3790 per adult equivalent in rural areas per month as of 2015-16.

The average family size is close to six members. It is assumed that a typical family has two adults and four children. A child is equivalent to half an adult in terms of consumption. Therefore, the number of adult equivalents in the typical family is four.

The cumulative inflation in the CPI from 2015-16 to 2017-18 was 6.2 percent while it was 7.3 percent in 2018-19. The resulting estimates of the living wage are presented in Table 6.1. The minimum wage was Rs 15,000 in 2017-18. This was almost 7 percent lower than the required living wage in the rural areas and 17 percent lower in the urban areas. The living wage has to be 7.3 percent in 2018-19. Accordingly, the minimum wage should have been adjusted accordingly. However, at Rs 16,000 in 2018-19 it was less than the

living wage by 7.4 percent in the rural areas and by 17.4 percent in the urban areas. The minimum wage has been fixed at Rs 17,500 for 2019-20. With inflation proceeding at a double-digit rate the gap between the living wage and the minimum wage could widen even further.

Table 6.1:	Living Wage for a family of Six – (Rs per month)			
	2017-18		2018-19	
	CBN per Adult Equivalent	Living Wage	CBN per Adult Equivalent	Living Wage
Rural Areas	4023	16092	4317	17268
Urban Areas	4514	18056	4844	19376

Source: Author's Estimates.

6.2. COVERAGE OF THE LIVING WAGE

The estimated living wage in 2017-18 was close to Rs 16,000 in the rural areas and Rs 18,000 in urban areas. The question is what percentage of the employees were receiving at least the living wage in 2017-18?

Table 6.2:	Coverage of the Living Wage – (%)		
	Rural Areas	Urban Areas	Total
All Employees	36.2	27.1	32.8
Lower Occupations	30.6	22.6	27.9
Male	40.5	28.8	36.2
Female	13.6	15.5	14.2

Source: PBS, LFS; Author's Estimates.

The coverage of the living wage is given in Table 6.2. Less than one third of the employees in the country receive more than the living wage. The coverage is somewhat higher in the rural areas than in the urban areas. The coverage of female employees is very limited at only 14 percent.

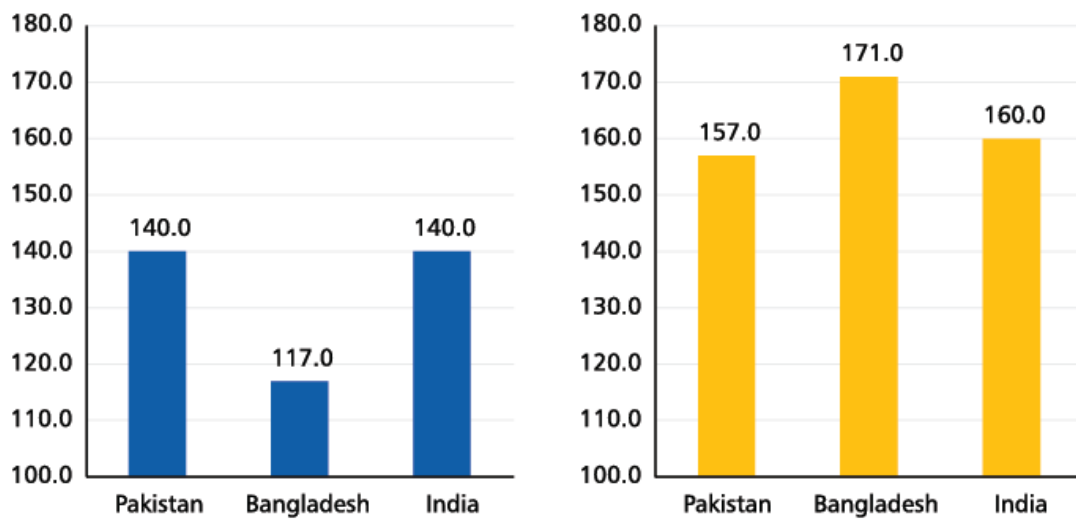
6.3. LIVING WAGE IN OTHER COUNTRIES

The methodology for setting the minimum wage in India is also based on the living wage concept. Accordingly, an Expert Committee has determined the living wage in India at Rs 9,750 per month in rural areas and Rs 11,180 per

month in rural areas. Similarly, the living wage in Bangladesh has been set a Rs 9,750 to 14,300 Taka per month.

A comparison is made of the living wage in the three countries – India, Bangladesh and Pakistan – in 2018-19 in Chart 6.1. the living wages are fairly close in the three countries. They range from \$117 to \$140 in rural areas and between \$157 and \$171 in urban areas.

Chart 6.1: Living Wage in Pakistan, India and Bangladesh – (US \$)



Source: PBS, LFS | Newspaper Articles

Chapter 7

THE SKILL PREMIUM AND RETURNS TO EDUCATION

The development of human capital in the country is a key element in the strategy for achieving higher factor productivity and thereby making Pakistani products more competitive in the international market. There are, in fact, two processes by which skills are acquired. The first is formal education along with any technical or vocational training. The second is 'learning by doing'. This happens with the accumulation of experience in doing a set of tasks.

This Chapter assesses the quantum of human capital with the population of Pakistan and the extent to which it is productively utilized. Section 1 determines the average years of schooling of the population, Labour force and the employed. Section 2 quantifies the magnitude of the skill premium and identifies the degree there is an incentive for acquisition of education. In this context, Section 3 quantifies the private returns to education.

7.1. THE STOCK OF HUMAN CAPITAL

The stock of human capital available in the country as of 2017-18 is estimated in Table 7.1 and the extent of its utilization in employment is quantified.

Table 7.1: Stock of Human Capital* and its Utilization – <i>(measured in Years of schooling)</i>	<i>(million years of schooling)</i>			
	Population	Labour Force	Employed	% Utilization
Illiterate	-	-	-	-
Literate, but no formal education	6.9	4.0	3.9	56.5
Pre-Matric	438.7	154.8	147.7	33.7
Matric	177.5	86.4	80.7	45.5
Intermediate	105.8	49.2	43.3	40.9
Degree & Post-Graduate	159.5	108.4	90.7	56.9
TOTAL	884.4	402.8	366.3	41.4
Per person (years of schooling)	5.9	6.1	6.0	

*Estimated as the number of workers multiplied by years of schooling.

Source: LFS, PBS

The magnitudes in Table 7.1 are of considerable importance. The total population of Pakistan aged 10 years and above had a total human capital of over 884 million schooling years. This implied the average years of schooling per person of 5.9 years. Almost half of the human capital was with persons having only primary or middle level education. The share of human capital with persons having degree or post-graduate qualifications was low at 18 percent.

The estimates are that in 2017-18, employed workers combined had 366 million years of schooling. This is equivalent to only 41 percent of the total human capital available in the population. The utilization rate of human capital with highly qualified workers was also low at 57 percent. This is a tragic waste of the human capital in the country. The average years of schooling of employed workers is low at 6.

There is need to explain the low rate of human capital utilization in the country. It has already been demonstrated in Chapter 1 that the rate of participation in the Labour force is relatively low in Pakistan, especially of females. An attempt is made to analyze in Table 7.2 the extent of human capital utilization by gender.

Table 7.2: Extent of Utilization of Human Capital by Gender					
<i>Human Capital – (million years of schooling)</i>					
	Population	Labour Force	Employed	Non-Utilization Level	%
Male	521.4	341.5	319.4	202.0	38.7
Female	367.0	61.3	46.9	320.1	87.2
TOTAL	888.4	402.8	366.3	522.1	100.0

*Estimated as the number of workers multiplied by years of schooling.

Source: LFS, PBS

Here again the findings are striking. The extent of utilization of male human capital is over 61 percent but it is even below 13 percent in the case of females. Consequently, almost 61 percent of the waste of human capital in the country is due to the low incidence of female employment in the country. Clearly, the time has come for ending social taboos against participation of women in the Labour force and to launch a major drive against gender discrimination in the Labour market.

7.2. THE SKILL PREMIUM

We turn next to the extent of skill premium in the national Labour market. This is determined by the wage differential by level of occupation. The skill premium

is measured as the ratio of the average wage of a particular level of occupation with the overall national average wage. The wage differentials are highlighted in Table 7.3.

Occupation	2008-09	2017-18
Highly Skilled ^a	2.23	1.92
Medium Level of Skills ^b	1.32	1.44
Low Level of Skills ^c	0.87	0.88
Unskilled ^d	0.69	0.68

^a Legislators, Senior Officials, Managers and Professionals

^b Technicians and Associate Professionals, Clerks

^c Services and Sales Workers; skilled Agricultural Workers, Craft and Related Trades Workers, Plant and Machine Operators

^d Elementary (Unskilled) Occupations

Source: LFS, PBS

The average wage/remuneration of generally highly qualified managers and professionals was over 1.9 times the national average in 2017-18. At the other end of the income scale, unskilled workers get a wage on average 31 percent below the national average. It appears that wage differentials have been narrowing somewhat over the last decade and are not as large as has been perceived to be the case.

7.3. EXTENT OF WAGE INEQUALITY

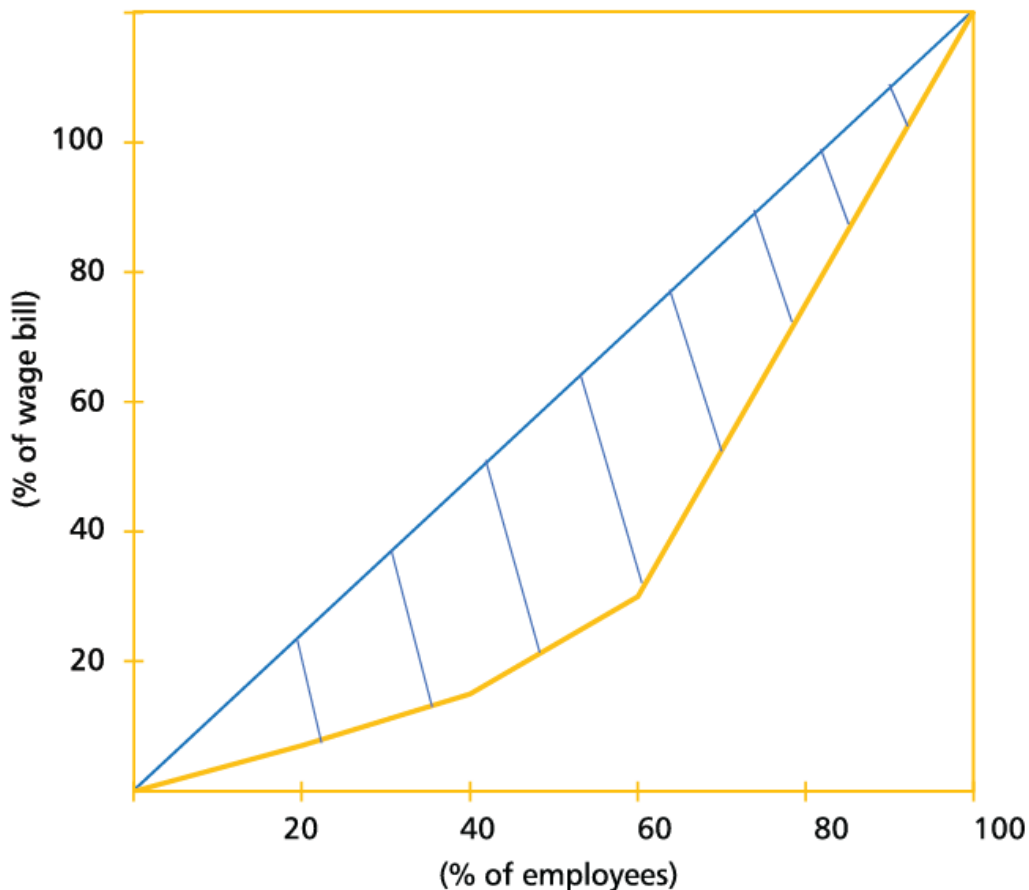
The distribution of employees by level of wages in 2017-18 is given in Table 7.4.

Wage Category (Rs per month)	% of Employees		% of National Wage Bill	
	In Wage Category	Cumulative	In Wage Category	Cumulative
Upto 5,000 Rs	9.7	9.7	1.8	1.8
5,001 – 10,000 Rs	17.1	26.8	6.8	8.6
10,001 – 15,000 Rs	26.4	53.2	17.6	26.2
15,001 Rs and over	46.8	100.0	73.8	100.0
TOTAL	100.0		100.0	

Source: LFS, PBS

The resulting Lorenz Curve of the wage distribution is given in Chart 7.1. The magnitude of the Gini-coefficient is relatively low at 0.303. This further confirms the finding from Household Integrated Economic Surveys of the PBS that wages and salaries are comparatively a less unequal source of income than income from self-employment, property income and remittances.

Chart 7.1: The Lorenz Curve



7.4. RETURNS TO EDUCATION

Quantification of the private returns to education required access to the original data set of 2017-18. The lifetime income stream was determined of employees, averaged over five-year intervals.

The life time income streams are presented in Table 7.5. Some interesting conclusions emerge from these numbers as follows:

- i) Employees with education level up to intermediate level generally attain a life time peak of income by 54 years of age. It is attained somewhat later in the case of workers with higher levels of education.

- ii) The difference between the maximum and minimum income over the lifetime is most pronounced in the case of employees with degree or post-graduate qualification.
- iii) The biggest difference in lifetime undiscounted income is between degree holders and those with intermediate education of over 42 percent. For other levels, the increase in income ranges from 10 percent to 21 percent.

Table 7.5: Annual Average Wage Lifetime Stream of Employees with Different Levels of Education, 2017-18 – (000 Rs per Annum)	Education Level					
	Illiterate	Primary	Middle	Matric	Intermediate	Degree
Age Group (Years)						
10 – 14	51.8	57.3	57.8	-	-	-
15 – 19	88.5	97.9	98.6	90.6	112.5	-
20 – 24	120.8	133.6	134.8	143.1	125.5	146.2
25 – 29	128.6	142.4	164.0	154.4	191.5	224.8
30 – 34	130.2	147.8	163.8	196.4	246.7	264.5
35 – 39	134.1	149.6	166.2	190.5	246.1	298.7
40 – 44	145.3	156.3	168.8	209.7	267.1	353.9
45 – 49	171.7	163.6	180.2	246.1	339.7	419.8
50 – 54	139.0	195.1	192.6	241.7	353.4	500.4
55 – 59	136.4	181.2	204.7	231.0	370.0	533.3
60 and above	135.8	164.7	213.3	222.1	321.2	566.9
% difference between maximum and minimum income	3.31	3.41	3.69	2.72	3.29	3.88
Undiscounted Lifetime Income (000 Rs)	6911	7947	8753	9628	11638	16543
% difference from previous Education Level		15.0	10.1	10.0	20.9	42.1
IRR (%)		9.2	8.3	8.8	10.8	13.4

Table 7.6 presents the annual cost per student enrolled in public institutions. The cost is Rs 97,000 in primary education which rises to 250,000 at the university level.

	% of Public Institutions	Total Enrollment (000)	Annual Public Cost (Rs in Billion)	Annual Public Cost per Student	Number of Years	Cost*** per Student of Education (000 Rs)
Primary	61.5	22886 (14074)**	273.4	19425	5	97
Middle	62.2	7343 (4567)	275.9	38442	4	153
Matric	67.8	3850 (2610)				
Intermediate*	86.7	2185 (1894)	180.4	49944	5	250
Degree and Post-Graduate	82.7	2078 (1718)				

*Intermediate + technical and vocational education | **Figure in brackets is enrollment in public institutions

***The private cost is assumed to be one third of the public cost.

Sources: MOF, PRSP Progress Reports | Academy of Educational Planning and Management, Pakistan Education Statistics | MOF, PES

The internal rate of return for incremental levels of education has been derived below. It is assumed that the private cost is 30 to 50 percent of the public cost. Only O&M costs have been included in the analysis.

Rate of Return – (%)		
	Private	Public
• From Illiterate to Primary	9.2	8.0
• From Primary to Middle Level	8.3	7.1
• From Middle to Matric	10.2	9.3
• From Matric to Intermediate	10.8	8.9
• From Intermediate to Degree	13.4	11.2

The return to education by different levels of education in public institutions is U-shaped. It is lowest at the middle level and rises to a peak at the degree level.

There is a need for a caveat here. A more careful measurement of the rate of return would also include the unemployment rate in computing the expected levels of income. This would tend to reduce the differential in the rates of return, given the higher rates of unemployment faced by more educated workers.

This is the first attempt in Pakistan in estimating the rates of return from different education levels. This should provide valuable guidance to policy makers in the education sector of Pakistan.

Chapter 8

TREND IN REAL WAGES

The trend in real wages is of vital importance in determining the nature of change over time in the living conditions of workers. It also serves as an indicator of change in the number of working poor.

Section 1 of the chapter presents the broad trends in real wages by location, gender and province. Section 2 then highlights the trend in real wages by occupation. Finally, Section 3 relates the growth in wages with growth of different sectors of the economy.

8.1. TREND IN REAL WAGES

Information from the LFS is available on wages only from 2008-09 to 2017-18. As such, the growth in real wages over this nine-year period is quantified. The summary findings are presented in Table 8.1.

	Trend in Average Real Wages by Location, Gender and Province – (Rs per Month)			
	2008-09	2017-18		Annual Growth Rate (%)
		Nominal	Real	
All	7635	18754	9949	2.9
Urban	9040	21947	11643	2.8
Rural	6422	15950	8462	3.1
Male	7997	19943	10580	3.1
Female	5189	11884	6305	2.2
Punjab	6992	17354	9206	3.1
Sindh	9010	20277	10757	2.0
Khyber-Pakhtunkhwa	8993	20952	11115	2.4
Balochistan	9182	22622	12001	3.0

Source: LBS, PBS

Overall, real wages per worker have gone by 2.9 percent annually on average between 2008-09 and 2017-18. There is a 29 percent wage differential between

the level of wages in the urban and rural areas respectively. This gap has tended to narrow somewhat with 3.1 percent growth rate in rural areas and 2.8 percent in the urban areas.

However, the gender gap appears to have widened significantly. The gap was 54 percent in 2008-09 which has widened to 68 percent by 2017-18. Among the four Provinces, the highest wage is observed in Balochistan because of the relative Labour shortage in the province. The lowest average wage is in Punjab. The wage gap has narrowed somewhat between Balochistan and Punjab. However, the other two Provinces, Sindh and Khyber-Pakhtunkhwa, show a relatively low growth rate in real wages.

8.2. GROWTH IN REAL WAGES BY OCCUPATION

The trend in real wages by occupation is shown in Table 8.2. There is a big spread in wages among occupations. The ratio between the highest occupation of managers and elementary occupations was 350 percent in 2008-09. It has widened appreciably to 445 percent by 2018-19. In fact, among all the occupations the fastest growth in real wages is observed in the case of Managers of 5.4 percent per annum. The second fastest growth in real wages is in the skilled agricultural workers. It is indeed surprising to note the less than 1 percent increase in real wages of professionals. This will tend to retard the entry of new professionals into the Labour force and possibly encourage international migration.

	2008-09	2017-18		Annual Growth Rate (%)
		Nominal	Real	
Managers	18612	56944	30209	5.4
Professionals	15367	31536	16729	0.9
Technicians	9878	26764	14198	4.0
Clerks	10903	27712	14701	3.3
Service and Sales Workers	6888	16865	8947	2.9
Skilled Agricultural Workers	6187	17635	9355	4.6
Craft and Trades Workers	6412	15885	8427	3.0
Plant/Machine Operators	7149	17539	9304	2.9
Elementary Occupations	5305	12770	6774	2.7
TOTAL	7635	18754	9949	2.9

Source: LBS, PBS

Table 8.3. highlights the relationship between growth in value added and wages at the sectoral level. Two important conclusions emerge. First, real wages in the public sector are rising faster than in the private sector. The former have risen by 4 to 5 percent annually as compared to less than 3 percent in the latter case. There are clear indications that Government wage awards have been relatively liberal.

Sector*	2008-09	2017-18		Growth Rate (%)	
		Nominal	Real*	Annual Real Wage Growth	Sectoral Growth of Value Added
Agriculture	4349	9645	5117	1.8	2.1
Manufacturing	6768	16890	8960	3.1	3.8
Construction	6510	16402	8701	3.2	5.1
Wholesale & Retail Trade	5619	14007	7431	3.1	3.8
Transportation	8068				
Accommodation & Food Service	6209	16874	8951	4.1	3.8
Finance & Insurance	20279	44082	23385	1.6	4.0
Public Admin & Defence	11207	32535	17180	4.7	8.4
Education	10424	28190	14954	4.0	6.4
Health	9889	29255	15519	5.0	
Domestic Services	3680	9272	4918	3.2	
OVERALL	7635	18754	9949	2.9	3.8

Widening of Gap between Public and Private Sector

*Only sectors with share in employment of above 1 percent.

Second, there is a visible correlation between the growth of a sector and the rise in real wages within the sector. Agriculture has had the lowest growth rate in output of 2.1 percent. Correspondingly, the growth rate in real wages in the sector is also the lowest at 1.8 percent. The construction sector has achieved a relatively high growth rate above 5 percent and real wages have also faster annually by 3.1 percent.

An important finding is that the growth rate overall in wages at 2.9 percent exceeds the annual growth rate in Labour productivity of 1.1 percent. This implies that the share of wages in the national income is likely to be increasing. This is confirmed later in Chapter 12.

Chapter 9

FORMAL VERSUS INFORMAL SECTOR EMPLOYMENT

The PBS identifies the informal sector by nature of the enterprise and size of employment. The sector includes all household enterprises owned and operated by self-employed workers. Also, all enterprises owned and operated by employers with less than 10 persons engaged are included in the informal sector. Provisions of the Factories Act do not apply on such enterprises.

Section 1 of the Chapter shows the distribution of total employment between the agricultural sector, formal sector and informal sector. Section 2 then gives estimates of the distribution of economic activities within the informal and formal sector respectively. The share of informal and formal employment in each production sector of the economy is presented in Section 3. Finally, Section 4 presents the distribution of employment by occupation in each sector.

9.1. SECTORAL DISTRIBUTION OF EMPLOYMENT

According to the latest estimates for 2017-18, 38.6 percent of the employment is in agriculture, 44.2 percent in the informal sector and the remainder, 17.2 percent in the formal sector. Therefore, the formal sector is relatively small in Pakistan. This highlights the limited size of the tax base in the country, especially for the company-based income tax.

There is a wide dispersion of the employment growth rate among the three sectors. Between 2003-04 and 2017-18, the fastest growth is observed in informal sector of 3.5 percent. The next higher growth rate of employment is in the formal sector of 2.9 percent. Agricultural employment has increased annually by 2 percent.

The large size of the informal sector and its faster growth lends credence to the view that it acts as a 'shock absorber' in the economy. During periods of relatively slow GDP growth, residual employment opportunities continue to become available in the informal sector. For example, the GDP growth rate between 2007-08 and 2012-13 was low at less than 3 percent yet employment in the informal sector expanded annually by 3.2 percent.

	Agriculture	Formal	Informal	Total
2003-04	18.0	7.1	16.7	41.8
2007-08	21.9 (4.9)	7.4 (1.0)	19.8 (4.2)	49.1 (4.0)
2012-13	24.5 (2.2)	8.3 (2.3)	23.2 (3.2)	56.0 (2.6)
2017-18	23.8 (-0.6)	10.6 (4.9)	27.3 (3.2)	61.7 (1.9)
Long-Term Growth Rate (%)*	2.0	2.9	3.5	2.8

*from 2003-04 to 2017-18

Source: PBS, LFS

9.2. SECTORAL DISTRIBUTION OF INFORMAL EMPLOYMENT

Table 9.2 presents the distribution of informal and formal sector employment among the different economic sectors. The pattern is fundamentally different. The distribution of employment in the informal sector is more widespread. The largest employment is in wholesale and retail trade, followed by small-scale manufacturing and construction. Employment in the formal sector is more concentrated. Almost 80 percent of the employment is concentrated in large-scale manufacturing and the Government and private services sector. This highlights why faster growth of the large-scale manufacturing sector is vital from the viewpoint of greater buoyancy in tax revenues.

	INFORMAL SECTOR			FORMAL SECTOR	
	2003-04	2017-18	Annual Growth Rate	2003-04	2017-18
Manufacturing	20.6	22.8	4.3	32.3	34.9
Construction	13.4	16.2	5.0	2.8	2.8
Wholesale & Retail Trade	34.6	32.5	3.1	5.7	2.8
Transport & Communications	11.2	11.5	3.5	7.0	6.6
Government & Private Services	18.7	16.0	2.5	45.1	44.3
Others	1.5	1.0	0.0	7.1	8.6
TOTAL	100.0	100.0		100.0	100.0
Total Employment (million)	16.7	27.3	3.5		

Source: PBS, LFS

Table 9.3 derives for each production sector of the national economy the distribution between formal and informal employment. The only sector in which formal employment is larger is the Government and Private Services sector. It may also be observed that almost 60 percent of the employment in manufacturing is in small-scale units, despite the fact that the share of these units in the sectoral value added is less than 15 percent. This testifies to the higher Labour-intensity of small enterprises.

The Government is currently focusing on developing the tax base in the wholesale and retail trade sector. However, Table 9.3 reveals that the share of employment in relatively large trading establishments was only 3 percent in 2017-18. This will greatly limit the tax potential of the sector.

Table 9.3: Distribution of Informal and Formal Employment Within Sectors – (%)					
	Years	Informal	Formal	Total	Average Wage (Rs/ Month)
Manufacturing	2003-04	59.7	40.3	100.0	
	2017-18	62.6	37.4	100.0	16890
Construction	2003-04	91.7	8.3	100.0	
	2017-18	93.6	6.4	100.0	16402
Wholesale & Retail Trade	2003-04	93.5	6.5	100.0	
	2017-18	96.7	3.3	100.0	14007
Transport & Communications	2003-04	79.2	20.8	100.0	
	2017-18	81.6	18.4	100.0	19300
Government & Private Services	2003-04	49.2	50.8	100.0	
	2017-18	48.4	51.6	100.0	29633
Others	2003-04	37.5	62.5	100.0	
	2017-18	25.0	75.0	100.0	12077
TOTAL*	2003-04	70.2	29.8	100.0	
	2017-18	72.0	28.0	100.0	18754

*Excluding Agriculture
Source: PBS, LFS

Overall, 72 percent of non-agricultural employment is informal in nature. Therefore, this has greatly limited the access to 'decent work' in Pakistan. Workers in the informal sector are unlikely to have job security, reasonable working hours and a proper working environment. The prospect of access to social security is, more or less, non-existent.

9.3. SECTORAL DISTRIBUTION BY OCCUPATION

The expectation is that the employment share of lower occupations will be higher in the informal sector. This is confirmed by Table 9.4. The share of the formal sector is higher in the top four occupational categories, while the share of the informal sector is substantially larger in the four lower occupations.

Table 9.4: Distribution of Employment in Different Occupations between the Formal and Informal Sectors – 2017-18 (%)			
	Informal Sector	Formal Sector	Total
Managers	41.1	58.9	100.0
Professionals	30.4	69.6	100.0
Technicians	43.1	56.9	100.0
Clerical Workers	12.6	87.4	100.0
Service & Sales Workers	86.3	13.7	100.0
Craft & Trade Workers	89.1	10.9	100.0
Plant & Machine Operators	71.2	28.8	100.0
Elementary Occupations	71.8	28.2	100.0
TOTAL	71.8	28.2	100.0

Source: PBS, LFS

Overall, the informal sector is large in Pakistan. It plays a positive role as a residual employer, but over 70 percent of the workers in Pakistan face unfavorable working conditions in the sector. They will have to wait for the emergence of a large, vibrant, and modern sector in the national economy.

Chapter 10

GENDER DISCRIMINATION IN THE LABOUR MARKET

The Global Gender Gap Report for 2020 of the World Economic Forum has ranked Pakistan at 151 out of 153 countries. This is in comparison to the ranking of 50 of Bangladesh; 101 of Nepal; 102 of Sri Lanka and 112 of India. In fact, Pakistan's ranking has fallen from 112 in 2006 to 152 in 2020. The information given by the WEF on the gender gap in Pakistan in the latest ranking is reproduced below.

WEF Economic Participation and Opportunity in Pakistan					
	Female	Male	Ratio	Rank	Global Ratio
Labour Force Participation Rate (%)	25.2	84.5	0.30	147	0.66
Estimated Earned Income (\$)	1400	8000	0.18	148	0.50
Senior Officials, Managers and Legislators (%)	4.9	95.1	0.05	146	0.356
Professional and Technical Workers (%)	23.3	76.7	0.300	140	0.756

Source: WEF, Global Gender Gap Report, 2020.

Therefore, according to the WEF, Pakistan performs very poorly in all indicators in economic participation and opportunity.

The objective of this Chapter is to quantify the extent of discrimination in the Labour market of Pakistan and its trend over the last fourteen years.

10.1. KEY INDICATORS OF DISCRIMINATION

Table 10.1 presents the trend in gender inequality indicators between 2003-04 and 2017-18. The table reveals, as highlighted by the WEF, that the gender gap is still very large in Pakistan. For example, the ratio between the female and male Labour force participation rate is below 0.3. It has been rising by only 2 percent per annum. Therefore, it will take over 60 years for the gender gap to be closed. Turning to other indicators, the gender gap is also closing in these indicators very slowly. However, as expected, the gender gap is much smaller in the augmented Labour participation rate and average years of schooling of the Labour force.

Table 10.1: Key Indicators of Gender Inequality in the Labour Market – (Ratio of Female to Male)			
	2013-14	2017-18	Annual % Change in Ratio
Labour Force Participation Rate	0.225	0.296	2.0
Unemployment Rate	1.924	1.627	-1.2
Employment to Population Ratio	0.211	0.285	2.1
Augmented Labour Force Participation Rate	0.555	0.510	-0.6
Average Years of Schooling of Labour Force	0.503	0.611	1.4

Source: PBS, LFS

10.2. GENDER GAP IN DIFFERENT OCCUPATIONS

The distribution between male and female workers in different occupations is given in Table 11.2. There are large differences in the female share in different occupations. Significant presence is observed of women in professions of 33 percent. This is largely due to employment of women as doctors and teachers. However, managerial positions are seldom made available to women.

Table 10.2: Share of Women in Different Occupations* – (%)	
	2017-18
Managers	4.8
Professionals	33.1
Technicians & Associate Professionals	10.1
Clerical Support Workers	2.1
Service and Sales Workers	3.6
Skilled Agricultural Workers	37.8
Craft Workers	21.7
Plant and Machine Operators	1.0
Elementary Occupations	21.8
TOTAL	21.9

*Within the standard Labour Force

Source: PBS, LFS

Other occupations where women have significant shares are in skilled agricultural workers, craft workers and in elementary occupations. As opposed to this, females seldom work as clerical, service and sales workers and as plant machine operators.

10.3. GENDER DISTRIBUTION WITHIN SECTORS

The gender distribution within sectors is given in Table 10.3. As expected, women are seldom engaged in physically arduous work as in construction activities or where intensive public interaction is required as in retail trade. Their presence reaches a peak of 58 percent as domestic help, followed by almost 39 percent in education, largely as teachers. The share is also high at 30 percent in the health sector in the form of doctors or nurses. A perhaps unexpected finding is the relatively high share of 38 percent in agriculture, especially in the management of livestock and crop-related activities.

Table 10.3: Gender Distribution within Sectors – (% share of women in employment)	
2017-18	
Agriculture	38.3
Manufacturing	21.8
Construction	0.0
Wholesale and Retail Trade	2.2
Transportation	0.0
Education	38.7
Health	30.1
Public Administration and Defence	4.8
Domestic Help	59.0
Other Services	10.2
TOTAL	21.9

Source: PBS, LFS

10.4. RELATIVE INCIDENCE OF 'DECENT WORK'

The relative incidence of decent work among females and males is given in Table 10.4. Fortunately, barring the heavy engagement in elementary occupations and marginal activities, the remainder of working females have a semblance of 'decent work'. The incidence of females putting in more than 40 hours a week

is 22 percent as compared to 51 percent in the case of males. Also, they are much less exposed to hazardous work. However, given their relatively higher presence in lower occupations, only 22 percent receive more than the minimum wage while over 50 percent of males get higher than the minimum wage.

Table 10.4: Relative Incidence by Gender of 'Decent Work', 2017-18 – (%)		
	Female	Male
Percentage of Children working	6.4	9.8
Percentage of Workers working more than 40 hours a week	29.7	84.6
Percentage receiving more than the minimum wage	21.8	51.0
Percentage getting injury/disease in workplace	0.3	3.4

Source: PBS, LFS

10.5. EVIDENCE OF DISCRIMINATION

One of the most visible indicators of gender discrimination is lower wages for females than males for the same job. Table 10.5 gives the gender differential in different occupations in 2017-18. The differential is generally lower in the higher occupations, which are more in the formal sector. It is the highest in the case of crafts and trade workers, skilled agricultural workers and elementary occupation. The weighted average differential is over 40 percent.

Table 10.5: Gender Wage Differential by Occupation, 2017-18 – (% share)	
	% Extent of Wage Differential
Managers	-13.1
Professionals	-36.6
Technicians & Associate Professionals	-33.9
Clerical Support Workers	-31.0
Service and Sales Workers	-16.8
Skilled Agricultural Workers	-67.7
Craft and Trade Workers	-70.3
Plant and Machine Operators	-34.2
Elementary Occupations	-53.6
Weighted* Average Differential	-40.4

*by share of occupation in female employment

Source: PBS, LFS

However, females put in less working hours than males. According to the LFS of 2017-18 the average for women is 35 hours while it is 48 hours for men. Therefore, the per hour wage differential is significantly lower at approximately 13 percent.

Turning to the evidence on discrimination in jobs. This is especially the case with females with graduate or post graduate qualification as shown in Table 10.6. Their access to managerial and professional positions is very limited at less than 26 percent. This rises to 82 percent in the case of males. This is perhaps the ultimate proof of gender discrimination in the Labour market of Pakistan.

Table 10.6: Access of Graduates to high level Occupations by Gender, 2017-18 – (%)			
	Share of Graduates among Employed Workers	Share of Workers with High Level Jobs	% of Graduates with High Level Jobs
Women	7.0	1.8	25.7
Men	8.5	7.0	82.4

Source: PBS, LFS

Chapter 11

PROVINCIAL LABOUR MARKETS

The objective of this chapter is compare the composition and growth in the Labour force and employment in the four Provinces of Pakistan. An assessment is also made operations in the respective Labour markets with respect to the level of wages, extent of gender discrimination and child work.

The trends are analyzed for the most recent five year period, 2012-13 to 2017-18, for which information is available from the Labour Force Surveys of the PBS and other sources. A comparison is also made with the broader trends in the growth of the regional economies.

11.1. LABOUR FORCE PARTICIPATION RATE

The Labour force participation rate (LFPR) in 2012-13 and 2017-18 for each Province is given in Table 11.1. Contrasting trends are observed. The LFPR has increased in two Provinces – Punjab and Balochistan, while it has fallen in Sindh and Khyber-Pakhtunkhwa. This is the first indication that Sindh has lost some of its growth momentum. However, the relatively low and declining LFPR in Khyber-Pakhtunkhwa is a reflection of large out-migration of workers from the Province.

Table 11.1:	Labour Force Participation Rate by Province – (%)		
	2012-13	2017-18	% Annual Change
Punjab	48.3	48.5	0.04
Sindh	45.3	43.0	-0.46
Khyber-Pakhtunkhwa	36.9	36.3	-0.12
Balochistan	42.3	43.9	0.32
Pakistan	45.7	45.2	-0.10

Source: LFS

11.2. GROWTH IN LABOUR FORCE AND EMPLOYMENT

The increase in Labour force is due primarily to the growth in population and to the 'youth bulge'. The two Provinces with relatively high population growth rates are Balochistan and Khyber-Pakhtunkhwa. Sindh has a growth rate close to the national rate, while Punjab has been able to contain its population increase to just over 2 percent annually, as compared to the national growth rate of 2.4 percent in the inter-censal period, 1998 to 2017.

The annual growth rates of Labour force and employment respectively are given in Table 11.2. there is a wide dispersion in the growth rates among the Provinces. Both Punjab and Khyber-Pakhtunkhwa have high growth rates above 2 percent, while the rate of increase in Sindh and Balochistan is below 1 percent. In the case of the latter Province this is due to a decline in the share of population aged 10 years and above.

	Annual Growth Rates of Labour Force and Employment by Province, 2012-13 to 2017-18 <i>(million)</i>		
	2012-13	2017-18	Growth Rate (%)
Labour FORCE			
Punjab	35.71	39.98	2.25
Sindh	14.73	15.19	0.62
Khyber-Pakhtunkhwa	6.72	7.72	2.77
Balochistan	2.58	2.61	0.23
Pakistan	59.74	65.50	1.84
EMPLOYMENT			
Punjab	33.43	37.60	2.35
Sindh	13.96	14.44	0.68
Khyber-Pakhtunkhwa	6.14	7.17	3.10
Balochistan	2.48	2.51	0.24
Pakistan	56.01	61.71	1.93

Source: LFS

The question that arises is whether there is a link between the growth rate of the GDP of a Province and the employment growth? This is examined in Table 11.3. The magnitudes in the Table are very revealing. Punjab and Khyber-Pakhtunkhwa have achieved relatively high growth rates in their respective

GDPs. This has created buoyancy in Labour demand and facilitated more rapid expansion in employment opportunities.

Table 11.3:	Growth Rate of Gross Regional Product (GRP)* and Employment, 2012-13 to 2017-18		
	Annual Growth Rate 2012-13 to 2017-18 – (%)		
	GRP	Employment	ε**
Punjab	4.53	2.35	0.519
Sindh	4.34	0.68	0.157
Khyber-Pakhtunkhwa	5.20	3.10	0.596
Balochistan	3.91	0.24	0.061
Pakistan	4.53	1.93	0.426

**Estimates are from Pasha (2019) | **Employment Elasticity to Output*

Source: LFS

The opposite is the case with Sindh and Balochistan. Both Provinces have witnessed relatively slow economic growth, resulting in only marginal increase in employment over the five year period. The 'discouraged worker' effect reduced the rate of entry into the Labour force in these two Provinces. Consequently, the rise in the unemployment rate was restricted.

Table 11.4 gives the trend in the unemployment rate in each Province. Given the relatively fast growth in employment in Khyber-Pakhtunkhwa and Punjab, it is not surprising that there has been some drop in unemployment rate from 2012-13 to 2017-18. The surprise in Sindh, where the withdrawal from the Labour force has prevented the unemployment rate from rising. However, if the decline in the LFPR is included then effectively the unemployment rate in 2017-18 in Sindh rises from close to 5 percent to as high as 7.3 percent.

Table 11.4:	Unemployment Rate by Province – (%)		
	2012-13	2017-18	% Change
Punjab	6.38	5.97	-0.41
Sindh	5.24	4.92	-0.32
Khyber-Pakhtunkhwa	8.57	7.16	-1.41
Balochistan	3.93	4.09	0.16
Pakistan	6.24	5.79	-0.45

Source: LFS

11.3. GENDER DISTRIBUTION

One indicator of development of a Labour market is greater participation of females in the employment. The employment distribution by sex is given in Table 11.5 for each Province and respectively for the years, 2012-13 and 2017-18.

Table 11.5: Employment Distribution by Sex, 2012-13 and 2017-18 – (%)					
	Punjab	Sindh	K-PK	Balochistan	Pakistan
2017-18					
Male	72.3	87.6	83.8	92.0	78.1
Female	27.7	12.4	16.2	8.0	21.9
2012-13					
Male	73.2	84.2	82.1	89.5	77.6
Female	26.8	15.8	17.9	10.5	22.4
Source: LFS					

There are big differences in the share of females in employment among the Provinces. With the exception of Punjab, the share has also been declining. It stands in 2017-18 at the maximum of almost 28 percent in Punjab and the lowest of only 8 percent in Balochistan.

11.4. SECTORAL DISTRIBUTION OF EMPLOYMENT

The distribution of employment among the different sectors in each Province is given in Table 11.6. As expected, there are significant variations in the pattern of employment among Provinces. First, there are large differences in the share of employment in manufacturing. The share of Punjab is the highest as it has a big Labour-intensive SME sector. Construction employment share is substantially higher in Khyber-Pakhtunkhwa, primarily because of the boom in housing investment due to the large and growing inflow of remittances. Also, the share of employment in government services is higher in the two smaller Provinces.

The other type of employment distribution relates to the share of the formal and the informal sectors. This is an indicator of the state of development of the Labour market. Employment in the formal sector is likely to be less exploitative in nature with greater recognition of Labour rights and higher emoluments.

Table 11.6:	Sectoral Distribution of Employment by Province, 2017-18				
	Sectoral Distribution of Employment 2017-18 – (%)				
	Punjab	Sindh	K-PK	Balochistan	Pakistan
Agriculture	40.0	37.2	32.6	40.0	38.5
Manufacturing	17.7	15.5	12.0	5.6	16.0
Construction	7.0	6.2	13.7	7.6	7.6
Wholesale and Retail Trade	14.2	16.4	15.1	17.3	14.9
Transportation & Storage	4.9	6.1	8.4	6.9	5.7
Public Admin & Defence	2.0	3.2	2.6	5.7	2.5
Education	3.5	4.3	6.0	4.8	4.1
Health	1.4	1.8	2.0	1.8	1.6
Others	9.3	9.3	7.6	10.3	9.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: LFS

The employment distribution by economic sector in each Province is given in Table 11.7 for both 2012-13 and 2017-18. There is substantial variation in the share of the formal sector. Given the concentration of large-scale manufacturing and banking and finance in Karachi, it is not surprising that Sindh has the largest share of employment in the formal sector. This also explains the disproportionately large contribution to Federal tax revenues from Sindh.

Table 11.7:	Employment Distribution Major Sectors of Employment by Province – (%)				
	Punjab	Sindh	K-PK	Balochistan	Pakistan
2012-13					
Agriculture	44.7	42.9	36.8	52.3	43.7
Formal	12.9	19.3	14.8	16.2	14.9
Informal	42.4	37.8	48.4	31.5	41.4
TOTAL	100.0	100.0	100.0	100.0	100.0
2017-18					
Agriculture	40.0	37.2	32.6	40.0	38.5
Formal	15.7	21.8	15.0	19.9	17.2
Informal	44.3	41.0	52.4	40.1	44.3
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: LFS

The informal economy is relatively large in Khyber-Pakhtunkhwa due to the high volume of transit traffic and supplies to US troops in Afghanistan. Also, the big inflow of remittances has created the demand for a wide variety of local services. The somewhat larger share of employment in the formal sector of Balochistan is due to a larger presence of employees in government service in relation to population.

There is some good news here. The formal sector has expanded in each Province. This is one factor which has contributed to faster growth in FBR revenues from 2012-13 to 2017-18. Simultaneously, the expansion of the informal sector is due to the contraction in agricultural employment. The likelihood is high that rural to urban migrants have initially found employment mostly in the informal sector in the cities.

11.5. OCCUPATIONAL DISTRIBUTION OF EMPLOYMENT

Occupations have been classified in three categories. These are high, medium and low level. The share in employment within each category has been derived in Table 11.8. The major differences are observed only in the case of Balochistan, with a higher concentration of employment in the medium category. This is likely to be a reflection mostly of workers employed by the Government of Balochistan.

Table 11.8: Distribution of Employment by Occupation, 2017-18 – (%)					
	Punjab	Sindh	K-PK	Balochistan	Pakistan
High Level	10.4	13.0	11.8	12.1	11.2
Medium Level	49.3	49.7	46.1	56.4	49.3
Low Level	40.3	37.3	42.1	31.5	39.5
TOTAL	100.0	100.0	100.0	100.0	100.0
<i>Source: LFS</i>					

11.6. EDUCATION LEVEL OF LABOUR FORCE

The distribution of the Labour force by level of education is given in Table 11.9 for each Province. The Average years of education of the Labour force has also been derived. A very surprising finding is that the share of illiterate workers is the highest and the average years of education is the lowest in Punjab. This could be due to a relatively high share of employment in agriculture.

As expected, the percentage of workers with degree or post-graduate qualification is the highest in Sindh. This is a reflection of the larger role of the formal sector in the Province.

Table 11.9:	Distribution of Labour Force by Level of Education, 2017-18 (%)				
	Punjab	Sindh	K-PK	Balochistan	Pakistan
Illiterate	41.4	37.7	38.8	37.6	40.1
Under Matric	33.6	26.2	29.5	36.9	31.5
Matric	12.6	13.7	14.6	13.0	13.1
Intermediate	4.7	10.0	7.0	5.7	6.2
Degree / Post Graduate	7.9	12.4	10.1	6.8	9.1
TOTAL	100.0	100.0	100.0	100.0	100.0
Average Years of Education	5.2	6.3	5.8	5.4	5.5

Source: LFS

11.7. LEVEL OF WAGES

The level of wages in 2017-18 for high, medium and low level occupations are presented in Table 11.10 for each Province. There appears to be a relationship between the average level of education and the level of remuneration. This explains why the level of wages is the lowest in Punjab. In contrast, the relatively high level of income for all three types of workers in Balochistan is probably a reflection of the Labour shortage in various skills in the Province.

Table 11.10:	Level of Remuneration by Occupation by Province, 2017-18 (Rs per Month)				
	Punjab	Sindh	K-PK	Balochistan	Pakistan
High Level	37328	40442	37889	41995	38414
Medium Level	19601	21271	24010	24615	20737
Low Level	14706	15224	18110	19282	15398
Average	17354	20277	20952	22622	18754
Skill Premium*	2.54	2.65	2.09	2.18	2.49

Source: LFS

11.8. EXTENT OF DECENT WORK

Four indicators have been used to determine the incidence of decent work in each Province as follows:

- i % Incidence of child labor.
- ii % of workers working 48 or more hours a week.
- iii % of employees receiving at least the minimum wage.
- iv % of workers with work related injuries.

The derived magnitudes for each Province are given in Table 11.11.

Table 11.11:	Indicators of Decent Work by Province, 2012-13 and 2017-18 – (%)				
	Punjab	Sindh	K-PK	Balochistan	Pakistan
Incidence of Child Labour – (LFPR Age 10-14 years)					
2017-18	10.32	7.16	4.57	4.33	8.23
2012-13	12.62	12.28	5.82	11.14	11.40
% of Employed working 48 or more hours a week					
2017-18	42.44	42.74	39.82	43.31	42.07
2012-13	36.7	45.37	32.13	43.92	37.91
% of Employees receiving less than the Minimum Wage					
2017-18	56.32	40.81	54.59	36.06	53.28
2012-13	67.43	52.51	55.55	39.38	61.76
% Incidence of Work Related Injuries					
2017-18	4.10	4.85	2.82	0.90	4.02
2012-13	3.79	4.31	3.18	1.23	3.74

Source: LFS

Two important findings emerge from the numbers in Table 11.11.

- i) There are mixed trends. The incidence of child Labour has declined. The share of employees not receiving the minimum wage has also decreased. As opposed to this, the percentage of workers who are overworked has increased and the incidence of work related injuries has also risen.

- ii) Balochistan generally performs the best in terms of the incidence of decent work, followed by Khyber-Pakhtunkhwa. The more developed Provinces, Punjab and Sindh, need to focus more on improving the working conditions of employees in the multitude of establishments.

In conclusion, this Chapter has highlighted the big variance in the features of the Labour markets among the four Provinces of Pakistan. Following the 18th Amendment to the Constitution, Labour is now a Provincial subject. The analysis undertaken above should be helpful to the Provincial Labour Departments in identifying the Labour related problems in their respective Provinces.

Chapter 12

SHARE OF LABOUR IN NATIONAL INCOME

The share of Labour in the national income is at the most aggregate level a key measure of the extent of inequality in the distribution of income between the factors of production – land, Labour and capital. The lower the share of Labour the greater is the level of inequality.

A relatively low share of Labour is likely to be the case generally in developing countries. Capital is scarce in such countries and, therefore, the return on capital is high. As opposed to this, the relative abundance of Labour implies low real wages. The estimate by ILO is that the average share of Labour in national income is 46 percent to 48 percent in Asian countries. This is in comparison to the share developed countries of over 60 percent.

The first section of the chapter describes the methodology used for estimation of the share of Labour in the national income of Pakistan. Section 2 gives the estimated share and highlights its change from 2008-09¹ to 2017-18. Section 3 gives the share in urban and rural areas respectively. Section 4 gives the estimated shares in different Provinces and Section 5 presents Labour shares in different sectors of the national economy.

12.1. METHODOLOGY

We designate the following variables:

E_1	=	Number of employees
E_2	=	Number of self-employed
E_3	=	Number of unpaid family workers
E_4	=	Number of employers
W	=	Average Monthly wage of employees
VA	=	Total Gross Value Added (GDP at factor cost)

1. Wages data is not available in the LFS prior to 2008-09.

Then the wage income W , is given by

$$W = wE_1 + (0.8)wE_2 \quad \dots \dots \dots [1]$$

Capital Income, K , is given by

$$K = (VA - W)0.7 \quad \dots \dots \dots [2]$$

Total Net Value Added, NVA , is derived as

$$NVA = W + K \quad \dots \dots \dots [3]$$

The share of Labour, SL , in net income is given

$$SL = \frac{W}{NVA} \times 100 \quad \dots \dots \dots [4]$$

12.2. LABOUR SHARE IN NATIONAL INCOME

Based on the above methodology, the estimated Labour share is presented in Table 12.1. As highlighted above, it is assumed that the average income of the self-employed is 80 percent of the average wage of employees. The income of employers is assumed to be in the form of capital income. Also, there is clearly no remuneration of unpaid (contributing) family workers.

Table 12.1: Share of Labour in Net National Income – Pakistan			
	2009-09	2012-13	2017-18
Total Employment (000)	50790	56010	61710
Distribution by Employment Status			61710
Employers	610	728	845
Self-Employed	16913	18819	21475
Contributing family workers	15084	14730	13224
Employees	18182	21731	26165
Average Remuneration per Worker (Rs/month)			
Self Employed	6108	9694	15003
Employees	7653	12118	18754
Total Remuneration (Billion Rs)	2906	5349	9854
Self Employed	1240	2189	3866
Employees	1666	3160	5888
GDP at factor cost (Billion Rs)	12542	21497	32385
Gross Capital Income	9636	16148	22631
Net Capital Income	6745	11303	15842
Net GDP	9641	16652	25596
Labour Share in National Income (%)	30.1	32.1	38.1
<i>Source: LBS, PBS</i>			

The GDP is measured at factor cost, net of taxes and subsidies. Capital income is taken as net of depreciation of fixed assets. The rate of depreciation is assumed to be 30 percent of the gross capital income². Labour share is then derived as a percentage of the net GDP.

The estimated share of Labour was 30 percent in 2008-09. It has fortunately been increasing since then. It reached 32 percent in 2012-13 and rose further to 38 percent in 2017-18. However, while the share is rising it is still low relative to other countries at a similar stage of development, where it is above 46 percent.

2. On the basis of corporate data from the SBP.

12.3. LABOUR SHARE IN URBAN AND RURAL INCOME

The factors of production in agriculture are land, Labour and capital. The income of Labour is net of income accruing to both land and capital combined. The respective rural and urban Labour shares are estimated in Table 12.2. There is not much difference among these shares. However, there is a conceptual problem in determining the shares. Farmers who own land and are self-cultivators, the income accruing to them is attributable to all three factors of production. This will tend to raise the shares of capital and land in rural incomes. As such, the 38.9 percent Labour share in rural areas may be overstated.

Table 12.2: Labour Share in Rural and Urban Income – 2017-18			
	Rural	Urban	Total
Total Employment (000)	40750	20960	61710
Distribution by Employment Status	40750	20960	61710
Employers	236	609	845
Self-Employed	15192	6283	21475
Contributing Family Workers	11386	1838	13224
Employees	13936	12229	26165
Average Remuneration per Worker			
Self Employed	12760	17558	15003
Employees	15950	21947	18754
Total Remuneration	4993	4761	9754
Self Employed	2326	1540	3866
Employees	2667	3221	5888
GDP at factor cost	16192	16192	32385
Gross Capital Income	11193	11431	22624
Net Capital Income	7835	8001	15836
Net GDP	12828	12762	25590
Labour Share	38.9	37.3	38.1

Source: LFS, PBS

12.4. LABOUR SHARE IN THE PROVINCES

The estimated Labour share in net income of each Province is presented in Table 12.3. There is significant variation in the shares in 2017-18. The share is the

highest in Khyber-Pakhtunkhwa at 43.5 percent, followed by Balochistan at 40.3 percent, Punjab at 38.5 percent and the lowest in Sindh at 34.7 percent.

The explanation lies in the nature of development. Sindh has followed a relatively capital-intensive path of growth with specialization especially in manufacturing. As opposed to this, both Khyber-Pakhtunkhwa are characterized by more Labour-intensive development. Punjab is in between the two extremes.

Based on these findings, inequality is likely to be most pronounced in Sindh and the least in Khyber-Pakhtunkhwa. This is confirmed by the analysis of Pasha [2019] of household income distributions in each Province.

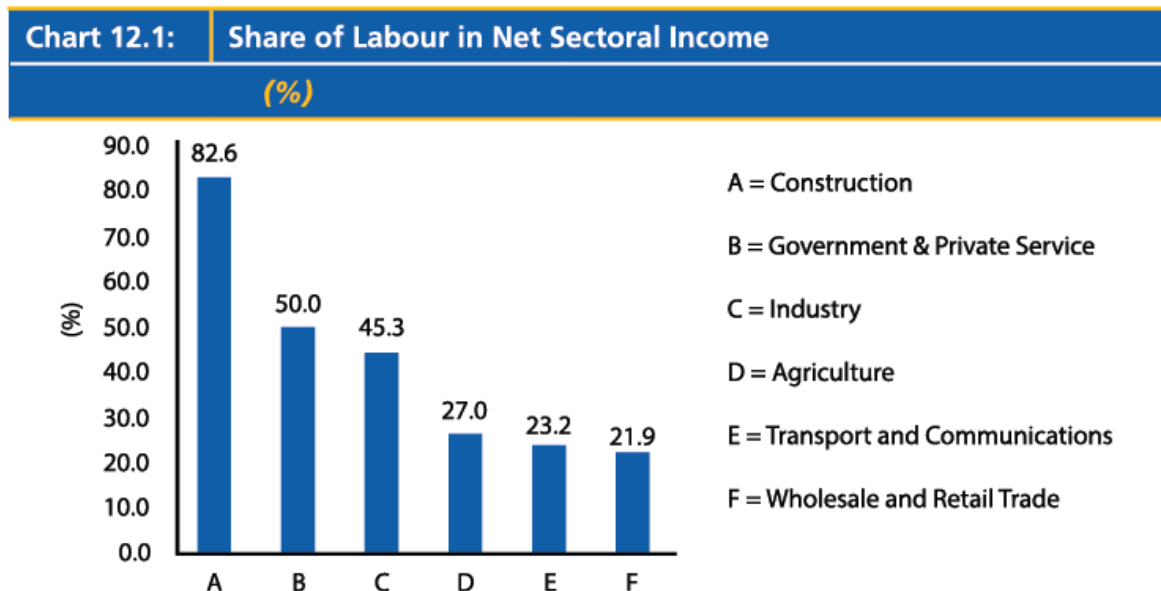
Table 12.3: Labour Share in Regional Income by Province – Pakistan, 2017-18				
	Punjab	Sindh	Khyber-Pakhtunkhwa	Balochistan
Total Employment (000)	37600	14440	7170	2510
Distribution by Employment Status				
Employers	470	172	151	49
Self-Employed	13096	4706	2692	983
Contributing Family Workers	8889	2604	1250	483
Employees	15145	6959	3076	994
Average Remuneration per Worker				
Self Employed	13883	16221	16761	18098
Employees	17354	20277	20952	22622
Total Remuneration	5336	2609	1314	483
Self Employed	2182	916	541	213
Employees	3154	1693	773	270
GDP at factor cost	17520	9618	3757	1490
Gross Capital Income	12184	7009	2443	1007
Net Capital Income	8528	4906	1710	705
Net GDP	13864	7515	3024	1198
Labour Share	38.5	34.7	43.5	40.3
<i>Source: LFS, PBS</i>				

12.5. LABOUR SHARE IN SECTORS

A somewhat different approach has been adopted for estimation of the Labour share in different sectors of the economy. This has been necessitated by the absence of information in the LFS publication on the distribution of employment among workers by employment status.

Instead, the tables in the LFS enable the quantification of distribution of employment between formal and informal sector. The assumption is made that bulk of employment in the formal sector is of employees while it is in the form of self-employment in the informal sector.

The resulting estimates for 2017-18 are presented in Chart 12.1.



Source: LFS, PBS

There is a wide variation in share of Labour across sectors. The highest share of 83 percent is observed in the constructive sector, where the process is generally very Labour-intensive. This is followed by the Government and Private Services sectors combined at 50 percent. The next highest share is in industry at 45 percent. The three sectors, viz., agriculture, transport and communications and wholesale and retail trade sectors are characterized by very low Labour shares of below 30 percent.

The overall conclusion is that the Labour share of national income is low in Pakistan. This highlights the exploitative nature of relationship between owners of capital and workers. Clearly, there is a case for enhancement of Labour rights. The focus of future growth should also be on sectors where the Labour share is high. This will sustain the path of a rising Labour share in national income.

Chapter 13

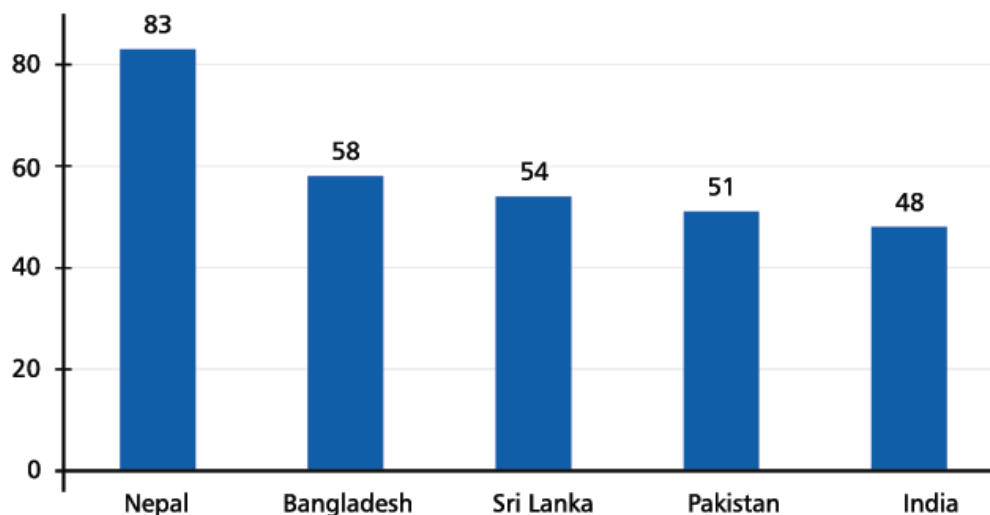
COMPARISON OF SOUTH ASIAN COUNTRIES

An effort is made in this chapter to compare the level of development of the Labour market of Pakistan and the conditions of its Labour force with that of other South Asian countries. The source of data is the ILOSTAT on country profiles. The definitions of key variables is the same across the countries.

13.1. LABOUR FORCE PARTICIPATION RATE

Latest Labour force participation rates of the five major South Asian countries are shown in Chart 13.1. There is a surprisingly large variation in this rate across the countries. An extremely high participation rate is observed in Nepal of almost 83 percent. As opposed to this, India has a low participation rate of only 48 percent. The other three countries range from 51 percent to 58 percent.

Chart 13.1: Labour Force Participation Rates in South Asian Countries – (%)



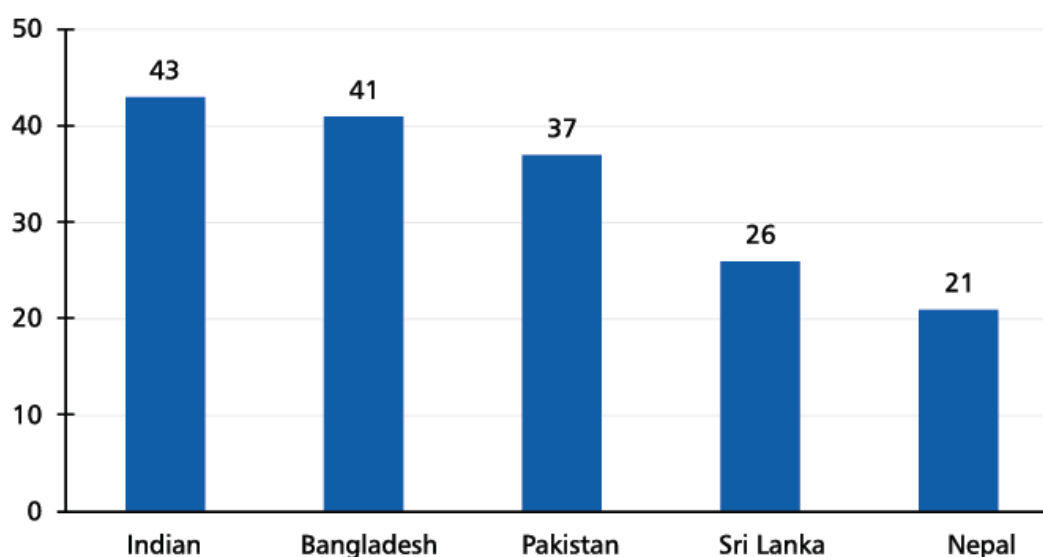
Source: ILOSTAT

The big reason for this is the large variation in the participation rate of females in the Labour force. It approaches 80 percent in Nepal, while it is close to 20 percent only in India and Pakistan.

13.2. SECTORAL COMPOSITION OF EMPLOYMENT

The Arthur Lewis view off the process of development is that of a declining share of employment in agriculture. Two of the five countries, viz., Bangladesh and Nepal, are officially classified as Least Developed Countries (LDC). Chart 13.2 shows that the share of employment in agriculture is actually the highest in India, followed then by Bangladesh and Pakistan.

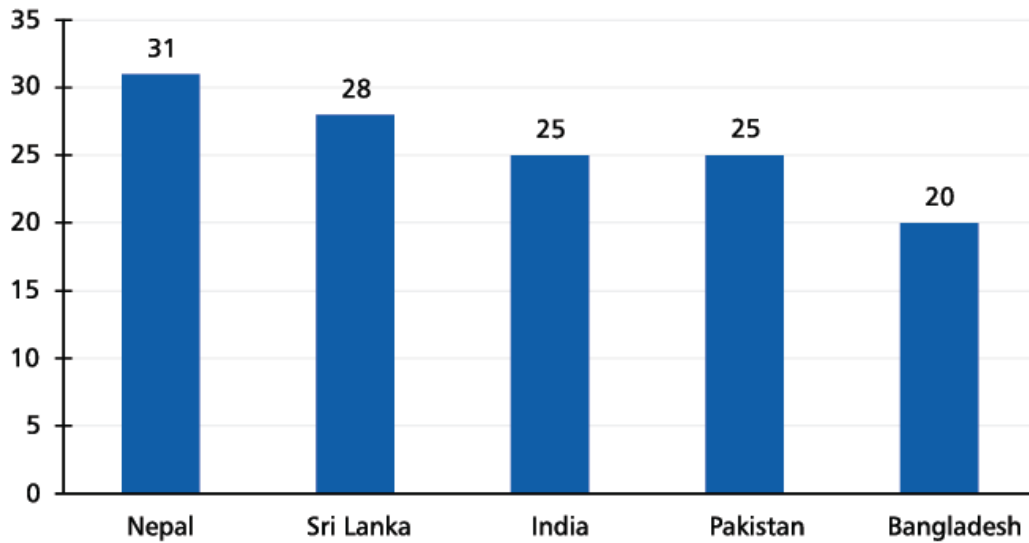
Chart 13.2: Share of Employment in Agriculture in South Asian Countries – (%)



Source: ILOSTAT

The variation in the share of employment in industry is also surprising as shown in Chart 13.3. Nepal has the highest share approaching 31 percent, followed by Sri Lanka at 28 percent. Bangladesh has only 20 percent of its employment in industry despite having the highest manufactured exports to GDP ratio.

Chart 13.3: Share of Employment in Industry in South Asian Countries – (%)

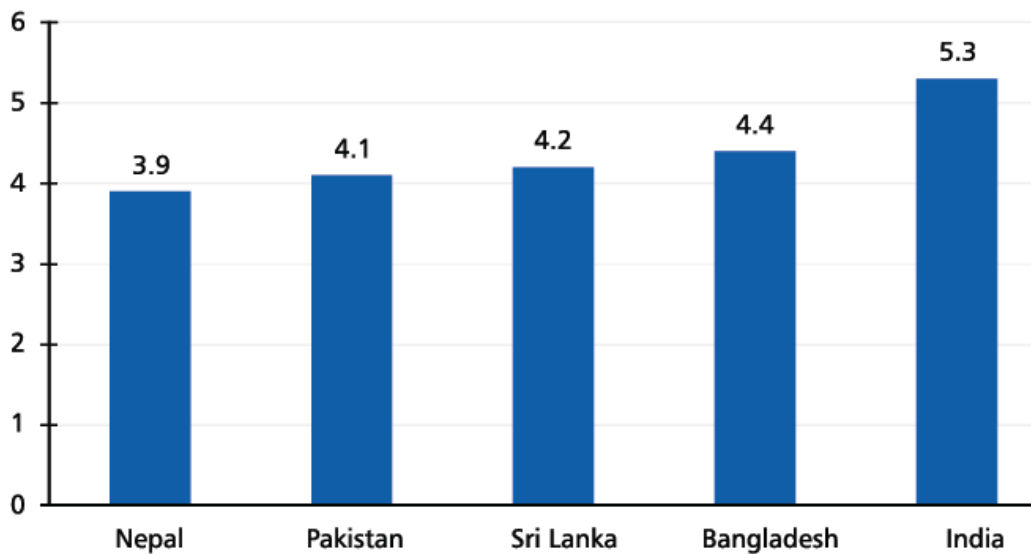


Source: ILOSTAT

13.3. UNEMPLOYMENT RATE

Another unexpected finding from the ILOSTAT is the extremely low rates of unemployment ranging from 3.9 percent in Nepal to 5.3 percent in India as shown in Chart 12.4.

Chart 13.4: Unemployment Rate in South Asian Countries – (%)



Source: ILOSTAT

A summary of the Labour profile of countries of South Asia is given in Table 12.1. Overall, the rankings in Labour market indicators are full of surprises. Nepal does exceptionally well while India performs somewhat poorly. Pakistan has an intermediate position in the indicators.

Table 13.1: Labour Profile of Countries of South Asia					
	Bangladesh	India	Nepal	Pakistan	Sri Lanka
	2018	2018	2016	2018	2016
Labour Force Participation Rate	58.3	48.0	82.7	51.0	53.8
• Male	80.7	74.6	86.3	80.4	75.0
• Female	36.4	20.8	79.8	21.9	35.8
Employment to Population Ratio	55.8	45.4	79.8	48.9	51.8
• Male	78.0	70.7	84.2	77.2	72.4
• Female	33.9	19.7	76.4	20.9	34.3
Share of Agriculture	40.6	43.3	21.5	37.4	26.1
• Industry	20.4	25.0	30.8	25.0	28.4
• Services	39.0	31.7	47.0	37.6	45.5
Unemployment Rate	4.4	5.3	3.9	4.1	4.2
% of employees working over 48 hours a week	58.8	n.a.	30.0	35.2	31.3
Hours actually worked	47.0	n.a.	54.0	47.0	44.0

Source: ILOSTAT

In conclusion, there are a large number of Labour and employment issues in Pakistan today. The overall Labour force participation rate is relatively low, especially of females. The share of Labour in the national income is significantly lower than the Asian average. The 'true' unemployment rate in the country is above 8 percent. Highly educated workers have an unemployment rate twice the national average.

The prevalence of 'decent work' is low. The majority of employees do not even receive the minimum mandated wage. The youth bulge has created serious problems of employment creation for recent entrants into the Labour force. Consequently, over 17 million youth are either 'idle' or unemployed.

The living wage is estimated at over 20 percent of the minimum wage. Over 66 percent of the employees do not receive at least the living wage and this

has contributed to a high number of the working poor. The public returns to education range from 9 to 13 percent and rise with the level of education. The skill premium is relatively low and has declined in recent years. Only 41 percent of the human capital is utilized in the production process. This is truly a tragic waste.

The informal sector accounts for almost 72 percent of the non-agricultural employment in the country. The likelihood of decent work is even lower. However, the informal sector has acted as a 'shock absorber' and provided residual employment. There is strong evidence of gender discrimination in the Labour market both in terms of access to better jobs and payment of wages.

All in all, the plight of Pakistani workers is manifold and widespread. Stronger Labour laws and practices will have to be put in place and implemented. This will require a government which is deeply committed to the process of inclusive growth and rights of workers as per our Constitution.

Chapter 14

GSP PLUS AND LABOUR CONVENTIONS

From January 1, 2014 onwards Pakistan became eligible for an EU trade program known as GSP+. This facility remains intact and Pakistan continues to enjoy duty free exports to the EU countries. Today, Pakistan's exports are \$7 billion to the EU, with a share of 29 percent in total exports.

Pakistan has had to ratify 27 core international conventions and subscribe to binding commitments to implementing them effectively. The EU monitors implementation of these conventions and periodically gives a score card on compliance, which will form the basis for continuation of GSP+. Following the 18th Amendment to the Constitution Labour related functions are now with Provincial governments.

The contents of the Labour Conventions to which Pakistan has signed on to and their state of implementation are described below.

14.1. FORCED LABOUR CONVENTION, 1930

The objective of this Convention is to eliminate the use of forced or compulsory Labour in all its forms. Forced or compulsory Labour is all work or service which is exacted from a person under the menace of a penalty and for which the person has not offered himself voluntarily.

Exceptions include the following:

- a) compulsory military service;
- b) work or service as part of normal civic obligations;
- c) work or service during an emergency;
- d) community service.

The competent authority in a country will not allow forced Labour for private gain. Also, the authority shall issue complete and precise regulations governing the use of forced Labour.

The Annual Report that a member makes, who has ratified the Convention, shall contain information on the extent of recourse to forced Labour and the purposes for which it has been used.

Numerous laws have been promulgated in Pakistan against forced or bonded Labour. For example, in Punjab there are the following laws:

- 1) The *Bonded Labour System (Abolition) Act* of 1992, last updated on the 1st of June 2018.
- 2) The *Usurious Loans Ordinance* of 1959, last updated on 6th of December 2003.
- 3) The *Protection of Tenancy rights Act* of 1950, last updated on the 6th of December 2003.

In Pakistan the most prevalent form is debt bondage. Economic sectors with incidence of bonded Labour are brick kilns, agriculture, domestic service, construction and mining. Work is usually in hazardous conditions and there is frequently sexual abuse of female workers.

The Australian based Global Slavery Index estimates that in Pakistan 3 million workers remain stuck in debt bondage. The highest incidence is in brick kilns and tenant operated farms. Farms of more than 50 acres in size and operated partly or fully by tenants who have large unpaid debt with the landlord.

14.2. ABOLITION OF FORCED LABOUR CONVENTION, 1957

This follows the 1930 Convention, described above. It contains proposals consistent with the UN Universal Declaration of Human Rights. It seeks to suppress the following forms of forced Labour:

- a) as a means of political coercion or education;
- b) mobilizing Labour for economic development;
- c) as a means of Labour discipline;
- d) as punishment for having participated in strikes;
- e) as a means of racial, social, national or religious discrimination.

This type of forced Labour is seldom the case in Pakistan.

14.3. FREEDOM OF ASSOCIATION AND RIGHT TO ORGANIZE CONVENTION, 1948

The Convention adopts proposals concerning freedom of association and right to organize as a means of improving conditions of Labour and as essential to sustained progress. It states in Article 2 that workers and employers have the right to establish and join organizations of their choosing without previous authorization. Such organizations cannot be dissolved or suspended by administrative authority. However, these organizations will respect the law of the land.

The extent to which this Convention applies to the armed forces and the police shall be determined by national laws or regulations.

14.4. RIGHT TO ORGANIZE AND COLLECTIVE BARGAINING CONVENTION, 1949

This Convention shall apply particularly to the following:

- a) make the employment of a worker subject to the condition that he will not join a union or shall relinquish trade union membership;
- b) cause the dismissal of a worker by reason of union membership.

The laws which govern industrial relations and collective bargaining in Pakistan are as follows:

- i) The Industrial Relations Act of 2010, last updated on 6th June, 2014
- ii) The Industrial Dispute Ordinance of 1967, last updated on 6th June, 2003
- iii) The Industrial and Commercial Employment Ordinance of 1968, last updated on 28th February 2012.

Trade unions are relatively infrequent in Pakistan. The trade union density, as defined by the ILO, is only 5.6 percent, as compared to 12.8 percent in India, 15.3 percent in Sri Lanka and almost 50 percent in China. According to the National Industrial Relations Commission (NIRC) there are 7096 trade unions in the country with a total membership of 1.4 million. One of the reasons for the low density is the limited size of the formal sector. However, even within the formal sector only 16 percent of the workers are members of trade unions. On top of the Unions are Federations, with a combination of four or more trade unions. The three large Federations are PWF, MLF and NLF.

14.5. EQUAL REMUNERATION CONVENTION, 1951

This Convention adopts proposals with regard to the principle of equal remuneration for men and women workers for work of equal value.

The term *remuneration* includes the basic or minimum wage or salary and any other emoluments in cash or in kind.

This principle of equal remuneration shall be applied by means of the following:

- a) national laws or regulations;
- b) legally established or recognized machinery for wage determination;
- c) collective agreements between employers and workers;
- d) a combination of these various means.

Pakistan has historically no law against gender discrimination in the payment of wages for identical work. The only legal provision is *The Minimum Wage Ordinance* of 1970, last updated on the 6th of June, 2003, which says that there will be no discrimination in the payment of the minimum wage. However, the Khyber-Pakhtunkhwa Payment of Wages Act of 2013 does specify that there should be equal pay for equal work.

Pakistan currently has one of the largest gender pay gaps. On average, the difference between male and female remuneration in the same occupation is as large as 50 percent, according to the Labour Force Survey of 2017-18. It has increased from 43 percent in 2013-14. The wage differential is higher in the lower occupations.

However, there is need to control for the length of Labour inputs. Only 6 percent of male workers work part-time (less than 35 hours a week) as compared to 41 percent in the case of female workers. Therefore, after adjustment for time input the gender pay gap stands at close to 30 percent.

14.6. DISCRIMINATION (EMPLOYMENT AND OCCUPATION) CONVENTION, 1958

This Convention focuses on the elimination of discrimination in the field of employment and occupation. For purposes of this Convention, the term *discrimination* includes:

- a) any distinction, exclusion or preference made on the basis of race, color, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation;
- b) such other distinction, exclusion or preference which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation as may be determined by the Member concerned after consultation with representative employers' and worker's organizations, where such exist, and with other appropriate bodies.

Any distinction, exclusion or preference in respect of a particular job based on the inherent requirements thereof shall not be deemed to be discrimination.

For the propose of this Convention the terms *employment* and *occupation* include access to vocational training, access to employment and to particular occupations, and terms and conditions of employment.

Each Member for which this Convention is in force undertakes, by methods appropriate to national conditions and practice:

- a) to seek the cooperation of employer's and worker's organizations and other appropriate bodies in promoting the acceptance and observance of the policy;
- b) to enact such legislation and to promote such educational programs as may be calculated to secure the acceptance and observance of the policy;
- c) to repeal any statutory provisions and modify any administrative instructions or practices which are inconsistent with the policy;
- d) to pursue the policy in respect of employment under the direct control of a national authority;
- e) to ensure observance of the policy in the activities of vocational guidance, vocational training and placement services under the direction of a national authority;
- f) to indicate in its annual reports on the application of the Convention the action taken in pursuance of the policy and the results secured by such action.

Any measures affecting an individual who is justifiably suspected of, or engaged in, activities prejudicial to the security of the State shall not be deemed to be discrimination, provided that the individual concerned shall have the right of appeal to a competent body established in accordance with national practice.

14.7. MINIMUM AGE CONVENTION, 1973

This Convention aims at total abolition of child Labour. Each member commits to a national policy designed to progressively raise the minimum age for admission to employment to a level consistent with the fullest physical and mental development of young persons.

The minimum age for wage in the Convention is at least 15 years.

A Member whose economy and administrative facilities are insufficiently developed may, after consultation with the organizations of employers and workers concerned, where such exist, initially limit the scope of application of this Convention.

Each Member which avails itself of the above provisions shall specify, in a declaration appended to its ratification, the branches of economic activity or types of undertakings to which it will apply the provisions of the Convention.

The provisions of the Convention shall be applicable as a minimum to the following: mining and quarrying; manufacturing; construction; electricity, gas and water; sanitary services; transport, storage and communication; and plantations and other agricultural undertakings mainly producing for commercial purposes, but excluding family and small-scale holdings producing for local consumption and not regularly employing hired workers.

This Convention does not apply to work done by children and young persons in schools for general, vocational or technical education or in other training institutions, or to work done by persons at least 14 years of age in undertakings, where such work is carried out in accordance with conditions prescribed by the competent authority, after consultation with the organizations of employers and workers concerned, where such exist, and is an integral part of:

- a) a course of education or training for which a school or training institution is primarily responsible;
- b) a program of training mainly or entirely in an undertaking, which program has been approved by the competent authority; or
- c) a program of guidance or orientation designed to facilitate the choice of an occupation or of a line of training.

National laws or regulations may permit the employment or work of persons 13 to 15 years of age on light work which is:

- a) not likely to be harmful to their health or development; and
- b) not such as to prejudice their attendance at school, their participation in vocational orientation or training programs approved by the competent authority or their capacity to benefit from the instruction received.

Punjab has promulgated a specific law on child Labour as follows:

1. The *Prohibition of Child Labour at Brick Kilns Act* in 2016.

However, there is no general law against the employment of children below the age of 15 years.

According to the latest Labour force survey of 2017-18, there are over 2.9 million child workers aged 10 to less than 15 years. This includes 1.7 male children and 1.2 female children. Over 80 percent of the child workers are in the rural areas, largely in agricultural operations. Fortunately the number of child workers is declining and has fallen by 8 percent since 2013-14.

Overall, Pakistan has legislation related to Labour in many areas, with the exception of a law against gender discrimination in the Labour market and a comprehensive law against child Labour. The trade union movement remains underdeveloped in Pakistan. There is overall a need not only for new laws but also that there is adequate institutional capacity to ensure the effective implementation of existing laws.

Chapter 15

THE SDG ON DECENT WORK AND ECONOMIC GROWTH

The Sustainable Development Goals (SDGs) of the United Nations have 17 goals. The SDG 8 is on Decent Work and Economic Growth has 10 Targets to be achieved by 2030.

The list of targets and the indicators is given in the first section below. The performance of Pakistan in the key indicator of the growth in Labour productivity, as measured by the real GDP per worker is also highlighted in this Section. The next Section contains a comparison of the major South Asian Countries in the selected Goal 8 indicators.

15.1. THE SDG 8

The list of targets and indicators is given in Table 15.1.

Table 15.1: SDG Goal 8: Decent Work and Economic Growth			
Target		Indicator	
8.1.	Sustainable Economic Growth	8.1.1.	Annual Growth Rate of GDP per Capita
8.2.	Diversify, innovate and upgrade for economic productivity	8.2.1.	Annual Growth Rate of Real GDP per Employed Person
8.3.	Promote Policies to support job creation and growing enterprises	8.3.1.	Proportion of Informal employment in non-agricultural employment by sex
8.4.	Improve resource efficiency in consumption and production	8.4.1.	Material footprint, per capita and per GDP
		8.4.2.	Material consumption per capita and per GDP
8.5.	Full employment and decent work with equal pay	8.5.1.	Average hourly earnings of female and male employees, by occupation, age and persons with disabilities
		8.5.2.	Unemployment rate by sex, age and persons with disabilities
8.6.	Promote youth employment, education and training	8.6.1.	Proportion of Youth (aged 15 to 24 years) not in education, employment or training

8.7.	End modern slavery, trafficking and child Labour	8.7.1.	Proportion and number of children aged 5-17 engaged in child Labour, by sex and age
8.8.	Protect Labour rights and promote safe working environments	8.8.1.	Frequency rates of fatal and non-fatal occupational injuries by sex and migrant status
		8.8.2.	Level of national compliance with Labour rights based on ILO sources and national legislation
8.9.	Promote beneficial and sustainable tourism	8.9.1	Tourism direct GDP as a proportion of total GDP and in growth rate
		8.9.2.	Proportion of jobs in sustainable tourism industries out of total tourism jobs
8.10.	Universal access to banking, insurance and financial services	8.10.1.	Number of Commercial Bank branches per 100,000 adults and number of ATMs per 100,000 adults
		8.10.2.	Proportion of adults (15 years and elder) with an account in a bank
8.A.	Increase Aid for Trade Support	-	
8.B.	Develop a Global Youth Employment Strategy	-	

The trend in the key indicator of real GDP per employed worker of Pakistan is given in Table 15.2. Given the relatively low long-term growth rate of the economy, the annual growth rate in Labour productivity from 2001-02 onwards has been 1.8 percent. The relatively rapid increase of 2.6 percent was witnessed from 2012-13 to 2017-18. Overall, the improvement in Labour productivity in Pakistan has been low in comparison to many other developing countries, especially in South Asia.

	GDP (Rs in Billion at Constant Prices)	Employment (million persons)	GDP per Worker (000 Rs.)	Growth Rate (%)
2001-02	5975	39.60	150.9	
2007-08	8549	49.09	174.1	2.4
2012-13	9819	56.01	175.3	0.1
2017-18	12344	61.71	200.0	2.6
Long-Term*	4.5	2.7		1.8

Source: PES, MOF | LFS

15.2. MAGNITUDE OF SDG INDICATORS IN SOUTH ASIA

A comparison is made in Table 15.3 of the magnitude of selected Indicators of Goal 8 in five South Asian countries.

Table 15.3:		Magnitude of SDG Indicators in South Asian Countries				
Indicators		Bangladesh	India	Nepal	Pakistan	Sri Lanka
8.2.1.	Annual Growth Rate of GDP per Employed Person (%)	5.2	5.8	1.9	1.8	4.6
8.3.1.	Proportion of Informal Employment outside Agriculture by Sex (%)	-	74.8	-	71.2	-
8.4.2.	Material Consumption per Capita (Tons)	2.65	5.53	3.81	4.45	5.14
8.5.2.	Unemployment Rate (%)	4.37	3.52	2.74	4.04	4.08
8.6.1.	Proportion of Youth (15-24 years) not in education, employment or training (%)	27.4	27.5	-	30.4	27.8
8.10.1.	Number of bank branches/ATMs per 100,000 pop	BB 8.44 ATMs 7.77	14.06 21.24	9.58 9.64	10.36 9.83	18.59 17.16
8.10.2.	% of Adults with account in Bank	29.14	52.75	33.81	8.71	82.69

Source: UN Statistics Division; World Bank.

Pakistan generally does not perform as well in most indicators. Clearly, greater efforts will have to be made to achieve the SDG 8 targets in the next decade up to 2030.

Chapter 16

THE IMPACT OF COVID-19 ON WORKERS

16.1. INTRODUCTION

The spread of COVID-19 has badly affected the lives and livelihoods of the people of Pakistan. The first case of COVID-19 in the country was identified on the 26th of February 2020. The Government imposed a near full shutdown in March 2020. Since then a policy of 'smart' lockdowns has been followed with shutdown of hotspots of the pandemic.

The attack by COVID-19 started even earlier and first in China. Since then it has spread widely to the USA, EU, Africa, North America and other countries of South and the rest of Asia. The latest global number of confirmed cases per million population is 1863.

The incidence in Pakistan stands at almost 1300 per million. It has quadrupled since the end of May 2020 but has tended to flatten out in recent weeks. The impact on the two other large countries of South Asia, India and Bangladesh, has been somewhat larger. It is 1631 per million in Bangladesh and 1856 per million in India.

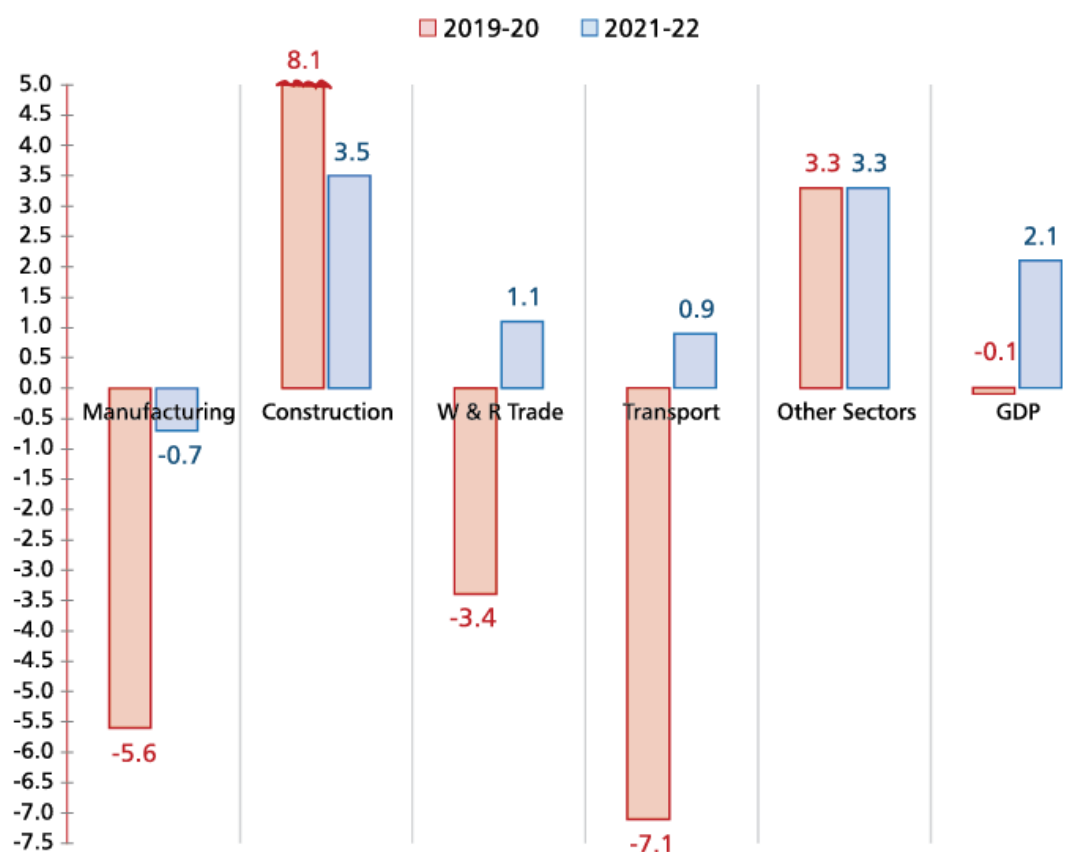
The objective of this policy paper is to quantify the impact of COVID-19 on the level of employment and wages of workers in Pakistan. Section 2 estimates the GDP growth rate in 2019-20 by sector and projects it to 2020-21. Section 3 quantifies the likely loss of employment up to the end of 2020-21 due to the recession in economic activity. Section 4 then derives the differential impact by type of worker. Section 5 presents estimates of the likely impact on wage rates and the overall wage bill of different types of workers in the country. Finally, Section 6 recommends a set of macroeconomic fiscal and monetary policies as well as direct interventions in the Labour market to reduce the large negative impact on workers.

16.2. ESTIMATES OF GDP GROWTH

The main sectors of the non-agricultural economy which are likely to have been impacted by a slowdown in global and domestic economic activity

are manufacturing, construction, wholesale and retail trade, transport and communications. These sectors account for 73 percent of non-agricultural employment. The Pakistan Economic Survey has presented estimates of the GDP growth rate and the growth rates of these more affected sectors in 2019-20. The Annual Plan for 2020-21 has projected these growth rates for 2020-21. Both sets of growth rates are presented in Chart 16.1.

**Chart 16.1: GDP and Sectoral Growth Estimates by Government
2019-20 and 2020-21**



The Government estimates are generally optimistic. As compared to the official estimate of GDP growth rate of -0.4 percent in 2019-20, the World Bank estimate is -2.4 percent. Similarly, it is projected at 2.1 percent in the Annual Plan in 2020-21. This implies that the Government expects a fairly strong recovery in the economy. However, IMF projects it at 1 percent and the World Bank at -0.2 percent next year.

Examination of the individual sectoral rates in 2019-20 reveals clearly the upward bias in Government estimates. The large-scale manufacturing sector is experiencing a very sharp contraction. The Quantum Index of Manufacturing, the QIM, has fallen by more than 10 percent in 2019-20 as compared to the estimate of 7.8 percent by the Government.

The construction sector is shown as being buoyant in 2019-20 with a growth rate of over 8 percent. But the combined sales of the two major construction inputs, cement and steel products, have fallen by over 12 percent up to May 2020. Similarly, the wholesale and retail trade sector is reported to have suffered a decline of 3 percent. Therefore, there has been a bigger contraction in the domestic trade sector.

Based on the above, the estimate of the GDP growth rate in 2019-20 is taken as -1.0 percent and in 2020-21 at 0.5 percent derived by simulation of the BNU Macroeconomic Model. These growth rates fall within the range of the estimates by the multilateral agencies. The economy has been divided into three sectors – agriculture, industry and services – and the respective growth rates are presented in Table 16.1.

Table 16.1:	Estimated GDP and Sectoral Growth Rates 2019-20 and 2020-21 – (%)	
	2019-20	2020-21
Agriculture	1.8	1.7
Industry	-6.2	-3.2
Services	-0.2	1.2
GDP	-1.0	0.5

Source: Estimated from BNU Macroeconomic Model

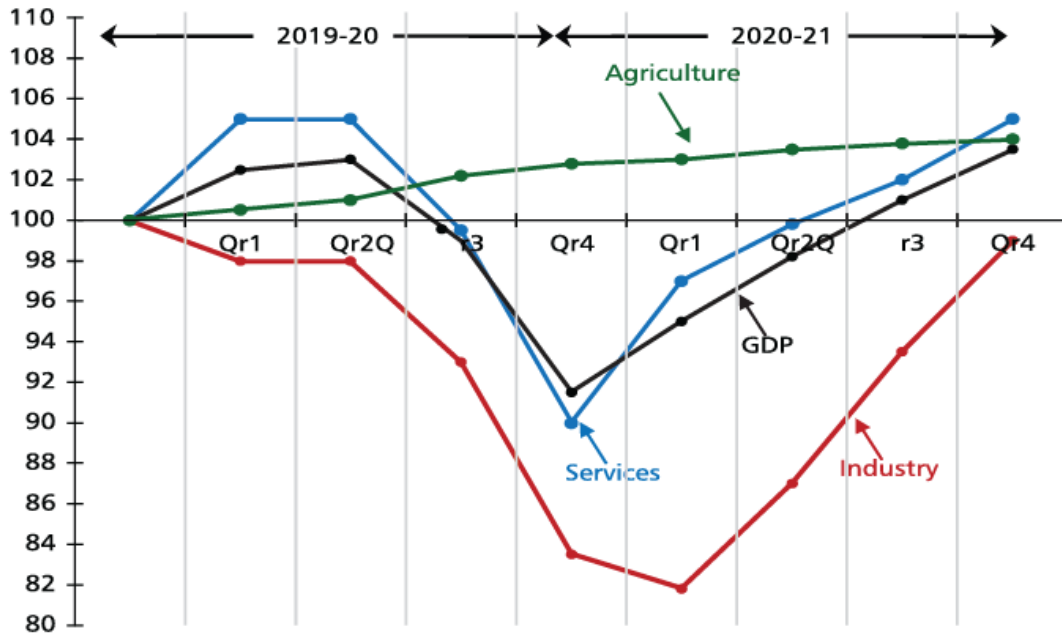
16.3. MAGNITUDE OF IMPACT ON EMPLOYMENT

The derived demand for Labour inputs depends on the level of output in different economic activities. There was a big jolt to the economy from March 20 onwards due to COVID-19 as highlighted in the previous section. There is need, therefore, to estimate the quarterly level of value added in the three sectors of the economy in order to reflect these fluctuations. Layoff of workers are likely to be linked to the short-term decline in output on a, more less, proportionate basis. As the economy begins the process of recovery hopefully in the second quarter of 2020-21, some of the retrenched workers will be reemployed once again, especially these with specific human capital. The rate of re-absorption is linked to the elasticity of Labour demand with respect to the increase in output. On the basis of historical data, this is assumed to be 0.15 in the case of agriculture, 0.46 in industry and 0.58 in services.

The estimated quarterly path of GDP and sectoral value added is presented in Chart 16.2. The quarterly GDP is estimated to have fallen by 6 percent in the

fourth quarter of 2019-20. Some recovery is anticipated 2020-21 and the GDP is likely to approach the level prior to the spread of COVID-19 after the fourth quarter of the on-going financial year.

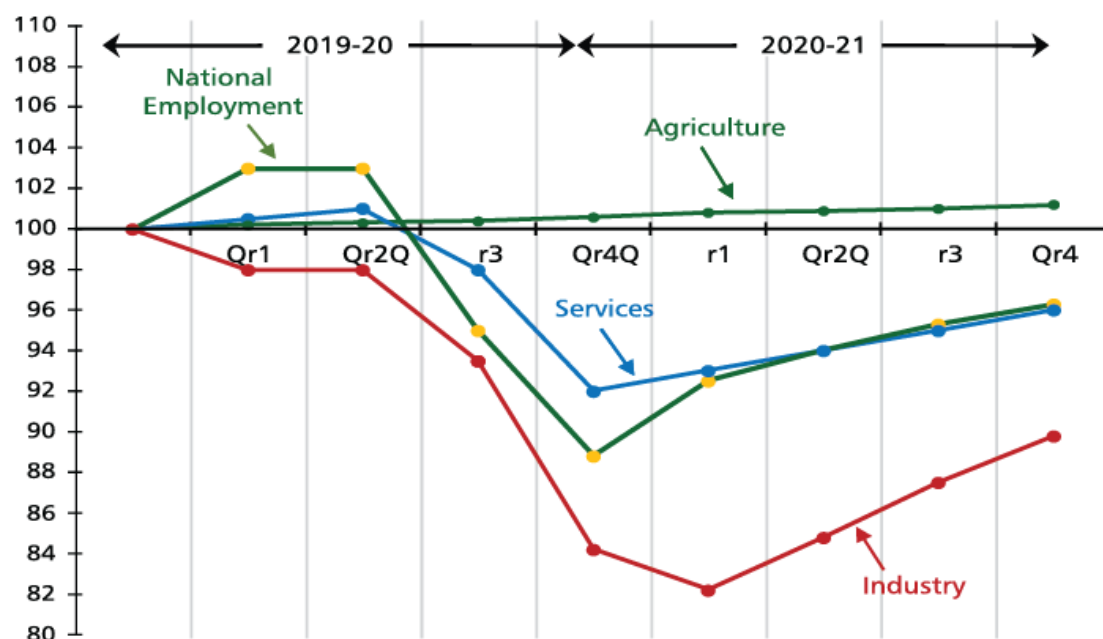
Chart 16.2: Index of Quarterly Output (2018-19 Quarter = 100.0)



Agriculture is likely to experience a significant loss of output due to the locust attack during the Kharif season of 2020-21. As such, the sectoral growth rate is likely to be only 1.7 percent. The industrial sector is the worst hit by COVID-19 due to loss of exports resulting from the anticipated decline of 15 to 20 percent in the volume of world trade and due to localized shutdowns of factories and interruptions in the supply chain. As such, the value added by the sector is estimated to have fallen by 3 percent in the third quarter and by 11 percent in the fourth quarter of 2019-20 in relation to the production level in 2018-19. The services sector has also probably seen a large fall of value added of 9 percent in the fourth quarter of 2019-20.

The employment impact of the big fall in sectoral outputs is shown in Chart 16.3. Compared to the level of employment in 2018-19, job losses are estimated at 8 percent in the economy as a whole in the fourth quarter of 2019-20. The job losses at the sectoral level are estimated at 11 percent in industry and 7 percent in services, as shown in Chart 16.2.

The COVID-19 spread appears to be showing a decline and this opens up the prospect of greater recovery in jobs in 2020-21. Overall, about 72 percent of the overall job losses could be recovered by June 2020-21. The corresponding estimates are 44 percent for industry and 80 percent in the case of services.

Chart 16.3: Index of National Employment and by Sector (Employment, 2018-19)

Table 16.2: Trend in Employment – (end of year figures) ('000)

	2018-19	2019-20	2020-21	Cumulative Laid Off Workers**
Agriculture	24186	24272 (86)*	24315 (43)	-
Industry	14934	12611 (-2323)	13396 (785)	1538
Services	23783	21087 (-2696)	23080 (1993)	703
Number of Laid off Workers		5019	2421	2241
Number of Workers who remain Unemployed	4169	5274	6569	
Number Laid Off and Unemployed Workers	4169	10443 (6274)	8990 (-1453)	
UNEMPLOYMENT RATE (%)	6.2	15.3	12.9	

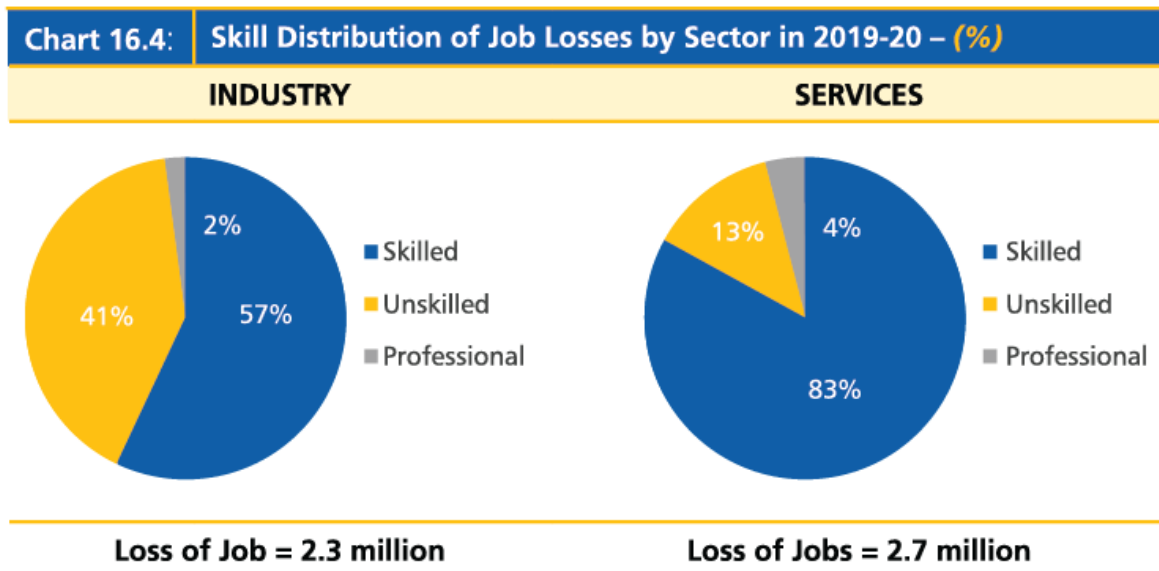
*Annual Change in number employed | **from existing jobs

As of end-June 2020, 5 million workers have probably lost their jobs. By end-June 2021, 2.7 million are likely to return to their jobs, while almost 2.3 million will remain laid off.

In addition, there were 4.2 million unemployed workers in 2018-19. Their number will increase in 2020-21 to 5.9 million due to new entrants in the Labour force. Overall, there has probably been a major jump in the unemployment rate in the country from 6.2 percent in 2018-19 to 15.3 percent in 2019-20. It is anticipated that conditions will improve somewhat in the Labour market in 2020-21 and the unemployment rate will fall to 12.9 percent. However, it will still remain at over twice the level prior to COVID-19.

16.4. JOB LOSSES BY TYPE OF WORKER

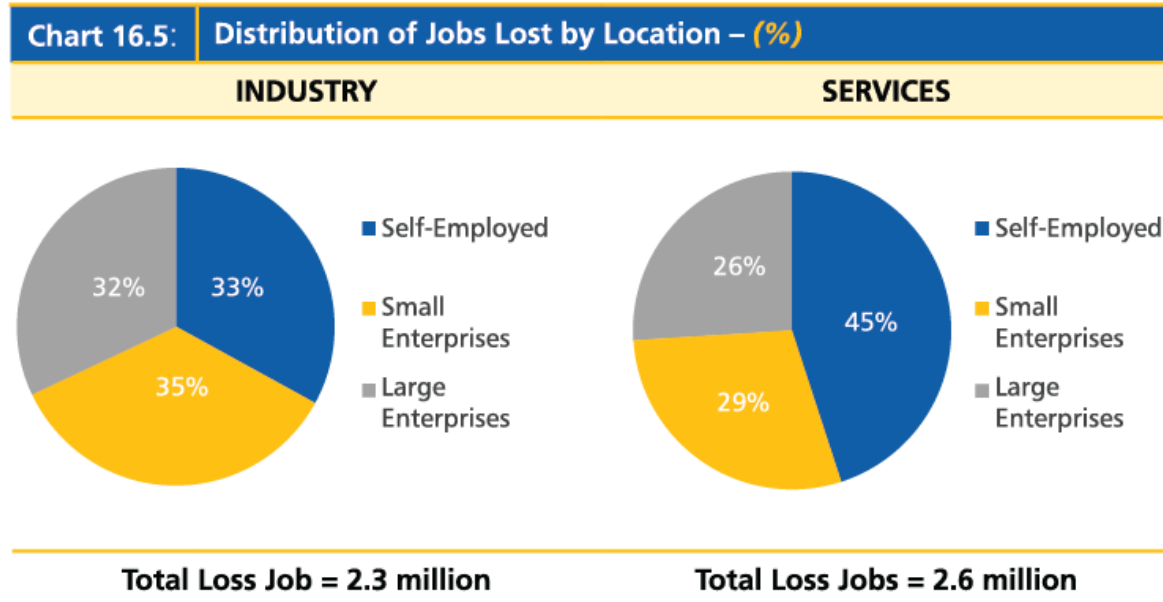
Analysis of job losses is undertaken, first by type of worker in terms of the level of skills. Workers have been classified into three categories – professional, skilled and unskilled elementary occupations. The distribution of the job losses by skill level are presented in Chart 16.4.



The overall rate of job losses is 5 percent in the case of managers and professionals, 12 percent among skilled workers and almost 20 percent among unskilled workers. The expectation is that the extent to which these workers will be able to return to or find new jobs in the case of professionals, skilled workers and unskilled workers is 88 percent, 65 percent and 44 percent respectively.

The next analysis is with respect to location of workers as to whether they are employed in small enterprises (employment up to 50 workers), large enterprises or they are ‘footloose’ in terms of being self-employment. This last category consists mostly of daily wage earners.

The distribution of workers who have lost jobs by location is given in Chart 16.5. There is the risk that in the event of a loss of output, especially for the export market, small enterprises may be forced to shut down operations due to severe liquidity problems and losses. They may have difficulty in restarting operations when conditions improve. Further, self-employed workers are especially difficult to target support to and may fall below the poverty line until after 2020-21.



Within the industrial sector, workers who have lost jobs include 32 percent in large enterprises, 33 percent who were self-employed and 35 percent who were employed in small enterprises. Similarly, in services, 45 percent of workers displaced were self-employed and 29 percent in small enterprises, with the remainder, 26 percent, in large enterprises.

16.5. IMPACT ON WAGES

There is some survey information available on what has been happening to wages of workers, mostly self-employed. The PBS collects information on a weekly basis of the daily wages received by a carpenter, mason, Labourer, plumber and electrician in 17 cities of the country. The trend in real wages is presented in the Table 16.3.

Table 16.3: Trend in Real Wages* of Selected Workers – (July 2018 = 100)				
	July 2018	July 2019	March 2020	July 2020
Carpenter	100.0	96.7	89.2	88.0
Mason	100.0	98.8	92.6	91.9
Labourer	100.0	100.7	95.4	89.1
Plumber	100.0	101.0	92.1	86.8
Electrician	100.0	92.0	88.7	79.4

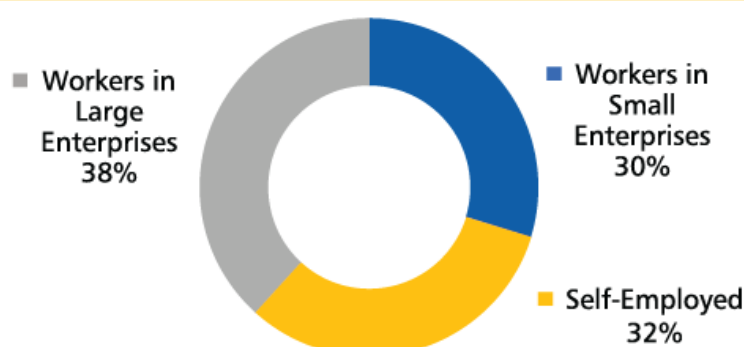
Source: PBS, SPI Annexure
*Deflated by the Sensitive Price Index.

The results are striking. Self-employed workers, both skilled and unskilled, have suffered a big erosion in their real wages after COVID-19 and the consequential decline in Labour demand, especially in the construction sector. On average, the loss in real wages has been 13 percent up to July 2020. In addition, the number days may worked may have come down sharply due to a fall in construction activity.

An approach has been adopted of linking the growth rate of wages with the level of employment of workers who are employees in establishments. Historically, a rise in employment of 1 percent is accompanied by a rise in real wages of 1.2 percent, subject to the condition that employment increases by at least 2 percent. This implies that since employment has fallen by 8 percent in the immediate aftermath of COVID-19, real wages of employees who continue to have jobs have probably seen their emoluments cut by over 24 percent.

The fundamental question is the total loss of wage income following COVID-19. The first estimate is of a loss of Rs 94 billion rupees per month, equivalent to an average of Rs 19200 monthly per displaced worker. The distribution by type of worker is given in Chart 16.6 below.

Chart 16.6: Total Wage Income Loss Monthly of Workers who lost jobs – (Rs in Billion)



The relief program to provide a measure of social protection is discussed below.

16.6. MEASURES FOR RESTORING EMPLOYMENT

The rate of restoration of jobs lost is projected by the end of 2020-21 at 34 percent in the case of industrial workers and at 74 percent in the case of service workers. The large difference is due to a bigger negative impact of COVID-19 on industrial production than on service activities.

There is need, therefore, for implementation of measures, both macro and micro in nature, to accelerate the return of workers to their jobs. The first priority is that the enterprises continue to exist so that they can grow once again after COVID-19 peak is passed. Therefore, access to bank credit for providing liquidity becomes the most vital input. The SBP has launched a number of credit schemes with access to subsidized interest rates.

The big initiatives are the SBP Refinance Scheme to Support Employment and Prevent Layoff of Workers. It has been titled as the Rozgar Scheme. It provides concessional loans to enterprises for wages and salaries of three months subject to a commitment to not lay off workers for the period of the loan. The period has now been extended to six months.

The Federal Government has intervened to incentivize banks for financing of small enterprises. A Risk Sharing Facility has been introduced whereby the Government of Pakistan will bear 40 percent first loss on the disbursed portfolio (principal portion only). This has now been enhanced to 60 percent for small and medium enterprises with annual turnover of up to Rs 2 billion. Further, the financing period is now for six months.

The Rozgar Scheme first became operational in the last week of April 2020. SBP reports that credit under the Scheme of Rs 136 billion have been extended up to the 7th of August 2020. As derived in Chart 16.5, the total liquidity requirement to cover the wage bill of workers of six months, who would otherwise be retrenched, is Rs 564 billion. Therefore, approximately only 24 percent of the financing requirement has been met by the Scheme.

The issue also is the extent to which small enterprises, with employment up to 50 workers, have been covered by the Rozgar Scheme. Commercial banks have traditionally been reluctant to extend credit to SMEs because of the perceived higher risk of loan default and larger transaction costs. Prior to COVID-19 only 6 percent of the credit to the private sector was to SMEs.

Beyond the GOP risk sharing scheme, two fiscal incentives may be provided for inducing banks to extend more credit to SMEs. First, there are provisioning and tax deductibility of bad loans write off already in the Income Tax Ordinance. These facilities should be enhanced.

Further, as a special incentive for retention of workers a tax credit scheme may be introduced whereby the tax liability could be reduced by 2 percent of the wage bill if the employer was able to demonstrate that there had been no lay off of workers. This incentive may be made available to establishments employing up to 250 workers.

Beyond the laying off of workers, there is the issues of continuing unemployment of over 5 million workers, including up to 2.5 million youth, which could create the problem of a social breakdown. Two initiatives need to be pursued aggressively. The first is that under the EHSAAAS program micro-credit should be extended to youth with viable and innovative schemes for income generation. The second initiative is to launch an Employment Guarantee Scheme of employment of 1 million workers for 100 days with a fixed level of payment. This Scheme should be run through the Union Councils and Labour inputs should be used for rehabilitation or expansion of local infrastructure or for providing educational inputs for expansion of literacy in the country.

The ultimate challenge relates to the provisions of a modicum of social protection to daily income self-employed workers. The problem is the identification and targeting of such workers. The Federal Government had allocated Rs 100 billion as the relief package for such provision. The estimated six-month income loss of such workers is Rs 180 billion. Here again, the Union Councils may play the role of registering such workers. The BISP cash transfer mechanism can then be used to provide relief to these workers.

In conclusion, there is need to strongly emphasize that COVID-19 has caused the biggest crisis in the history of the country in the Labour market with an employment surging overnight to over 15 percent. The efforts to promote recovery out of this deep recession must have a 'human face'. This will not only mean providing support to poor families but also to workers whose families run the risk of falling below the poverty line if they are laid off or unemployed due to decrease in market demand following the large negative impact of COVID-19 on the national economy.

Chapter 17

SUMMARY OF FINDINGS

- The Labour force participation rate of population 15 years or above is at the intermediate level in Pakistan at 53 percent as compared to 59 percent in Bangladesh and 51 percent in India. However, it is exceptionally low in the female population.
- The Labour force participation rate rises when the GDP growth rate is higher.
- The Labour force was increased artificially in the Musharraf era so as to reduce the unemployment rate.
- The share of Labour in the national income is only 38 percent in 2017-18 as compared to 46 percent in countries at a similar stage of development. It was even lower in 2012-13 at 32 percent.
- The incremental Labour force was fully absorbed in two periods – 2002-03 to 2007-08 and 2012-13 to 2017-18. However, in the latter period the estimate of the incremental Labour force was artificially low.
- The share of employees among the employed has risen since 2010-11 and stands at over 42 percent in 2017-18. Share of the self-employed and unpaid family workers are 35 percent and 22 percent respectively, while that of employers stands at just over 1 percent.
- The worrying trend is the sharp decline in the employment of managers, and technical personnel of 5 percent annually from 2010-11 to 2017-18. The fastest growth has been the intermediate skill category of almost 4 percent annually.
- The highest employment to output elasticities are observed in the manufacturing and transport and communications sectors of over 0.8. The agriculture, domestic trade and construction sectors have elasticity of 0.6 to 0.7. The overall employment elasticity with GDP growth is 0.4.
- The rate of unemployment is a sensitive measure of performance by a government. As such, there is a tendency to artificially understate the magnitude of this indicator.

- The PBS focuses only on time-related unemployment. It does not measure the extent of wage-related unemployment and the magnitude of the 'discouraged worker' effect.
- The 'true' overall rate of unemployment, including all three types of unemployment was 8.5 percent in 2017-18. The 'open' unemployment rate was 5.8 percent; the time-related unemployment was 1.3 percent; the wage-related unemployment was 1.2 percent and the 'discouraged worker' effect at 0.2 percent.
- On average, the 'true' unemployment rate exceeds the 'open' unemployment rate by two percentage points. The former rate was the highest in 2003-04 at 8.9 percent and the lowest in 2007-08 at 6.3 percent.
- The 'open' unemployment rate is higher for females than male workers. However, the gap is narrowing. Also, the rate is highest for young entrants into the Labour force.
- There is substantial variation in the rate of 'open' unemployment by level of education of the worker. Almost two decades ago it was the highest for workers with matric or intermediate education. Now, it is perhaps surprisingly the highest for workers with degree or post-graduate education. It was as high as 16 percent for these workers in 2017-18.
- The ILO has defined 'decent' work as work which provides adequate earnings, is completed in decent work time, ensures stability and security of work, provides for equal opportunity and treatment in employment, is undertaken in a safe work environment and on retirement ensures access to social security.
- A high proportion of employees, over 53 percent, did not receive even the minimum wage in 2017-18 of 15,000 Rs per month. It is higher at 78 percent in the case of male employees and 49 percent coverage of females. The overall share has increased over time.
- The incidence of workers working more than 40 hours a week is high at 84 percent in the case of employees and among the self-employed at 77 percent.
- There is clear evidence of gender discrimination in the Labour market of Pakistan. For the same job, a female worker is paid 30 percent less than her male counterpart. With regard to a safe working environment almost 4 percent of the workers had work related injury or disease.

- There exist still highly exploitative forms of work. There are almost 2 million bonded workers and almost 3 million child workers in Pakistan.
- The coverage of social security is limited to government employees and contributing establishment to EOBI. The EOBI is giving pensions to 640,000 retired workers and has 8.7 million insured workers. The total value of benefits paid is almost Rs 11 billion.
- The incidence of collective bargaining is also very low. Only 5.6 percent of workers are members of trade unions.
- Pakistan has been witnessing a 'youth bulge'. The number of unemployed and 'idle' youth is as high as 6.4 million males and 10.9 million females, equivalent to 24 percent of the male youth population and 32 percent of the female youth population.
- The living wage, which provides minimum level of nutrition to a family of six, was Rs 16,000 in rural areas and Rs 18,000 in urban areas, as compared to the minimum wage of Rs 15,000 per month. Only one-third of employees receive the minimum wage.
- There is substantial underutilization at 41 percent of the available human capital in the country. It is 61 percent in the case of females and only 13 percent for males.
- The skill premium is relatively large. The average wage of a highly skilled worker is 320 percent of the wage of an unskilled worker. The wage distribution among workers is characterized by a moderate level of inequality, with the Gini coefficient at 0.303.
- The private returns to education have a U-shaped curve with respect to the level of education. They attain a peak at the graduate level of 13.4 percent. Similarly, the public returns range from 8 percent to 11 percent.
- There has fortunately been a trend of rising real wages since 2008-09 of almost 3 percent per annum. It has risen faster in rural areas, male employees and in Punjab. There is a clear pattern with wages rising faster for more skilled workers and reaching a peak rate of increase of 5.4 percent in the case of managers. Also, the fastest rate of increase in real wages is observed in service activities like public administration and defence, education and health.
- The informal sector includes the self-employed and establishments with less than 10 workers. Almost 44 percent of the employment is in the

informal sector and 17 percent in the formal sector. The remainder, 39 percent, is employment in agriculture.

- The informal sector has acted as a 'shock absorber' and generated jobs in times of economic recession. The largest employment in the informal sector is 35 percent in wholesale and retail trade, followed by 23 percent in manufacturing. The formal sector is largely concentrated in manufacturing and government services with shares in employment of 35 percent and 44 percent respectively.
- Bulk of the low level occupation's employment is in the informal sector. It is close to 72 percent for elementary occupations and plant and machine operators. At the upper end, almost 60 percent of the jobs of professionals, technicians and managers are in the formal sector.
- The female Labour force participation rate is extremely low in Pakistan and less than one third of males, while the unemployment rate is 60 percent above that of males. Women have a relatively high share in jobs of professionals, skilled agricultural workers, craft workers and elementary occupations. At the sectoral level, the largest shares of jobs with females are agriculture, education, health and other services.
- A comparison of the Labour market in South Asian countries reveals, first, the share of employment in agriculture is somewhat lower. Second, the share of employment in industry is also relatively low and consequently, share of employment in services is higher. Third, according to ILO Stat, the rate of unemployment in Pakistan is somewhat lower than in India or Bangladesh.
- A comparison of Provincial Labour markets in Pakistan reveals big differences in key indicators. The Labour Department in a Province will need to focus on areas of weakness especially with regard to the prevalence of decent work.
- The impact of COVID-19 on employment and wages of workers has been large in the face of a significant fall in value added in different sectors of the economy. For example, the output of the manufacturing fell by almost 25 percent in the last quarter of 2019-20 and the services sector declined by almost 60 percent.
- The BNU Macroeconomic Model estimates that the number of unemployed workers has risen to 10.4 million by the end of 2019-20, implying an increase of 6.3 million in relation to the number unemployed in 2018-

19. Consequently, the unemployment rate is likely to have risen from 6.2 percent to 15.3 percent.

- The year, 2020-21, is likely to see 2.7 million of the laid off workers return to their jobs. This will lead to a fall in the overall unemployment rate to 12.9 percent.
- The rate of jobs lost is likely to have varied by level of skill. It could be as high as 20 percent in the case of unskilled workers and 5 percent for managers and professionals. Over 70 percent of the contraction of jobs will be of the self-employed contract workers and employees in small enterprises.
- Real wages are likely to have fallen significantly after COVID-19. Estimates are that for workers with intermediate level of skills the real wage has fallen by 9 percent and for unskilled workers by almost 12 percent. The estimated loss in wages for workers in the country is Rs 94 billion per month.

Chapter 18

RECOMMENDED EMPLOYMENT STRATEGY AND LABOUR POLICIES

There is a need here to first highlight the articles in the 1973 Constitution of Pakistan relating to Labour rights, as follows:

- Article 11: Prohibits all forms of slavery, forced Labour and child Labour.
- Article 17: Provides for the fundamental right to exercise the freedom of association and the right to form unions.
- Article 18: Supports the right of its citizens to enter upon any lawful profession and to conduct any lawful trade or business.
- Article 25: Lays down the right to equality before the law and prohibition of discrimination on the grounds of sex alone.
- Article 37(e) Makes provision for securing just and humane conditions of work, especially for women and children.

These articles have been reflected in laws promulgated earlier by the National Assembly and following the 18th Amendment to the Constitution by the Provincial Assemblies. The existing laws have been highlighted in Chapter 14.

Pakistan also has a history of Labour Policy announcements by different Governments. There have been seven Labour Policy statements in 1949, 1955, 1959, 1969, 1972, 2002 and 2010 respectively.

The most radical Policy was the one announced by the first PPP Government of Mr. Zulfikar Ali Bhutto in 1972. This policy sought to fundamentally enhance the rights of workers, improve their access to benefits and change the nature of the relationship between employers and their workers. The 2002 Labour Policy focused especially on removing gender discrimination in wages. The Seventh Labour Policy of 2010 was more oriented towards increasing Labour productivity. However, no Labour Policy has laid down the contours of an employment promotion strategy.

This Chapter is organized as follows. Section 1 outlines the key elements of an employment strategy. Section 2 addresses the issue of coverage by existing laws. Section 3 focuses on more effective implementation of the laws and

policies. Section 4 outlines the required improvements in workers benefits and the financing mechanisms. Section 5 highlights the fiscal incentives that need to be offered for promoting employment, especially of female workers. Finally, Section 6 highlights the improvements required in the quality of Labour statistics.

18.1. EMPLOYMENT STRATEGY

- Priority should be given to promoting development of sectors which are Labour-intensive and where the elasticity of employment with respect to output growth is larger. Based on the research in the report, the sectors which meet these criteria are agriculture, manufacturing (especially SMEs), construction and private services. Priority should be given to targeting fiscal incentives, appropriate pricing policies, bank credit and services to these sectors. The PTI Government has given an attractive package of fiscal incentives and greater access to housing finance to the construction sector.
- Given the process of evolution of the Labour market in Pakistan and the stage of development in the country, Labour demand is the fastest growing for workers with intermediate skills and up to higher secondary education. As opposed to this, there is an over-supply of graduates and post-graduates and their current unemployment rate is high double-digit. Therefore, education expenditures should shift towards high school and college education away from Universities. In fact, there is a case for imposing a moratorium on expansion in the number of public universities. Further, high school education should ideally be topped off by a layer of technical and vocational training.
- The report has demonstrated that the informal sector acts as a 'shock absorber' in times of recession and continues to provide some employment opportunities. Therefore, there is a need to limit the negative perception of this sector, especially from the viewpoint of tax payments. Rather than pursue complete documentation, the approach should be to operate a regime of presumptive and fixed taxes on the sector.
- The presence of a large number of under-utilized educated youth should be harnessed for application of digital technology and for raising IT exports. Further, the SEZs should be seen as part of global value chains, especially with China, and located in close proximity to urban centres with a relatively high proportion of skilled and education workers.

18.2. COVERAGE OF EXISTING LAWS

As highlighted in Chapter 14, there are existing laws on child Labour (but limited only to brick kilns), protection of tenancy, against usurious loans leading to bondage, government employee's welfare, industrial relations, industrial disputes, minimum wages and prohibition of bonded Labour. Altogether, there are 11 Labour related laws.

However, there still remain major gaps in coverage of Labour laws as follows:

- Child Labour has been limited only on employment in brick kilns. This should be extended to cover all Dangerous and Offensive Trades as identified in Municipal laws.
- There is no law on avoiding any form of discrimination in the equal payment for equal work especially against female workers or minorities.

These laws need to be enacted on a priority basis by the Provincial Governments.

18.3. IMPROVING IMPLEMENTATION OF LABOUR LAWS

The fundamental problem has been effective implementation of existing laws especially from the viewpoint of institutional capacity. The Provincial Governments have Labour Departments, which primarily perform inspection functions of enterprises. Unfortunately, these Departments lack capacity. For example, the Labour Department in Sindh has a budget of only 0.08 percent of the total budget of all Provincial Departments. The recommendations are as follows:

- There should be a Labour Officer (in BPS-18) in each district of a Province with supporting staff. The Provincial headquarters should possess enough legal capacity to frame improvements in laws of submission to the Provincial Assembly after Provincial cabinet approval. Also, there is need for development of a comprehensive Labour Information Management System (LIMS).
- Labour courts have been established to resolve disputes and complaints. There is need to ensure enough benches of these Courts. The policy should be to have at least one Labour Court in each Division of Province. The Labour courts should be required to give judgement within 30 days of the lodging of a case.

- The process of registration of trade unions should be facilitated and made easier. Efforts should be made to promote the formation of industry level trade unions, so as to act as a counter to the existing powerful Employer Associations at the industry level. The requirement for appointment as a Collective Bargaining Agent (CBA) of at least one third of the employment should be relaxed.

18.4. WORKERS' BENEFITS AND SPECIAL PROGRAMS

There is need for providing more benefits to workers and launching special support programs as follows:

- There should be the requirement of a Group Insurance Scheme to cover death or injury of workers.
- The EOBI covers 8.7 million persons currently, and old age benefits are being given to only 640,000 persons. The total value of benefits was Rs 10.7 billion few years ago. The insurance payment was Rs 11 billion by employers. The minimum pension is Rs 8500 per month.
- Therefore, the coverage of social security is very limited. The Provincial Governments may consider establishment of a pension scheme for workers in the Province. Following the transfer of the Labour function to the Provincial Governments, revenues from the Workers' Welfare Fund (WWF) should be used to finance the pension schemes at the Provincial level rather than accrue to the Federal Consolidated Fund.
- The Worker's Profit Participation Fund (WPPF) revenues should also no longer accrue to the Federal Consolidated Fund. It may be made a profit-sharing scheme at the enterprise level.
- There is need for establishing the following special programs:
 - A conditional cash transfer program through the EHSAAS Program for mothers to send their child to school rather than to work.
 - A special financing scheme to facilitate the establishment of female putting out systems in close proximity to cities.
 - A KAMYAB JAWAN Program for youth who have completed matriculation and a special program of technical/vocational education. This program will make available financing up to Rs 500,000 for a small project to such youth, subject to the presentation of feasibility report.

- Special line of credit for women entrepreneurs.
- 70% of the 'idle' male youth are in the rural areas. A Rural Employment Guarantee Scheme, like the one in India, may be started on a pilot basis in selected districts.

18.5. FISCAL INCENTIVES

Two special fiscal incentives are already in place for promoting employment, as follows:

- For relatively new enterprises, a special incentive has been provided under Section 64B of the Income Tax Ordinance (ITO) for employment generation. For every 50 jobs created, a 2 percent tax credit is admissible.
- For hiring of graduates, a tax credit has been offered under Section 64C of the ITO, equivalent to the effective tax rate applied on the graduate's salary.

Two more fiscal incentives are proposed especially for promoting female employment, as follows:

- During a particular tax year, a 10 percent tax credit on the additional wage bill of female employees.
- The income tax exemption limit be enhanced for female professionals from Rs 600,000 per annum to Rs 900,000 per annum.

18.6. IMPROVEMENT OF QUALITY OF LABOUR STATISTICS

The prime responsibility for Labour Force Surveys (LFS) is with the Pakistan Bureau of Statistics. There is need for greater cooperation with the Provincial Bureaus.

Labour Force Surveys have not been carried out in frequently, despite the rapid changes in the Labour market conditions in the country. The last survey was three years ago in 2017-18 and earlier in 2014-15. These Surveys should be undertaken once every two years.

The Labour Force Surveys should make an attempt to distinguish carefully between different types of Labour inputs, for example, between unpaid family Labour and participation in the augmented Labour force. Also, the sectoral and occupational classifications must be more disaggregated.

An attempt must be made to quantify the 'true' rate of unemployment as defined in Chapter 4 of the Report. Information should also be given on effective hourly wage rates and on membership of a trade union.

Overall, the recommendations in this final chapter of the report aim to fulfill the vision of a Social Democracy in the Constitution of Pakistan by giving due recognition to the Labour rights of the people of Pakistan.

STATISTICAL ANNEXURE

Table S-1: Trend in the Labour Force Participation Rate by Province, Location, Sex, Age and Education Level of Workers

	2001-02	2007-08	Annual Change (%)	2012-13	Annual Change (%)	2017-18	Annual Change (%)
Pakistan	43.34	45.17	0.31	45.70	0.11	44.28	-0.28
by Province							
Punjab	46.32	46.60	0.05	48.33	0.35	47.89	-0.20
Sindh	40.49	45.47	0.19	45.30	-0.03	42.27	-0.19
Khyber-Pakhtunkhwa	36.42	39.81	0.57	36.85	-0.59	35.42	-0.29
Balochistan	40.24	41.75	0.25	42.4	0.12	38.98	-0.67
by Location							
Rural	45.17	48.76	0.60	49.02	0.05	47.14	-0.38
Urban	39.91	38.58	-0.22	39.70	0.22	39.17	-0.11
by Sex							
Male	70.32	69.54	-0.13	68.99	-0.11	67.99	-0.20
Female	14.44	19.59	0.86	21.50	0.38	20.14	-0.19
by Age-Group							
10-14	12.04	13.65	0.27	11.40	-0.45	8.23	-0.63
15-24	43.42	43.77	0.06	43.55	-0.04	41.76	-0.36
25-59	57.29	60.36	0.51	62.16	0.36	59.86	-0.46
60 and above	38.96	42.76	0.63	38.61	-0.83	35.80	-0.56
by Education Level							
Illiterate	42.20	47.72	0.92	48.70	0.20	47.01	-0.34
Up to Matric	41.74	40.39	-0.16	41.00	0.12	38.57	-0.49
Intermediate	52.94	49.67	-0.54	46.70	-0.59	46.54	-0.03
Degree & Post-Graduate	70.42	67.33	-0.52	65.89	-0.29	67.95	0.52

Source: LFS

Table S-2: Trend in the Unemployment Rate by Province, Location, Sex, Age and Education Level of Workers							
	2001-02	2007-08	Cumulative Change (%)	2012-13	Cumulative Change (%)	2017-18	Cumulative Change (%)
Pakistan	8.27	5.20	-3.07	6.24	1.04	5.78	-0.46
by Province							
Punjab	8.51	5.54	-2.97	6.38	0.84	5.97	-0.41
Sindh	5.15	3.10	-2.05	5.24	2.14	4.92	-0.32
Khyber-Pakhtunkhwa	13.09	8.62	-4.47	8.57	-0.05	7.16	-1.41
Balochistan	7.76	2.78	-4.98	3.93	1.15	4.09	0.16
by Location							
Rural	7.55	4.71	-2.84	5.08	0.37	5.03	-0.05
Urban	9.80	6.34	-3.46	8.83	2.49	7.23	-1.60
by Sex							
Male	6.69	4.31	-2.38	5.41	1.10	5.07	-0.34
Female	16.50	8.52	-7.98	9.03	0.51	8.27	-0.76
by Age-Group							
10-14	16.46	8.95	-7.51	11.70	2.75	9.28	-2.42
15-24	13.56	7.78	-5.78	10.60	2.82	11.01	0.40
25-59	4.81	3.17	-1.64	4.01	0.84	3.64	-0.37
60 and above	13.34	12.55	-0.79	7.30	-5.25	4.42	-2.88
by Education Level							
Illiterate	7.63	4.93	-2.70	4.70	-0.23	3.26	-1.44
Up to Matric	8.83	5.35	-3.48	6.73	1.38	5.09	-1.64
Intermediate	10.05	6.98	-3.07	9.58	2.60	11.59	2.01
Degree & Post-Graduate	8.67	4.85	-3.82	10.61	5.76	16.30	5.69
Source: LFS							

Table S-3:	Level and Growth of Employment by Sector and Sectoral Employment Elasticity with respect to Output						
	2001-02	2007-08	ACGR (%)	2012-13	ACGR (%)	2017-18	ACGR (%)
Agriculture	16.68	22.52	5.00 (1.47)*	24.73	1.87 (0.79)	23.76	-0.80 (-0.42)
Manufacturing + Mining	5.51	6.61	3.03 (0.34)	8.03	3.89 (3.21)	10.05	4.49 (0.98)
Construction	2.40	3.18	4.69 (0.52)	4.21	5.61 (-3.86)	4.70	2.20 (0.25)
Transport & Communication	2.34	2.75	2.69 (0.58)	2.82	2.72 (0.74)	3.50	4.32 (1.11)
Wholesale and Retail Trade	5.89	7.38	3.76 (0.45)	8.14	1.96 (1.66)	9.21	2.47 (0.49)
Community, Social and Personal Services**	6.82	8.01	2.68 (0.41)	8.65	1.54 (0.27)	10.49	3.86 (0.56)
TOTAL	39.64	50.45	4.01 (0.67)	56.58	2.29 (0.83)	61.71	1.74 (0.38)

*Employment elasticity with respect to output
**including Banking and Finance
Source: PES, MOF | National Income Accounts, PBS

Table S-4:	Growth in Informal and Formal Sector Employment						
	2001-02	2007-08	Growth Rate (%)	2012-13	Growth Rate (%)	2017-18	Growth Rate (%)
Formal Sector	8.1	7.8	-0.6	8.1	0.8	10.6	5.4
Informal Sector	14.8	20.9	5.8	23.2	2.1	27.3	3.2
TOTAL	22.9	28.7	3.8	31.3	1.7	37.9	3.8

Source: MOF

Table S-5:	Growth in Number of Workers by Employment Status						
	<i>(million)</i>						
	2001-02	2007-08	Growth Rate (%)	2012-13	Growth Rate (%)	2017-18	Growth Rate (%)
Employer	0.3	0.4	4.8	0.7	11.2	1.5	15.2
Self-Employed	15.2	16.8	1.7	18.8	2.2	19.5	0.7
Unpaid Family Worker	8.2	14.2	9.2	14.8	0.8	7.9	-12.5
Employees	15.9	17.7	1.8	21.7	4.1	32.8	8.3
TOTAL	39.6	49.1	3.6	56.0	2.6	61.7	1.9

Source: MOF

Table S-6:	Growth in the Number of Workers by Occupation			
	<i>(million)</i>			
	2012-13*	Growth Rate (%)	2017-18	Growth Rate (%)
Managers	1.3		1.4	1.5
Professionals	2.4		3.1	5.1
Technicians and Associate Professionals	1.7		2.4	6.9
Clerical Support Workers	0.8		0.9	2.4
Service and Sales Workers	8.7		10.0	2.8
Skilled Agricultural Workers	21.1		19.5	-1.5
Craft and Trade Workers	8.2		9.0	1.9
Plant and Machine Operators and Assemblers	2.7		4.2	8.8
Elementary Occupations	9.1		11.1	4.0
TOTAL	56.0		61.7	1.9

**Earlier years have not been analyzed due to serious problems with the classification.*

Source: LFS

Table S-7:	Distribution of Workers by Number of Hours Worked						
	<i>(million)</i>						
	2001-02	2007-08	Growth Rate (%)	2012-13	Growth Rate (%)	2017-18	Growth Rate (%)
0 – 14 hours	0.9	1.1	3.3	1.5	6.2	1.1	-6.2
15 – 39 hours	8.6	12.7	6.5	15.6	4.1	15.8	0.3
40 – 55 hours	18.4	21.5	2.6	23.7	1.9	28.2	3.5
56 hours and above	11.7	13.8	2.8	15.2	1.9	16.6	1.8
TOTAL	39.6	49.1	3.6	56.0	2.6	61.7	1.9

Source: LFS

Table S-8:	Growth in Real Wages of Workers by Occupation			
	2008-09 Nominal	2017-18		Growth Rate (%)
	Nominal	Real*		
Managers	18611	56944	30209	5.4
Professionals	15367	31536	16729	0.9
Technicians and Associate Professionals	9878	26764	14198	4.0
Clerical Support Workers	10903	27712	14701	3.3
Service and Sales Workers	6888	16865	8946	2.9
Skilled Agricultural Workers	6186	17635	9355	4.6
Craft and Trade Workers	6411	15885	8247	3.0
Plant and Machine Operators and Assemblers	7149	17539	9304	2.9
Elementary Occupations	5305	12770	6774	2.7

Source: LFS

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