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COVID-19 and social protection in South Asia: Pakistan[1]

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The COVID-19 pandemic and its economic ramifications are posing an unprecedented challenge to countries' social protection systems. Informal workers are particularly at risk during the current crisis, as they often represent the 'missing middle', covered by neither social assistance nor social insurance. In a recent policy brief, the International Policy Centre for Inclusive Growth and the United Nations Children's Fund Regional Office for South Asia (IPC-IG and UNICEF ROSA 2020) analyse the economic fallout from the crisis and the policy measures taken in eight South Asian countries, and advocate for the inclusion of the missing middle in the mainstream social protection landscape. This One Pager summarises the study's findings for Pakistan.

Pakistan has been hit hard by the pandemic. Insufficient medical capacity and a vulnerable economic starting position, with a structural adjustment programme under the International Monetary Fund's Extended Fund Facility undertaken as recently as 2019, have exacerbated the strain of the crisis. In response to surging infection rates, particularly in the urban slums of Karachi and Lahore, the government imposed a full lockdown in late March that has been gradually lifted since 9 May under the imperative of saving livelihoods. Due to ever-rising case numbers, this decision is contested, and lockdowns have been re-imposed locally.

Pakistan's large informal economy contributes almost a third of gross domestic product (GDP), and informal arrangements make up over 80 per cent of total employment. Wholesale and retail trade and the labour-intensive manufacturing sector are being hit by both supply and demand shocks and together comprise 18.5 million significantly affected informal workers. Due to the crisis, the Pakistani economy is forecasted to contract by 2.6 per cent in the financial year 2019-2020 and again by 0.2 per cent in the financial year commencing in July 2020, both significant downward revisions of pre-crisis estimates. Due to this economic downturn, extreme poverty could increase by as much as 1.47 percentage points. Most of these up to 3 million people newly living in poverty would be informal workers, many of whom are not covered by mainstream social protection, which either focuses on targeting the poorest quintile (social assistance schemes such as Ehsaas Kafaalat) or only covers a small, relatively well-off minority comprising those formal-sector employees entitled to social insurance. For example, only 3.5 per cent of people of working age contribute to a pension scheme in Pakistan.

To protect livelihoods and the economy during the lockdown, the government passed a policy package worth 3.5 per cent of GDP. On the monetary side, the central bank has cut the policy rate by a total of 5.25 percentage points and has put in place more flexible and expanded credit provisions for individuals and firms. On the fiscal side, Pakistan has introduced a number of interventions, many pertaining to social protection. Most notably, it has introduced the Ehsaas Emergency Cash (EEC) programme, covering 5 million existing *Ehsaas Kafaalat* beneficiaries and 11.9 million new, temporary beneficiaries who were either uncovered or ineligible before the pandemic. Identified through an SMS campaign, many of the new beneficiaries are daily labourers and informal workers who lost their livelihoods during the crisis. As such, many of them belong to the missing middle. All beneficiaries receive 4 months' worth of cash benefits upfront at biometric payment points, corresponding to 15 per cent of average household income of the poorest quintile.

Looking beyond the current crisis, it is clear that Pakistan's social protection system must change further to guarantee adequate coverage consistent with a rights-based, universal notion of social protection.

To safeguard minimum social security in the face of idiosyncratic or covariant shocks, Pakistan should consider expanding its social protection floors to cover the missing middle, mostly comprising non-poor informal workers. Universal child benefits and expanded social assistance to the (marginally) non-poor population are promising policy tools not yet employed.

As the poverty score card survey used for social assistance targeting sees its first update in 10 years in 2020, lessons from the crisis should be applied to allow for easy updating, shock-responsive enrolment and broad coverage of social assistance schemes. Registration for the EEC has shown that swift, demand-based and digital expansion of social assistance schemes is possible, and registries can be kept up to date irrespective of survey coverage and frequency.

The 11.9 million newly identified beneficiaries provide a unique opportunity to integrate large numbers of the missing middle into the social protection landscape. Their registration for the EEC should also provide the impetus for large-scale financial inclusion efforts.

Social insurance is currently only accessible to public servants or those in larger formal-sector enterprises. Resolving adverse incentives for employers to hire workers informally to avoid both Employees' Old-Age Benefits Institution (EOBI) pension contributions and severance payments (in lieu of unemployment insurance) could make social insurance more inclusive and drive the formalisation of semi-dependent employment relationships.

There is promise in the expansion of pension schemes such as the EOBI to the informal sector and making voluntary schemes such as the Voluntary Pension System (more) inclusive of earners of lower or informal incomes. Promoting the easy uptake of these schemes could expand social insurance coverage, especially among self-employed people. Furthermore, their registries can be used for shock-responsive vertical expansion of benefits.

Reference:

IPC-IG and UNICEF ROSA. 2020 (forthcoming). *Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia*. Research Report. Brasília: International Policy Centre for Inclusive Growth.

Note:

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