



Pakistan

**Sustainable Economic Growth,
Employment and Human Resource Development**

**Ministry of
Labour, Manpower and Overseas Pakistanis
(Policy Planning Cell)**

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Sustainable Economic Growth, Employment and Human Resource Development¹

I. Introduction

Creating conditions conducive for decent employment generation, poverty reduction and human resource development – mostly on the backseat in the past development pursuits for decades and largely addressed through isolated, ad-hoc and uncoordinated measures – of late is receiving increasing attention in Pakistan. The situation today is reflective of a sea-change. The current policy focus is on employment and poverty reduction outcomes of macro and sectoral policies, and budgetary allocations. Recognizing the centrality of employment in economic and social policy making has also led to a greater focus on raising productivity as well as technical and vocational competence of the workforce.

Pakistan's current Medium Term Development Framework 2005-10 (MTDF) and Poverty Reduction Strategy (PRSP-I) have been prepared in line with these developments. The MTDF stresses on creating a just and sustainable economic system for reducing poverty and achieving the Millennium Development Goals (MDGs) by the target year of 2015. It incorporates a paradigm shift towards enhancing competitiveness not only by means of higher investments but also through knowledge inputs to maximize total factor productivity (TFP) [GOP (2005 & 2003)].

The Pakistan economy recorded a 6.6 percent growth in GDP in 2005-06, despite negative exogenous shocks of the earthquake that hit parts of the country in October 2005 causing extensive human and physical damage², and a 35 percent rise in the average price of international crude oil, demonstrates its resilience. Indeed the economic upturn sustained is reflected in the GDP growth rate averaging 7 percent in the last four years. The economic growth attained in the first instance resulted from better capacity utilization of the existing capital stock but macro stability and economic growth have both now spurred both private and foreign investment. This phenomenon is reflected in a large increase in imports of capital goods for both the domestic and export sectors. Industrial sector growth remains strong, while services sector particularly banking and insurance sub-sectors continues to be high. In the agricultural sector, livestock supported by major crops is taking the lead.

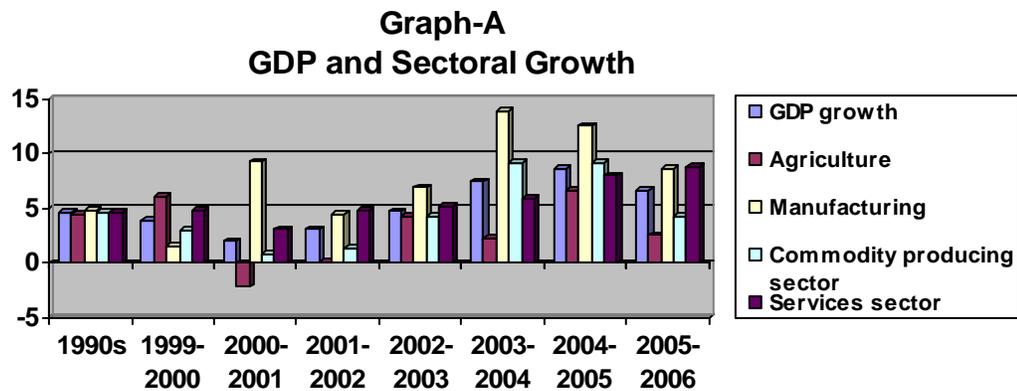
¹ Pakistan country paper prepared by Sabur Ghayur, Chairman, Policy Planning Cell (PPC), Ministry of Labor, Manpower and Overseas Pakistanis (MOLMOP) for the ILO's Governing Body Employment and Social Policies (ESP) Committee meeting of March 2007. Necessary technical support provided by Zafar Mueen Nasir and Mansoor Zaib Khan respectively Director Policies and Assistant Director, PPC and Raja Faizul Hasan Faiz, Central Labor Advisor, MOLMOP is highly acknowledged. Extremely useful comments in finalizing the paper by the Secretary, MOLMOP - Malik Asif Hayat - are thankfully acknowledged. This paper is also improved on the basis of comments received from Planning Commission, Ministry of Women Development, Employers Federation of Pakistan and Pakistan Workers Federation.

² The ILO provided continuous support in undertaking analysis of the loss of jobs and putting in place programs to support job creation and skills development in the earthquake affected areas which are on-going.

This growth is also accompanying higher households' income and reduction in poverty. The per capita income rose to US\$847 in 2005-06; up from \$742 in the preceding year. The real per capita GDP has risen 5.6 percent per annum on average in rupee terms in the last few years. This has resulted into a rise in average income as well as emergence of a middle class with purchasing power. Consequently, there is a sharp increase in consumer spending and as opposed to an average annual increase of 1.4 percent during 2000-2003 real private consumption expenditure grew by 13.1 percent in 2004-05 and by 8.1 percent in 2005-06 [GOP (2006)]³. Higher consumer spending feeding back into economic activity is likely to support growth momentum⁴.

This economic growth has had a favorable impact on the labor market. Rising unemployment - reaching its peak of 8.3 percent in 2001-2 - has been arrested. The downturn in the unemployment rate, *albeit* slowly, is now being sustained for over the past few years. Faster economic growth and employment generation has also accompanied higher households' income and reduction in poverty. The poverty incidence during 2001-2005 declined by about 10 percentage points; the World Bank estimate of poverty incidence in 2001 was 34.5 percent declining to around 24 per cent in 2004-05 [World Bank (2006 a)].

These developments have led into credence that the turn around in the economy is sustainable and economic growth is robust, see Graph-A.



There is a wider optimism in the second generation reforms sustaining both the growth trends as well as sliding unemployment. It is also seen in line with consistent, participative and predictable policies. Recent years witnessing macro-economic consolidation have now turned the policy focus on “growth consolidation” in the medium

³ Relatively slower growth in consumption in 2005-06 is mainly the result of inflationary pressure in the economy, GOP (2006)

⁴ This extra-ordinary rise in consumer spending appears to have contributed in part to building inflationary pressures in Pakistan.

term, while the long term “Vision-2030” is envisaging Pakistan a “developed, industrialized, just and prosperous country through rapid and sustained development in a resource constrained economy by developing knowledge inputs”. The MTDF stresses on a just and sustainable economic system for reducing poverty and achieving MDGs by the target year of 2015⁵.

These important and encouraging developments notwithstanding, the policy makers are fully aware of the current labor market and human resource development challenges, and the need to effectively integrate “decent” employment within the macro-economic framework, setting sectoral priorities and allocation of resources. Economic growth in recent years has been able to absorb the increase in the labor force. However, high and rising growth of the labor force of about 3.5 percent - pushed up by increasing labor force participation rate (LFPR) especially of females - is an important factor in creating conditions for decent employment generation. Policy makers are aware of the declining labor absorptive capacity of the economy especially in the manufacturing sector - largely attributed to the labor-saving technological changes⁶.

Thus, the area receiving increasing attention is the need to put in place concrete policy measures and targeted programs for improving key labor market indicators with generating decent employment of the workforce being central to them. The areas raising concerns are: i) existence of underutilized labor as manifested in the form of an estimated three and half million unemployed, ii) less remunerative and low productive work affecting a sizeable workforce, iii) absence of a universal formal social security system, iv) poor working conditions, and v) low vocational and technical competence of the workforce. These are the different labor market indicators that are now being increasingly looked into in terms of effecting improvements.

Attempts are underway to strengthen and streamline, and improve coordination of the institutional machinery catering for different aspects related to human resource development and utilization (HRDU). A functioning Cabinet Committee on HRD, the establishment of a “National Vocational and Technical Education Commission” (NAVTEC) and the establishment of a “Policy Planning Cell” (PPC) in the Ministry of Labor, Manpower and Overseas Pakistanis to prepare national policies in the area of employment, migration, human resource development and developing a system of labor market information and analysis are the important steps in this direction.

This report is structured as follows. The introductory section is followed by a discussion on “from macro-economic instability to stability” achieved and sustained in the country in section II. An overview of labor market situation appears in section III, while Pakistan’s employment generation strategy is documented in section IV. This is followed by a discussion on enhancing vocational and technical competence as well as steps for the

⁵ The overall MTDF target for poverty reduction is 21 per cent by 2010, within the framework of the MDG target of 13 per cent by 2015.

⁶ The consumption boom in recent past fuelled by cheaply available credit and favorable leasing arrangements led to a high growth rate in the automobile and other durable goods sector, which being capital-intensive, did not help in direct job creation.

human resource development in section V. The important area of gender mainstreaming is taken up in section VI. This is followed by a discussion on SMEs promotion and enterprise development in section VII. The labor market policies are elaborated in section VIII. Conclusions and the way forward appear in section IX.

In analyzing different key areas, an attempt has been made to bring out the contribution of the Global Employment Agenda (GEA) framework, both explicitly and implicitly, in: i) employment policy making, ii) use of its key elements in devising macro, labor market and sectoral policies for accelerating the process of generating decent employment in the economy, see Box-1.

II. From Macro-economic Instability to Stability⁷

Macroeconomic instability - a rise in one or more indicators, such as: inflation rate, overall deficit to GDP and external debt to GDP ratios - is at variance with the goal of increasing productive economic activities that generate decent employment with greater private sector participation. The opposite was true in 1990s and macroeconomic imbalances were attributed to large fiscal and current account deficits, and the associated build up of public and external debt.

Failures to enhance revenues commensurate with growing expenditures coinciding with stagnating exports and declining foreign exchange

inflows - far short of foreign exchange payment requirements - had exacerbated macro-economic imbalances. These imbalances had far-reaching impact on the country's economic and social well-being. No wonder, Pakistan witnessed economic growth slowing down, investment rates decelerating, debt burden reaching alarming proportions, foreign exchange reserves barely enough to meet import requirements of few weeks, exports stagnating and, above all, increasing unemployment and surging poverty.

Indeed a daunting task tackled by four major policy initiatives: i) stabilizing debt situation with a view to restoring macro-economic stability, ii) reviving economic growth, iii) reversing the trend of increasing unemployment and poverty, and iv)

Box-1

Key Elements of the Global Employment Agenda (GEA) Reflected in Pakistan's Employment Generation and Skills Development Strategy

- Making employment central in economic and social policy making,
- Emphasis on both the quantity and quality of jobs generated in the economy,
- Increasing employment intensity of growth and creation of decent employment through appropriate macro, trade, labor market and sectoral policies,
- Strengthen institutions to create an efficient and equitable labor market,
- Active involvement of employers' and workers' organisations and civil society in formulation of employment policy,
- Create favourable conditions for growth of the private sector especially SMEs and other labor absorbing sectors,
- Create a competitive and productive world class labor force, and
- Strengthen institutional machinery for employment policy making, HRD and monitoring labor market development.

⁷ GEA Core Element 4.

improving governance. These were seen as interconnected. A rising debt burden leading to higher debt servicing, for example, was consuming more than three-fifths of government revenues. Thus, curtailing public sector investment – more so of the much needed public sector development programs. This also resulted into a slide in private sector investment. Declining economic growth, an obvious outcome, led into a rise in unemployment and poverty. Poor governance also had a share in this malaise. Thus, the situation clearly warranted introduction of a comprehensive set of economic stabilization and structural reforms together with measures on improving governance.

Reducing fiscal and current account deficits with a view to minimizing aggregate imbalances, and building up foreign exchange reserves with a view to strengthening shock absorbing capacity of the economy were the key objectives of stabilization policies. Cognizant of the fact that stabilization alone does not guarantee growth; it was supplemented by wide-ranging structural reforms spearheaded by deregulation, privatization and liberalization.

Monetary Policy

The Central Bank - State Bank of Pakistan (SBP) - has taken a number of steps to strengthen the financial sector. The easy and accommodative monetary policy stance that had been pursued during the last few years and which stimulated economic growth has undergone considerable change. In order to arrest the rising trend in inflation, the SBP changed its monetary policy stance to aggressive tightening in April 2005 but continues to strike a balance between promoting growth and controlling inflation as well as maintaining a stable exchange rate regime.

Fiscal Policy

A sound fiscal policy is essential for preventing macro-economic imbalances and realizing the full growth potential; a lesson clearly learnt by going through serious macro-economic imbalances in the 1990s mainly on account of its fiscal extravagance. Considerable efforts have been made to inculcate financial discipline; hard earned macro-economic stability is underpinned by fiscal discipline.

External Sector

Years of strong economic growth strengthening domestic demand and triggering a consequent pick up in investment spending, has led to a massive surge in imports. Sound macro-economic policies coupled with wide-ranging structural reforms, particularly in the areas of trade and tariff helped Pakistan double its exports in seven years.

Domestic Demand

Pakistan's per capita income has doubled in last few years; reaching US\$847 in 2005-06. This has led to a sharp increase in consumer spending. The economy is undergoing structural shifts that are fueling rapid changes in consumer spending patterns. The booming middle class is increasingly becoming a dominant force in economic activities.

Foreign Direct Investment

Macro-economic stability, strong and sustained economic recovery, and a rising domestic demand are making Pakistan an attractive destination for foreign investment. Foreign investors are not only actively participating in the privatization program but entering into

the “green-field” projects. Important sectors include: telecom, energy (oil, gas and power), financial services, trade, construction, chemicals, food and personal services.

II.1 Some Milestones

The rigorous pursuit of structural adjustment and stabilization program has enabled economy to move from “instability to stability”. Some of the milestones in this regard are:

- The revenue deficit⁸, 2.2 percent of GDP in 2000-01, has almost been eliminated in 2005-06. The primary balance⁹, surplus from 2000-01 to 2004-05, has entered into deficit zone in 2005-06, though the number is small (*0.2% of GDP*)¹⁰,
- During the last seven years, tax collection has increased by 130.0 percent. The share of indirect taxes declined from 82 percent in 1990-91 to 69 percent in 2005-06,
- A substantial decline in interest payments from as high as 7.5 percent of GDP in 1998-99 to 3.1 percent of GDP in 2005-06,
- Public debt burden declined from 85 percent of GDP in 1999-2000 to 54.7 percent in 2005-06,
- The external debt and liabilities declined by US\$ 2.4 billion in seven years; down from \$ 38.9 billion at the end of the 1990s to \$36.5 billion by end-March, 2006. External debt and liabilities as percentage of GDP which stood at around 52 percent in end-June 2000, declined to 28.3 percent in end-March 2006. Similarly, the external debt and liabilities as percentage of foreign exchange earnings was reduced from 335.4 percent in 1998-99 to 127.6 percent by end-March 2006, and
- The country received over US\$ 3 billion of FDIs in 2005-06 – highest ever and expects to end the current fiscal year 2006-07 with about 6 billion FDIs.

A fiscal space created led into re-orientation of expenditure in favor of development expenditure. This can be gauged by the fact that the share of current expenditure in total expenditure declined from 89 percent of total expenditure in 1998-99 to 78 percent in 2005-06, thus providing the much needed fiscal space for the development expenditure. The share of development expenditure improved from 2.2 percent of GDP in 2000-01 to 4.2 percent of GDP in 2005-06; it is likely to make a further jump to 4.7 percent of GDP in 2006-07. This helped in a simultaneous focus on addressing (large) social and gender gaps, poverty and unemployment.

III. Overview of the Labor Market Situation

The most significant labor market development relates to declining unemployment *albeit* slowly. The open unemployment rate that peaked in 2001-02 and reached an alarming 8.3 percent started declining since then.

⁸ Revenue deficit is the difference in total current expenditure and total revenue.

⁹ Primary balance is the difference between total revenue and non-interest total current expenditure.

¹⁰ Under the Fiscal Responsibility and Debt Limitation Act 2005, the government was bound to eliminate revenue deficit by 2007-08. This target has almost been achieved two years in advance.

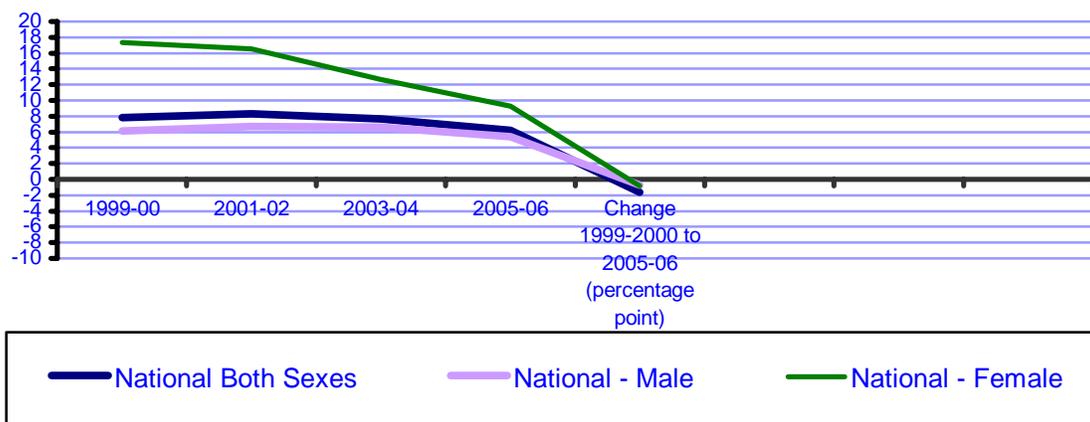
This downward trend is being sustained and unemployment in 2005-06 was 6.2 percent. The decline in unemployment is more pronounced amongst females which has almost halved over the last six years, see Table-I and Figure-A.

Table-I
Unemployment Rate (%)

Pakistan	1999-2000	2001-2002	2003-2004	2005-2006
National	7.8	8.3	7.7	6.2
Males	6.1	6.7	6.6	5.4
Females	17.3	16.5	12.7	9.3

Source: Labor Force Surveys (LFSs); different years.

Figure-A
Unemployment Rate (%)



The decline in unemployment has occurred despite an increasing participation of the labor force especially of females in the labor market. It may, however, be highlighted that the labor force participation rates (LFPRs) are low; even lower for women. This low LFPR nevertheless is being seen as a huge reservoir of women and men that can be effectively tapped for economic and productivity growth if appropriately skilled.

Some developments of significance in recent years are:

- A rising LFPR,
- The LFPR rising for males and females as well as in rural and urban areas,
- A rising women LFPR both in urban and rural areas,
- Women LFPR rose significantly in rural areas,
- About a-quarter of women in rural areas are active in the labor market, and
- Women LFPR in urban areas has increased only marginally and about a-tenth of them are active in the labor market.

The major sector of employment generation remains “agriculture” that now accounts for about two-fifths of employment. The manufacturing and services sectors are picking up.

Transport, construction and trade are important in terms of employment. The finance sector has significantly increased its labor absorption.

III.1 Monitoring Labor Market Trends

Effectiveness of an employment policy is crucially linked with sufficiently available, reliable and disaggregated information on the employed and unemployed.

Realizing the importance of such information and regular monitoring of the developments in the labor market, the Federal Bureau of Statistics (FBS) has started conducting Labor Force Surveys (LFSs) on a quarterly basis. The quarterly reports – mainly in the form of summary tables – are now providing important insights on labor market indicators. These can be used in ascertaining employment outcome of policies and more so of the “targeted” programs.

The Government is currently addressing itself as how best the existing system can be strengthened and reformed. Thereby putting in place a labor market information system (LMIS) catering simultaneously for the collection of labor market information, labor market diagnosis/monitoring and labor market intermediation in a participative and cost effective manner and capable enough to monitor labor market developments at the local, at least district, level. The PPC Cell of the MOLMOP is currently elaborating an institutional framework for the LMIS as a part of its “employment policy” currently under preparation, The MOLMOP has also initiated a project for better monitoring and analysis of the labor market¹¹, see Box-2.

Box-2 Better Monitoring and Analysis of the Labor Market

The Ministry of Labor, Manpower and Overseas Pakistanis initiated a project on “labor market information and analysis (LMIA)”. This project is expected to generate important insights and analytical tools on how best a LMIS is developed that integrates governmental machinery, data generating agencies, employers’ and workers’ organizations, local bodies, and education and training institutions.

The project will include publication of regular labor market reports (first to be published in March 2007 and a chapter on policy issues contributed by the PPC), organization of existing data and information (including at the district level), developing improved set of labor market indicators, development of database structure and software, dissemination of tools and training of staff members of the LMIA Unit.

III.2 Key Challenges

The labor market situation is being looked into the context of the twin challenge that confronts the country. The first is the creation of work opportunities to a level that is at least commensurate with absorbing fresh entrants into the labor market; their number increasing due to high rate of growth of the labor force. This has to be accompanied with the creation of conditions for “decent work” thus focusing on the quality of jobs and work opportunities that are being generated in terms of income, productivity, better

¹¹ The ILO is providing technical support to this project.

working conditions and respect for fundamental rights at work. The second relates to tackling the low absorptive capacity and declining employment elasticity of the economy posing indeed a serious challenge to policy makers.

Looking at the employment status of the employed, the situation warrants an adequate response to ensure decent work. The employed overwhelmingly: i) are concentrated in the informal sector, ii) lack sufficient work, and iii) more than half of the newly employed are characterized as “under employed”.

Public sector employment – a source of employment for a significant part of the workforce - in the wake of reforms, adjustments and down-sizing continues to be reduced. Its size has declined by more than half a million over a five year period (1996-97 – 2001-02) and now absorbs 5.81 million of the employed work force i.e. less than 10 percent.

IV. Pakistan’s Employment Generation Strategy

Cognizant of the fact that sustainability of development efforts are crucially linked with the availability of decent work opportunities for able and willing to work adults, the employment strategy incorporates all elements needed towards the attainment of this goal. These elements are identified as:

1. economic governance, macro-economic stability and second generation reforms,
2. institutional reforms, deregulation and privatization,
3. creation of conditions that sufficiently motivate private sector and attracts foreign investors to actively participate in economic activities,
4. building and strengthening of physical infrastructure,
5. HRD, and enhancing vocational and technical competence of the workforce and population,
6. gender mainstreaming,
7. strengthening of SMEs and developing entrepreneurship,
8. designing of “targeted” programs particularly for women and youth, and
9. labor market policies and institutions.

We have discussed “1-3” in section II above and take up “5-8” separately in subsequent sections. Hence, this section besides discussing the employment strategy also takes up “4”.

IV.1 Employment Strategy: MTFD 2005-10

Reducing the overall unemployment rate to 4 percent in 2009-10 from around 7 percent in 2004-05 is the target aimed in the MTFD 2005-10. Hence, the rate of employment growth is planned to be higher than the growth in the labor force with 6.89 million additional work opportunities targeted during the MTFD in order to absorb the incremental labor and also to reduce the backlog.

High pro-poor growth, social development, good governance and protection of vulnerable are the four basic themes of the employment and poverty reduction strategy of the MTFD. It aims at achieving employment oriented pro-poor growth by accelerating productive economic activities. Expansion of employment opportunities in agriculture, SMEs, and housing and construction that provide employment to the poor segments of

the society are the key instruments. Targeted public support-programs (“Tameer-e-Pakistan” and “Khushal Pakistan”) aim at income and employment generation. Draught relief also forms an important component of targeted programs. Micro-credit for agriculture, small and micro enterprises, disaster management (and preparedness), social protection, and HRD including education, health and nutrition - all targeting income, employment and poverty reduction. It is important to point out that formulation of MTFD and PRSP-I preceded a number of analytical studies and wide ranging consultations¹², see Box-3.

Box-3

Analytical Studies and Participatory Approach in the Formulation of MTFD 2005-10 and PRSP-I

The Centre for Research on Poverty Reduction and Income distribution (CRPRID), Planning Commission carried out a number of studies to assist in the formulation of the employment strategy for the MTFD 2005-10 and PRSP-I. The studies also produced a number of policy recommendations that were reflected in the federal budget for 2003-04 and PRSP-I. In the 2003-04 budget, for example, the Government placed special emphasis on creating new employment opportunities by 30 percent increase in the development budget and outlining a number of measures to encourage growth of employment-intensive sectors, such as: housing and SMEs. The PRSP recognized the centrality of employment generation for poverty alleviation.

A number of tripartite workshops were held in Islamabad and the provincial capitals in which policy measures were debated and concrete recommendations adopted. The employers’ and workers’ groups actively participated and submitted written reports which were discussed at these meetings.

IV.2 Employment in the PRSP

The PRSP highlights that economic growth must emanate from sectors that have greater potential to generate employment. In addition, it recognizes the need for targeted interventions for quick relief for the creation of short-term employment opportunities. The strategy also stresses development of supporting infrastructure – ports, roads and highways, railways and aviation as a catalyst for economic activities and employment growth. The rural development strategy focuses on raising productivity and incomes, among others, through i) investment in water infrastructure and efficient water management, ii) corporate agricultural farming, iii) livestock farming – a source of income of small farmers and landless livestock producers, and iv) targeted programs for boat less fishermen.

Some other important supporting elements of the employment strategy in the PRSP are:

- Conduct a review of labor regulations and laws that constrain competition and/or impose high and unnecessary compliance costs;
- A business environment that is supportive of small and medium enterprises;
- Availability of a technical education/vocational training institution in each districts through area-specific skill programs,

¹² The ILO provided support in strengthening the capacity in employment and labor market analysis.

- Developing a demand driven public sector technical education and vocational training (TEVT) system through active involvement of the private sector,
- Targeting women income and employment through skills and entrepreneurship development, and access to credit; in particular micro-credit, and
- Elimination of child and bonded labor.

IV.3 National Employment Policy and Action Plan

To ensure that the high priority and focus on the creation of decent employment as outlined in the MTFD and PRSP-I are translated into key policy action, the MOLMOP together with the social partners has been actively involved in the formulation of a National Employment and Skills Development Policy.

To discuss the main elements of the National Employment and Skills Development policy, the Ministry of Labor, Manpower and Overseas Pakistanis together with the ILO organized a national tri-partite forum with high level participation from key Ministries, repetitive of employers and workers, concerned NGOs and academics. The Forum was inaugurated by the Prime Minister of Pakistan H.E: Mr. Shaukat Aziz who emphasized the importance of developing a highly skilled and competitive workforce to meet the challenges of globalization.

The Plan of Action adopted by the Forum drew upon the GEA framework and elaborates the following areas¹³:

- Strengthening vocational and technical competence of the workforce,
- Accelerating employment, income and productivity growth by encouraging growth in high labor absorption sectors,
- Active labor market policies including for productive re-absorption of displaced workers, setting up public employment services and support for women entrepreneurship development,
- Employment and labor market monitoring, analysis and feedback, and
- Setting up an efficient and equitable labor market including review of minimum wages.

IV.4 Decent Employment and Raising Demand for Labor¹⁴

Agricultural Sector

In the agricultural sector, self reliance in commodities, food security improved productivity of crops as well as development of livestock and dairy – all employment and income augmenting – are being supported in terms of: i) development of new technologies ii) efficient use of water – precision land leveling and high efficiency irrigation system, iii) promoting production and export of high value crops, iv) creating necessary infrastructure and enabling environments, and iv) ensuring availability of agricultural credit.

¹³ For papers, proceedings, recommendations and action plan of the Forum, see Ghayur (2006 & 2006a).

¹⁴ Core element 5 and 10 of the GEA.

Manufacturing

A national plan of action for rapid industrial growth through industrial technology development is launched for accelerated industrialization and enhancing total factor productivity (TFP). A number of industrial estates are being set up with common technology centers (CTCs). Industrial corridors (ICs) and specialized industrial zones (SIZs) - with full support of Federal Government - are being set up by the provincial governments along motorways, expressways and railways.

Public Works Program

Public works program - small public works schemes - under “Tameer-e-Pakistan” and “Khushhal Pakistan” are important initiatives. The “Tameer-e-Pakistan” program has been designed to contribute in expanding employment by undertaking small public works schemes, such as: farm to market roads, water supply, sewerage, garbage collection, culverts and village electrification.

The “Khushhal Pakistan” program, launched in 2000, is aiming job creation particularly through labor intensive public works programs. It is meant for creating employment in rural areas by: i) skill training for self employed, ii) micro financing, iii) village level small infrastructure, iv) agriculture including livestock development, v) primary education, and vi) health care. This program is designed to provide essential infrastructure in rural and low-income urban areas by building farm-to-market roads, water supply schemes, repairing existing schools, small rural roads, streets, drains, and storm channels in villages. The schemes under the program are also directed towards lining watercourses, desilting canals and providing civic amenities in towns, municipal committees and metropolitan corporations. The local communities are involved in identifying, planning, designing and implementing schemes under the program. Through this program 3.2 million households living in 2,000 rural union councils across Pakistan are expected to benefit.

Housing

There is a shortage of 6.0 million houses in the country. The construction sector demonstrates largest employment linkages in the country; nearly 40 industries are linked with construction related activities. With employment elasticity at 0.60 and targeted growth rate ranging from 6.0 to 8.0 percent during the medium term, housing is being used in reducing the housing shortage, giving a boost to about 40 industries linked with construction and housing, and increasing fairly dispersed employment and income opportunities.

Targeted Measures/Programs

The Government launched in February 2007 a “National Internship Program” (NIP) for the unemployed having a Masters degree or 16 years of education with the twin purpose of tackling unemployment amongst the highly educated and providing them an opportunity of experience of working in its different departments as well as public sector organizations for a year.

The President’s “Rozgar Scheme”, launched in 2006, aims to provide employment opportunities to the unemployed in the age group of 18-40 years and having a minimum secondary school certification (Matriculation). This condition of minimum qualification is exempted for the females. This scheme is being implemented by the National Bank of

Pakistan (NBP). The NBP has developed a range of products with a brand name of "NBP KAROBAR". Half of the mark-up rate of 12 percent will be borne by the Government.

The Pakistan Poverty Alleviation Fund (PPAF) of US \$100 million has been entrusted to promote targeted micro financing and micro credit schemes. The SME Bank is financing small-scale activities under the "Hunarmand Pakistani" scheme with a focus on: i) auto parts, ii) auto looms, iii) carpet weaving, iv) CNG kits, v) CNG pumps, vi) cutlery, vii) fisheries, viii) furniture making, ix) hand looms, x) fan industry, etc.

Micro credit is also provided by the Khushali Bank. The Bank's social sector services package includes women development, capacity building, services for skills development and provision of basic services such as health, education, etc.

Overseas Migration

Major focus is on managing international migration and taking full advantage of opportunities being offered by the demographic changes taking place in the industrialized countries as well as under the ongoing discussion on services at the World Trade Organization (WTO). As a labor sending country and seeing migration as meeting social and development objectives, our focus is on: i) making efforts in sending more workers overseas but with proper skills that are needed, ii) protecting the rights of migrant workers, iii) facilitating our workers abroad in sending remittances through legal channels, iv) effective utilization of remittances, v) developing investment facilities for the expatriates to use their acquired expertise, knowledge and hard earned money, vi) welfare of the left behind, and vii) effective re-integration of the returning migrants.

Better and effective utilization of remittances and tapping the expertise of overseas Pakistanis are important policy initiatives. In order to seek greater participation of overseas Pakistanis in business and economic activities, the MOLMOP is organizing a high profile "Overseas Pakistanis Investment Conference" in March 2007.

V. HRD and Enhancing Technical and Vocational Competence¹⁵

Employment led growth and productivity is crucially linked with: i) access to universal primary education, ii) retaining a larger proportion of students to middle and secondary education where orientation is also given on technical education and vocational training (TEVT) as well as agro- and business-related activities, and iii) increasing net enrolment ratios at higher secondary level as well as in tertiary education. Quality education and appropriate skilling of the future streams of the workforce assumes crucial importance. These are different dimensions of the HRD and enhancing TEV competence of the workforce and population that are being currently addressed.

Quality higher education with greater participation of the private sector is stressed. This can be gauged by the fact that while there existed none private sector University till 1981-82, the country has 36 private sector Universities and 18 degree awarding institutions (DAIs). In 2005-06, Pakistan has 116 public and private sector Universities and DAIs. Quality of higher education is also being strengthened by the fact that

¹⁵ Core Element 5 of the GEA.

hundreds of highly qualified expatriate Pakistanis have been hired by the Higher Education Commission (HEC) under “foreign faculty hiring program” and attached with Universities.

Emphasis on technical and vocational education, multi skills and flexible training are important measures in enhancing technical and vocational competence of the population and workforce. To strengthen, standardize and streamline vocational and technical education, national and provincial technical education and vocational training authorities are/being set up. The Government has set up NAVTEC headed by an employer in the private sector mainly as a regulatory and coordinating body for skills development and establishing national skills standards, certification and accreditation.

Enrolment in the vocational and technical training institutions is planned to be raised to a million by 2010; a four-fold increase over 2005. The Government plans to set up additional 100 TEVT institutions. To be led the representatives of employers, these institutions would tailor industry/sector-specific skills development programs. Training of trainers program has been started by the National Training Bureau (NTB) and public-private partnership encouraged through setting up of Skills Development Councils (SDCs), see box-4

A community based approach to train the rural and urban poor for employment and income generation - training for rural economic empowerment (TREE) - developed by the ILO was implemented by the National Rural Support Program (NRSP) in two districts on a pilot basis in Pakistan. Targeting young men and poor rural women, this program has led to their empowerment. New beneficiary-owned small businesses are also providing services that did not exist previously in communities. Thus, contributing to local economic development.

Box -4
Public-Private Partnership in Skills Development

Greater participation of and coordination with the employers and the private sector is being actively pursued to ensure education and training responding well to the labor market needs. Besides the policy of establishment of Centre Management Committees (CMCs) that are chaired by the representatives of employers, public-private partnership in the form of establishment of “Skills Development Councils” (SDCs) has been encouraged. The SDCs have been set up in the provincial capitals as well as Islamabad. Led by the representatives of the industry, the SDCs supported by the Ministry of Labor, Manpower and Overseas Pakistanis are autonomous in their work and tailor their skills development programs in line with the market demand. A large number of training programs are run by the SDCs annually.

VI. Gender Mainstreaming¹⁶

Pakistan launched program for women empowerment through a paradigm shift from the age-old welfare approach to long term realizable development goals. A full-fledged

¹⁶ Details may be seen, among others, at the web-pages of the MoWD – www.pakistan.gov.pk - and decentralization support program - www.decentralization.org.pk

Ministry of Women Development (MOWD) is established as national focal machinery for the advancement of women. The Ministry is also “coordinator” for the implementation of the millennium landmark gender agenda. A “National Plan of Action” (NPA) outlining 184 actions in “12 areas of concern” of the Beijing platform for action is under implementation. In order to address gender gaps, the Government of Pakistan is also pursuing a gender reform action plan, see Box-5.

Box-5

Gender Reform Action Plan (GRAP)

The Gender Reform Action Plan (GRAP) of the Government of Pakistan seeks to address gender gaps through reforms in four major areas, namely: 1) political reforms, 2) administrative/institutional reforms, 3) reforms in public sector employment, and 4) policy and fiscal reforms. Substantial capacity building and support actions are being added to this program to be implemented in four years.

The Government of Pakistan on 12 December, 2006 increased the quota reserved for women in public sector jobs to 10 percent; it was 5 percent earlier¹⁷.

Achievements in economic empowerment covering poverty, access to credit, remunerated work, rural women of informal economy (informal sector), and sustainable development can be seen from the following:

- Launching of the national fund for advancement of rural women (*Jafakash Aurat*) with seed money of Rs. 100 million with a special focus on rural women and the informal sector (informal economy). This fund, operated through Khushhali Bank, First Women Bank and Agha Kkan Rural Support Program (AKRSP), has provided skills, employment and income to 23,000 rural women and benefited over 74,000 households.
- In addition, women are three-fourths of the beneficiaries in the “provision of safety nets” and “food support scheme” – women benefiting belonged to 1.2 million rural households. Moreover, the number of women also benefiting through “guzara allowance” (subsistence) and “Zakat” were 400,000.
- The 3-year training program introduced in 2001-02 for rearing livestock and dairy animals contributed to women income generation substantially, and
- The micro-credit scheme under the aegis of MOWD through First Women Bank, Khushhali Bank and Zarai Taraqiyati Bank has started creating a new entrepreneur class among poor women on local basis.

Some of the achievements in “social empowerment” are:

- Reduction of gender gaps in education at all levels and with legislation for compulsory primary education in two provinces (Punjab and NWFP) and federally administered tribal areas under education sector reforms (ESR). This is done by: i) providing stipend to rural girls, ii) introduction of mixed school system, and iii) establishment of 1,465 girls primary/community model schools, and 8,045 non-formal schools. This resulted in doubling enrollment in primary schools, about 30 percent increase in middle schools and almost equal increase in higher education of girls compared to boys.

¹⁷ This 10 percent quota is planned to be increased to 50 percent with the passage of time.

- In the gender perspective in national health and national reproductive health policies, 2000 achievements made are: i) extended training facilities of lady health workers, ii) food and nutrition program for 5-12 year old girls related to enrolment program, iii) free meal facility covering 520,000 girls in 28 high poverty districts, and iv) strengthened national AIDs, malaria, TB and hepatitis control programs - all contributing to better women health.

Achievements in political empowerment are providing placement of women in high positions of decision-making, and participation in electoral positions at federal, provincial, and local levels through the Local Government Ordinance 2001 under the “devolution plan”. A watershed for political empowerment of women of Pakistan, providing 33 percent representation of women at all tires of elected local bodies. The local bodies have now about 40,000 women as “councilors”. Further, in the provincial and national assemblies, as many as 787 women are members.

The affirmative actions are being taken by the social partners in Pakistan. While, the Employers Federation of Pakistan (EFP) has adopted a three dimensional strategy, the Pakistan Workers Federation (PWF), among others, has established women committees at the national level as well as in all its regional organizations¹⁸; see Box-6.

Box-6

Gender Mainstreaming and the Social Partners

The EFP strategy includes: i) creating awareness through seminars and mailing information, ii) gender survey of the private sector, and iii) promoting women leadership through workshops.

The PWF strategy includes: i) creation of necessary awareness in particular on the rights of working women and non-discrimination at work places, ii) organizing regularly workshops, and iii) building young women trade union leadership.

VII. SMEs Promotion and Enterprise Development¹⁹

The measures outlined in the MTFD for the SMEs development are: i) technology up-gradation and enhancement of business skills, ii) increase in competitiveness of SMEs through provision of subsidized focused short duration training module to workers and their shop floor managers, iii) incentives for investment in the form of reduced taxes for enterprises which sign up for up-gradation of business products, iv) improve quality standards to compete in the global economy, v) improve market access and product information, vi) strengthening of legal, taxation and institutional framework, and vii) improved access to financial resources and services including a substantial increase in bank financing for SMEs and credit as venture capital for new start-ups especially those engaged in export-oriented contract manufacturing.

¹⁸ Both of the organizations are actively participating in the ILO’s project on “Women’s Employment Concerns in Pakistan (WEC-PAK)” and handling “gender equality” programs in their respective

¹⁹ GEA Core Element 5

Establishment of technology and business incubation centers (TICs) and (BICs) are being increasingly looked into in terms of enterprise and SME development as well as tools to catalyze business startups and HRD [Shehab (2006)]. Industry-academia linkages, important in this regard, are increasingly developed [Aftab (2006)].

The role of Small and Medium Enterprises Development Authority (SMEDA) in actively promoting the growth of this sector has been highlighted in the PRSP as well as the MTDF. The latter also lists a number of high priority activities in manufacturing, design and services including call centers for investment by SMEs.

Detailed strategy and concrete policy measures for the development of small and medium enterprises (SMEs) have been spelled out both in the PRSP and MTDF. Identified as one of the priority areas for economic growth, the SMEDA undertook the exercise of developing the first SME policy in the country. The policy, developed after consensus of all key stakeholders, was approved by the Cabinet on 17 January 2007.

VIII. Labor Market Policies²⁰

Response to the employment challenge is also being accompanied by measures to improve the quality of jobs, productivity and conditions of work. Concerns have been raised on the quality of jobs being generated. Increase in informal sector (informal economy) employment and hiring of contract workers in the organized sector has been termed as partly the result of a regulatory framework which places a high cost and imposes a lack of flexibility in hiring and dismissing workers, for those employing people in the formal or organized sector.²¹ Development of an efficient labor market based on social dialogue and strong supporting labor market institutions including employers' and workers' organizations have been stressed. Cognizant of such concerns and the commitment of the Government on creation of conditions for "decent work", a number of initiatives have been taken to ensure well functioning labor market institutional framework that increasingly results in the creation of decent work. Provisions of Industrial Relations Ordinance (IRO) 2002 and making other legislations in conformity with international labor standards are being vigorously pursued.²²

Labor Protection Policy 2006

This Labor Protection Policy (LPP) 2006, consistent with and emanating from the Labor Policy 2002, covers five main areas, namely: 1) *basic rights*, such as, right to join a trade union and bargain collectively, equal treatment and non-discrimination, and absence of forced labor and child labor, 2) *working conditions* including minimum wages and above minimum wage issues, allowances and benefits, hours of work, over time work, rest breaks, leave arrangements including annual leave, sick leave and special leave issues, and job security provisions, 3) *working environment* including protection against occupational health and safety hazards as well as illness, 4) *social security* including protection against the effects of economic and social hardship resulting from a reduction

²⁰ Core element 7 of the GEA.

²¹ See World Bank (2006 b).

²² Specifically Convention No. 87 (Freedom of Association and Protection of the Right to Organize), Convention No. 98 (Right to Organize and Collective Bargaining) and Convention No. 81 (Labor Inspection Convention).

in earnings due to work accidents/illness, unemployment and retirement, and 5) *living environment* including improved housing, and protection against adverse living conditions with regard to health and hygiene, diet, sanitation, water supplies and other matters.

Labor Inspection Policy 2006

The specific objectives of the Labor Inspection Policy (LIP) are: i) introduction of a range of innovative approaches to labor inspection that are flexible, transparent, fair, and impartial, ii) encouraging extension of labor protection services to persons engaged in informal economy activities, iii) promotion of effective labor inspection as a means of dispute prevention and conflict reduction within enterprises, iv) encouraging and supporting involvement of private sector in the provision of a range of inspection services, v) developing the capacity of labor inspectorates to assist in their transformation to modern, efficient, effective and respected institutions, and vi) developing capacity of workers, employers and their respective organizations to adjust to new approaches to labor inspection.

Policy formulations preceded a consultation process and in particular sought active participation and contribution of the social partners; see Box-7.

Box 7

Tripartite Approach to Policy Formulations

The Ministry of Labor, Manpower and Overseas Pakistanis had established task forces comprising representatives of government, employers and workers to assist in the formulation of a new approach to labor inspection and protection. The task forces sought and encouraged high degree of consultation in the preparation of both the Labor Protection Policy 2006 and the Labor Inspection Policy 2006.

Labor Market Flexibility and Other Initiatives

The draft Employment and Service Conditions Act (ESCA) 2006 consolidates a number of related laws – 12 in number. It spells out: i) conditions of employment, ii) restrictions, registrations and regulation of employment, iii) wages and bonuses, minimum wage determination, iv) priority of wages over other debts, v) liability of principal employer and contractor, and vi) punishment and termination of employment.

Every worker is to be provided with an order in writing specifying the terms and conditions of service and the manner in which contracts are to be terminated by either party.

Workers - to join a registered trade union, and participate in its activities of either as an officer of such union or otherwise; or associate with any other person for the purpose of organizing a trade union - are classified as: a) full-time, b) part-time, c) probationers, and d) apprentices.

Prohibition exists on young person being permitted or required to work between 7 p.m. to 6 a.m. Payment of overtime at double the wages are payable to workers.

There is a prohibition of: i) employment of child for any reason whatsoever, ii) employment of a young person pursuant to an agreement to pledge the labor, iii) employment of a young person in any of the occupations identified as hazardous – 32 in number, iv) employment of a woman in any part of a mine which is below ground, and v) employment of a woman in a mine above ground between 7 pm to 6 am but with the exception of those who do not perform manual work and are holding positions of managerial or technical character or employed in health and welfare services.

IX. Conclusions and Way Forward

The economic growth momentum is expected to be sustained and even may accelerate further as the favorable policy environment consolidates private sector confidence. The economy is and will be creating investment and work opportunities respectively for the entrepreneurs and working women and men as well as fresh entrants - largely young and increasingly literate, educated and trained - into the workforce. An expanding economy would generate greater demand for skilled, trained and educated women and men. Hence, increasing emphasis is placed on education and skills development carefully related to the market needs.

Greater and effective participation of users and producers - i.e. representatives of entrepreneurs and education and training institutions – is being worked out in sector-specific policy design for greater and effective synergies.

Following these important and encouraging developments, Pakistan is now pursuing:

- Macro and sectoral policies reflecting importance of decent and productive employment as the key link between growth and poverty reduction, see also Box-10,
- Ensuring growth is as job-rich as possible in the context of accelerating technological change and productivity, and ensuring global competitiveness,
- Encouraging growth of sectors that increase the economy's job generating capacity – and in this regard identification and removal of perverse incentives that bias investment towards capital-intensive techniques,
- Assess employment outcomes of: i) alternative strategies and policies – particularly sectoral, and ii) public sector development program (PSDP) - whose size has significantly increased in the MTFD and expected to be sustained - are ascertained, targeted and monitored,
- Targeting productivity, incomes and working conditions in the informal economy and agricultural sector - where most work opportunities exist and are being generated,
- Changes (reforms) needed in the education²³, training and skills development system whereby it responds well to the industry-specific requirements as well as changing labor market needs and the emphasis on “knowledge inputs”, and

²³ The Ministry of Education has circulated in January 2007 its “white paper” on education policy seeking comments from the stakeholders.

- Labor market policies that include measures for: a) productive re-absorption of workers displaced through restructuring and privatization of state-owned-enterprises, b) strengthening labor market information system, c) developing public employment services and support for women's entrepreneurship development, d) gradual introduction of universal social security, and e) setting up of an efficient, equitable and rights-based labor market regulatory framework that provides labor market flexibility duly ensuring workers' protection and labor inspection, see also Box-8.

Emphasis is on policy outcomes; monitoring and implementation are being built in the system. Stress is placed on economic governance, or sound development management; its role as central to sustainable development clearly realized. The four components of governance being looked into are: accountability, transparency, predictability and participation - in the design and implementation of policies, programs and projects.

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<p>Box-8 Pakistan Decent work Country Program (DWCP)</p> <p>The Pakistan DCWP was jointly prepared by the Ministry of Labor, Manpower and Overseas Pakistanis and the ILO Islamabad Office in close consultations with the national employers' and workers' organizations in May 2004. The four main decent work challenges identified in the Pakistan DWCP are:</p> <ul style="list-style-type: none"> ➤ Standards and fundamental principles and rights at work, child labor and normative action; ➤ Employment policy support, knowledge skills and employability and employment creation; ➤ Social security and improved working conditions; and ➤ Building capacity of social partners and government institutions for constructive engagement in social dialogue. <p>Source: GOP (2005). Pakistan Decent Work Country Program. Ministry of Labor, manpower and Overseas Pakistanis.</p>
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