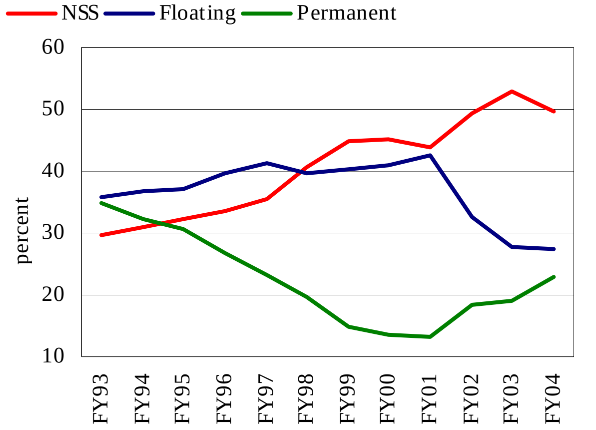
6 NSS and Social Protection Funds

6.1 National Savings Schemes (NSS)

National Saving Schemes (NSS) have had an increasing share in the domestic debt since 1993, which was more than 50 percent during FY03 (see **Figure 6.1**). This was due to the attractive rates of return on these schemes specially during the 1990s, as opposed to other investment opportunities. The outstanding amount as a proportion of GDP also increased almost continuously from 11.1 percent during FY93 to 20.4 percent during FY03, which highlights the real growth of these schemes. However, during FY04 this proportion has declined to 18 percent.

Defence Saving Certificates (DSCs) and Special Saving Certificates (SSCs) have been the most sought after instruments, which together constitute a share of above 60 percent of the total NSS. National Prize Bonds, which tap the savings of the informal sector, had a 15.5 percent share in NSS during FY04, with an outstanding amount of Rs 152.8 billion.

Figure 6.1: Composition of Domestic Debt



CDNS came into existence not only to finance budget deficits and mobilize savings but also to cater to the needs of various investors including pensioners and small savers from the lower income group. In the backdrop of the rationalization of the rates of return on these schemes since H1-FY02, CDNS has come up with new non-tradable Savings Accounts and Certificates during H2-FY03 and H1-FY04 with different maturity profiles, i.e. the Pensioners' Benefit Account and Bahbood Saving Certificates. The rates of return on these instruments are slightly higher as compared to the other schemes[1]. These were specifically designed to meet the requirements of pensioners and widows in order to safeguard their interest given the recent slide of the yields on NSS.

The outstanding level of NSS[2] remained almost at the same level of last year. As at end-June 2004 it was Rs 982.7 billion as compared to Rs 982.5 billion for the same period in FY03. In absolute terms, this level was continuously rising since the last two decades. Excluding Prize bonds the level has actually declined by 22.5 billion. Despite the increase in the outstanding level, the growth of NSS has started to decline considerably since FY00 and moved down to a negligible growth of 0.03 percent during FY04. The average growth rate of NSS during FY00 to FY04 has come down to 9.7 percent from an average growth of 23.7 percent during FY95 to FY99. This is mainly due to the downward adjustment of the rates of return on NSS by

Table 6.1: Profit Rates on Major NSS and PIB

percent

	National Savings Schemes			Pakistan Investment Bonds		
	DSC	SSC	RIC	10 Year	5 Year	3 Year
H1-FY00	15.97	14.33	16.00	--	--	--
H2-FY00	15.01	12.33	14.00	--	--	--
H1-FY01	14.01	11.17	12.48	--	--	--
H2-FY01	14.01	11.17	12.48	13.99	12.98	12.46
H1-FY02	15.01	12.37	12.48	12.46	12.07	11.59
H2-FY02	14.13	12.37	12.48	10.62	9.77	8.78
H1-FY03	11.61	10.47	10.56	8.14	7.34	6.66
H2-FY03	10.03	8.67	9.12	4.81	3.64	2.94
H1-FY04	8.50	7.67	7.68	6.20	5.04	4.02
H2-FY04	7.96	7.16	6.96	6.79	5.07	3.98

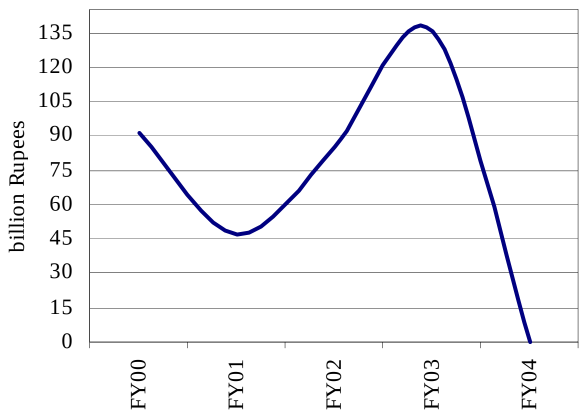
[1] The yield for Pensioners benefit account is 2 percentage points higher than Regular Income Certificates with a maximum investment limit of Rs two million..

[2] Including prize bonds.

the Central Directorate of National Savings (CDNS) in an effort to synchronize, these rates with Pakistan Investment Bonds (see **Table 6.1**).[3]

During FY04 the effects of the previous years' policy decisions and the measures taken like linking of NSS with PIBs rates were quite clearly visible. During FY04 the flows in NSS drastically declined to a level of Rs 258 million only (see **Figure 6.2**).

Figure 6.2: Flows in NSS

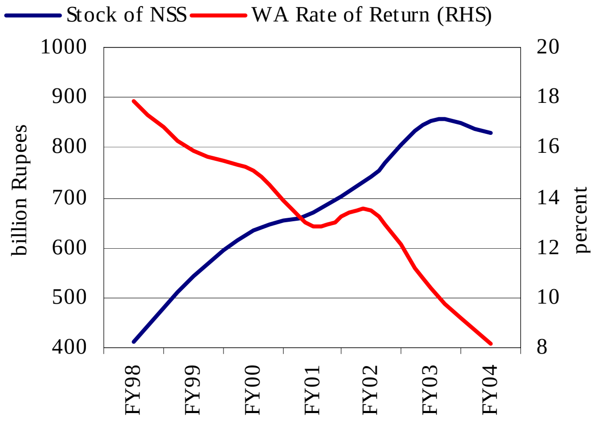


The reasons for the sharp outflows in NSS are:

- Institutional Investment in NSS has been restricted since March 2000 and the investments made earlier have now started to mature. Given that re-investment is also not allowed, there have been net repayments to these institutions.
- The gradual downward slide in profit rates since H1-FY02 on these schemes has also considerably reduced the gross receipts from the individual investors during FY04.
- The interest arbitrage by the individual investors in the shape of using SSCs for short-term secured borrowing was banned in June 2003. The short-term loans thus availed have matured during FY04, resulting in early encashment of SSCs.

As mentioned above, the rates of return on major NSS were linked with the PIBs in FY00, which is a market-based instrument. However despite the gradual fall in the NSS profit rates, the net outstanding amount in NSS, excluding prize bonds, gradually increased from Rs 633.8 billion in FY00 to Rs 852.5 billion by end-FY03 but finally declined considerably during FY04 to reach Rs 829.9 billion, with a negative growth of 2.6 percent (see **Figure 6.3**).[4] However, the impact of the downward adjustment of the rates of return is clearly visible during FY04 that has hampered the growth of NSS.

Fig 6.3: NSS Stock & Rate of Return



The 'on tap' nature of NSS is responsible for the sudden fall in the flows of NSS, which in turn has created a short-term financing requirement for the government. However, the gradual shift of comparatively expensive borrowing from NSS to PIBs will not only reduce the cost of borrowing but will also provide some control over the financing sources.

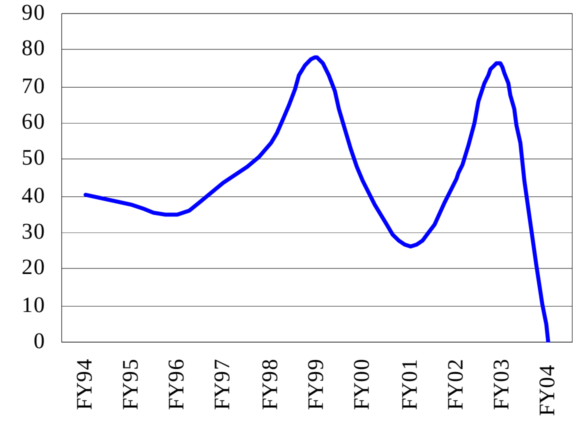
6.1.1 Deficit Financing through NSS

[3] Profit rates on NSS are being adjusted with effect from 1st January and 1st July of each year since FY00. Rates on DSCs, SSCs and RICs are adjusted if the post tax returns on above schemes exceed by more than 0.5 percentage points than the returns on PIBs of 10, 5 and 3 years maturity respectively in addition to other minor adjustments.

[4] Excluding the stock of prize bonds from the outstanding amount of NSS because it is a non interest bearing instruments.

Funds mobilized through NSS have also been an important source for the financing of budget deficit besides funds generated through external resources and from the banking system. **Figure 6.4** highlights the government reliance on NSS for bridging the deficit gap.

Figure 6.4: NSS as Percent of Budget Deficit



Although this is a residual part of financing but due to government's dependence on these schemes, a target is actually set for the funds generated through NSS. Given that these schemes are on tap with minimum direct control over the amount of mobilization, the government has effectively been generating more than the targeted funds through this avenue.

However FY04 witnessed a shocking experience for the government because actual mobilization during FY04 indicates a shortfall of Rs 54.0 billion (see **Table 6.2**). The shortfall is almost equal to the size of the target for the FY04. This is in sharp contrast to the previous year when funds mobilized through NSS exceeded the target by Rs 83 billion.

Table 6.2: Target Vs Actual Net Flows in NSS During FY04

million Rupees

Instruments	Target	Actual	Difference
DSCs	11,700	3,264	-8,436
SSCs	26,900	-13,176	-40,076
RICs	-23,700	-48,868	-25,168
SSAs	1,500	2,042	542
PBAs	22,000	13,209	-8,791
Pize Bonds	15,600	22,842	7,242
Others	214	20,945	20,731
Total	54,214	258	-53,956

This also implies that the budget-financing requirements are to be met mostly from the banking sector. For long-term borrowing PIBs[5] are next in line because not only the interest rates are at a low level but the desired level of borrowing can also be controlled by PIB auctions.

Although the banking system has ample liquidity but the holding of PIBs with the banks during FY04 has also increased by Rs 59.3 billion. However, the increase still does not match the shortfall of required financing through NSS (see **Table 6.3**). This may be explained from the fact that banks are not willing to invest in long-term bonds at the prevailing low rates because they are expecting the increase in interest rates. In fact, banks will be facing some capital losses on the PIBs purchased at lower rates. On the other hand government has to resort to short-term borrowing in order to bridge the financing gap.

Table 6.3: PIB Holdings by Banks

End period	3-year	5-year	10-year	15-year	20-year	Total
FY03	27.5	24.5	79.2			131.2
FY04	36.7	45.0	104.6	1.9	2.3	190.5

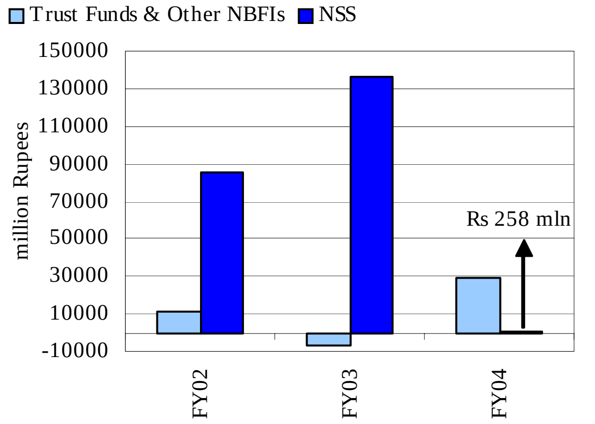
6.1.2 Impact of NSS on Financial Sector

Since institutions can no longer invest (or re-invest) in NSS schemes, the payments received through maturing instruments will either be used for reinvestment in other market instruments like PIBs, term finance certificates or other savings schemes introduced by the banks/NBFIs. However, before reinvestment in either case, receipts are likely to be deposited with banks for a temporary period in which investors explore reinvestment options.

[5] Although it is a non-bank instrument but due to banks holding in PIBs they are treated in bank borrowings to that extent.

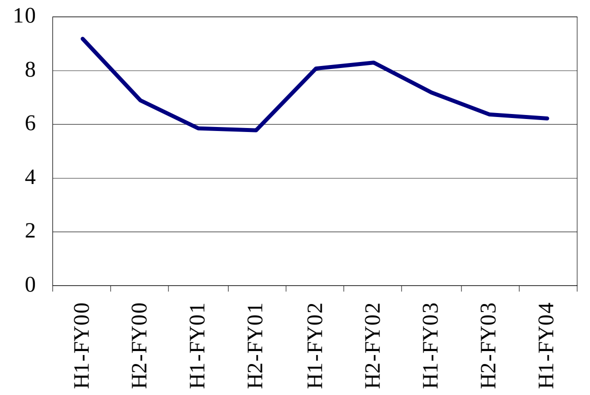
It may also be noted that a part of SSCs, used by the investors for arbitrage purposes during first half of FY03, is being encashed before maturity during 2004 because arbitrage opportunity was blocked in June 2003. It is, therefore, rational to assume that some portion of this encashment will also flow towards bank deposits, albeit temporarily, until the investor's final decision for placing these funds.

Figure 6.5: Net flows: NBFIs Deposits Vs NSS



Considering the above possibilities of NSS repayment receipts being deposited by the individuals and institutions in their own current or savings accounts held in the banks, the deposit base of the banking system is expected to grow. In order to trace this phenomenon, **Figure 6.5** depicts the flows of deposits of "Trust Funds and Non-Profit Organizations" and "NBFIs" that maintain their accounts in scheduled banks together with the flows in NSS. **Figure 6.5** clearly illustrates this impact through a sizeable increase in flows of deposits identified above concomitant with the decreasing flow of NSS during FY04.

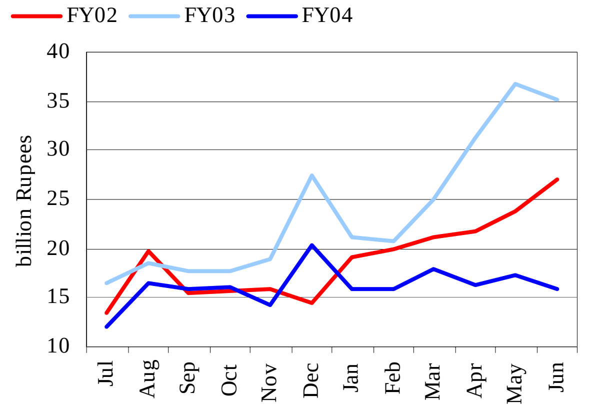
Figure 6.6. : Interest Rate Spread between SSCs & Fixed Deposits of over 6-months



The shift of funds from NSS to the banking sector for short periods can help the banks undertake increased short-term lending and this may also help ease off the pressure on interest rates. One of the contributory factors for the growth in consumer financing also appears to be the outcome of growth in deposit base from those sources.

Further, interest rate distortion, which appears to have diminished during FY03 and FY04 (see **Figure 6.6**) will have positive effect on the banking sector as the funds available to them will increase. The additional funds and competitive rates of return will also provide them a fair chance to offer lending at competitive market-driven rates.

Figure 6.7: Gross Mobilization from NSS



6.1.3 Mobilization through NSS

While analyzing monthly gross inflows in NSS during FY04 some interesting observations are worthwhile to note. Gross monthly inflows for the last three years are shown in **Figure 6.7**.

During FY04 monthly gross inflows mostly remained around Rs 16 billion. The only spike during December was the outcome of investors' expectations of further downward revision in profit rates with effect from January 1, 2004. They invested their available funds during December 2003 and as the expectations were realized the usual investment behaviour continued.

The overall gross investment during FY04 is at a significantly lower level as compared to last two years due to the reasons explained earlier and also probably due to the fact that the rates of return on these schemes are now more in line with other market-based instruments.

Monthly gross inflows in NSS upto June 2004 have declined considerably in most of the instruments compared with the same period last year. The decline is more prominent in SSCs at around Rs 92 billion. In addition to lesser investments the higher repayments under this category have led to a net outflow of Rs 13 billion. SSCs purchased during H2-FY03 in order to avail interest rate arbitrage opportunity and the subsequent ban on this activity, alongwith low interest rates, are the main reasons for the net outflows.

The net outflows in NSS during FY04 show not only relative higher re-payments but also reflect a divergence of investment to other market instruments.

6.1.4 Interest Rate Distortions

FY04 witnessed a visible positive impact on the term structure of interest rates, which has narrowed down the distortion of interest rates prevalent in the market. This was made possible due to:

- The linkage of profit rates on medium to long-term NSS with a market determined yield on PIBs
- Gradual interest rate cuts on NSS since FY02
- Total ban on institutions from investing in these schemes since March 2000
- Elimination of arbitrage opportunities

As the interest rate differential between PIBs and DSCs minimizes, there is a fair possibility of switching funds to PIBs, which has been a favorite instrument for deficit financing since its inception. With the removal of market distortions in the coming years, the growth prospects of the corporate sector debt market and other investment instruments from the NBFI sector look brighter.

6.2 Review of Social Protection Funds

The social protection system in Pakistan includes old age, invalidity and widow pensions and health care governed by the Employees’ Old-Age Benefits Institution (EOBI). The other social protection measures include Workers’ Welfare Funds (WWF) and Workers’ Participation Fund (WPF) managed by the Ministry of Labor. Like other developing countries, a large segment of the population is not provided pension or old-age benefits in Pakistan. While all government employees are entitled to life pension, a small number of employees of registered industrial or commercial establishments are covered under the Employees’ Old-Age Benefits Institution (EOBI) scheme effective from 1979. The main objective of EOBI is to provide pensions and old-age grants to the insured person covered under the scheme. The objective of Workers Welfare Fund is to allocate funds for development projects and other welfare measures. On the other hand, the objective of Workers’ Participation Fund is to distribute profit amongst low salaried workers and provide funds for other welfare measures. This chapter examines the performance of these funds in terms of their investments in different instruments as well as the sources of income and expenditure.

6.2.1 Employees Old-Age Benefits (EOB) Fund

EOB Fund was established under Section 17 of Employees’ Old Age Benefits Act 1976 (see **Box 6.1**), wherein all contribution paid under this Act, and all other moneys received by or on behalf of the Institution are paid into this fund whereas all expenditure incurred by the Institution necessary for the purpose of this Act are charged to the fund.

Box 6.1: Regulatory Framework

The Companies Profits (Workers' Participation) Act, 1968 & Rules, 1971

The Companies Profit (Workers Participation) Act, 1968 provides for participation of workers in the profits of companies and matters related to scheme Workers' Participation Fund (WPF). The scheme is applicable for every company that establishes a WPF with (i) 100 or more employees; (ii) paid up capital of Rs 20 lakhs or more; and (iii) fixed assets of Rs 40 lakhs or more. Moreover the company will pay 5 percent of its profit (after audit) every year to the Fund,which will be managed by a Board of trustees that consists of

a) two persons elected by the workers of the company from amongst themselves
b) two persons nominated by the management of the company(one from accounting side)
c) chairman of the board elected from the trustees for one year

Decisions are taken on majority opinion or casting vote of chairman.

Act also provides guidelines for distribution of benefits to workers. Workers share in the annual allocation of fund is determined according to their wages, subject to the maximum limit of Rs 3,000. Share of a worker is fixed in units of the face value of Rs 10 each. Moreover the income of the fund including capital gains is exempt from income tax.

The Workers' Welfare Fund Ordinance, 1971 & Rules, 1976

The workers welfare fund ordinance 1971 was promulgated by Federal Government on 9th December; 1971. It provides rules and regulations for proper functioning of the Workers' Welfare Fund.

According to the ordinance, the Fund consisted of (a) an initial contribution of Rs 100 million made by the Federal Government; (b) moneys paid by industrial establishments from time to time; (c) voluntary contributions in the shape of money or building, land or other property made to it from time to time by any Government or by any person and (d) income from the investments made and properties and assets acquired from out of the Fund.

Under the Act, every industrial establishment with total income not less than Rs 100,000 shall pay to the fund in respect of that year a sum equal to 2 percent of its total income.

The governing body of WWF consists of a chairman along with eighteen members. Among the members it is compulsory that at least one member should be from each province from amongst the workers, one from amongst the employers and one from the each province upon the recommendation of the provincial government.

Money in the fund can be used for (a) the financing or projects connected with the establishment of housing estates or construction of houses for the workers; (b) the financing of other welfare measures including education training, and apprenticeship for the welfare of workers; (c) the meeting or expenditure in respect of the cost of management and administration of the Fund; (d) the repayment of loans raised by the governing body; and (e) investment in securities approved for the purpose by the Federal Government.

The Employees' Old-Age Benefits Act, 1976

The Employees' Old Age Benefits Act provides guideline for proper functioning of EOBIs. The act is applicable for industries/establishments having 10 or more employees. Under the act the employers of registered industries pay contribution to institution in respect of every worker in his insurable employment (against employment injury) at the rate of the 5 percent of his wages.

The board of trustees of EOBI consists of 18 members appointed by Federal Government namely:
(a) the Secretary or Additional Secretary in the Labour and Local Bodies Division, who is also the Chairman of the Board of Trustees; (b) four persons to represent the Federal Government, one each from the Ministries of Finance, Commerce, Industries and Labor; (c) four persons to represent the Provincial Governments, one to be nominated by each of the Provincial, Governments; (d) four persons to represent employers; (e) four persons to represent insured persons and (f) two persons to represent the Institution.

The instructions for expenditure and investment are also provided in the Act. The EOBI may invest or reinvest the money which is not immediately required for expenses. Institution may raise the loan and can take measures to discharge the loan but with prior approval of Federal Government. EOBI is bound to submit proposed annual budget to the board for approval of the Federal Government.

An insured person can avail the old-age allowance, provided that he is over fifty-five years of age, retired from insurable employment and contribution in respect of him were payable for not less than fifteen years The age limit in case of female is fifty years. Similarly, the Act lays down criteria for entitlement of invalidity allowance.

EOBI adopted international Accounting Standard in July 2001, as a result, the Institution has classified its investment portfolio as available for sale and held to maturity investment. Investment portfolio held to maturity consists of securities with fixed or determinable payments and fixed maturity that the Institution has the positive intent and ability to hold to maturity and are measured at amortized cost. Available for sale securities are measured at subsequent reporting dates at fair values. Unrealized gains or losses are recognized in the funds through direct credit or charge to the fund. Fair market value of quoted marketable securities is determined by reference to stock exchange rates ruling at the balance sheet date.

Data on EOBI's investment portfolio indicates that a substantial proportion of EOBI funds are invested in Government securities. **Table 6.4** presents the investment held to maturity, yield and rate of return on investment for the FY02 and FY03. The EOBI's total investment increased by 19.1 percent to 68,004 million in FY03 over the preceding period. Of which, Defence Saving Certificates fetched the largest share of EOBI investment at Rs 59,971 million in FY03. The share of Defence Saving Certificates is (88.2 percent), followed by investment in other instruments such as HBL Special Saving Deposits (3.0 percent), WAPDA Bonds (2.9 percent) and Pakistan Investment Bonds (2.5 percent). Defence Saving Certificates are encashable after 10 years and carry an average interest of 14.8 percent per annum payable with encashment of this instrument. The Pakistan Investment Bonds carries a return of 11 percent to 14 percent per annum with a maturity period of 5 to 10 years. An investment of Rs 1.0 billion was initially made in WAPDA bonds for five years and also re-rolled for another five years on completion of its first term. The rolled over bonds carry a return of 16 percent per annum payable on yearly basis. In 2002, more bonds of Rs1.0 billion have been purchased with a return of 7.25 percent per annum payable on half yearly basis. These bonds are guarantied by Finance Division, Government of Pakistan. Amongst other investment, NDLC Deposits Certificates carry a return of 13.5 percent per annum payable on half-yearly basis. In FY02, the highest return of EOBI investment was at 19.2 percent on IDBP Deposit Certificates on its maturity. However, return on WAPDA Bonds fell from 16 percent in FY02 to 9.0 percent in FY03. In 2003, the EOBI investment yielded the highest effective return of 18.4 percent on Pakistan Investment Bonds followed by 14.8 percent in Defence Saving Certificates, and about 10.7 percent in TFCs of different institution (see **Table 6.4**).

Table 6.4: EOBI-Return on Investment

million Rupees

	FY02					FY03				
Investments	**Investments**	**Share**	**Yield**	**Share**	**Rate of return**	**Investments**	**Share**	**Yield**	**Share**	**Rate of return**
Govt Securities										
DSCs	5,1082.2	89.4	7,568.1	90.3	14.8	59,970.9	88.2	8,888.8	86.1	14.8
PIBs	2,834.2	5.0	305.7	3.6	10.8	1,720.4	2.5	317.1	3.1	18.4
FIBs	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	-
Corporate Bonds\TFCs										
WAPDA bonds	1,000.0	1.8	160.0	1.9	16.0	2,000.0	2.9	180.8	1.8	9.0
TFCs	0.0	0.0	0.0	0.0	0.0	429.0	0.6	45.7	0.4	10.7
Equities							0.0		0.0	
Dividend income on shares	0.0	0.0	8.8	0.1	0.0	0.0	0.0	106.0	1.0	-
Capital gain on shares	0.0	0.0	95.3	1.1	0.0	0.0	0.0	258.2	2.5	-
Ordinary shares of listed co.s	120.6	0.2	0.0	0.0	0.0	1,372.0	2.0	0.0	0.0	-
Others	2,075.0	3.6	242.7	2.9	11.7	2,511.2	3.7	531.2	5.1	21.2
Total	57,112.0		8,380.7			68,003.5		10,327.8		

Over the past six years, EOBI's total investment swelled from Rs 27,348.1 million in FY99 to Rs 80,842.1 million in June 2004 reflecting an annual growth of 24.2 percent in its investment portfolio (see **Table 6.5**).

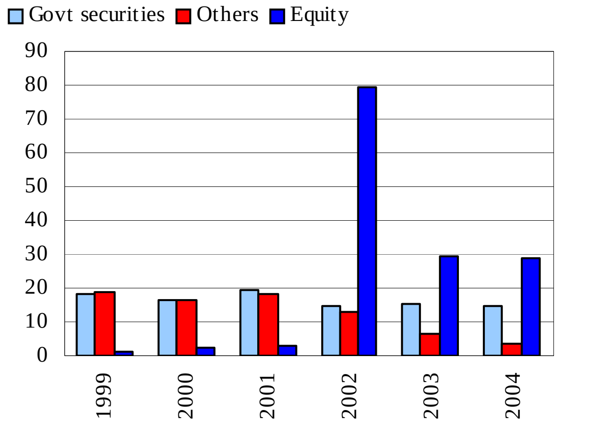
Table 6.5 :Detail of Investment Portfolio/Income

million Rupees

Description	FY99	FY00	FY01	FY02	FY03	FY04
Portfolio Position						
Govt securities	24,720.3	2,9741.3	30,593.0	54,916.4	6,3691.3	74,154.4
Others	2,600.7	2,878.7	2,242.3	2,075.0	2,940.2	2,993.2
Equity	27.0	27.0	27.0	131.0	1,234.4	3,694.5
Total	27,348.1	32,647.0	32,862.4	57,122.3	67,865.9	80,842.1
Investment Income						
Govt securities	4,539.1	4,908.7	5,923.1	8,019.7	9,773.7	10,908.2
Others	484.1	466.2	410.6	263.5	196.6	114.4
Equity	0.4	0.7	0.8	104.1	364.2	1,055.9
Total	5,024.2	5,375.6	63,34.50	8,387.2	10,334.5	12,078.5
Investment Income on Equity						
Capital gain	0.00	0.1	0.0	95.3	258.2	933.7
Dividend income	0.4	0.2	0.8	8.8	106.0	122.2
Total	0.4	0.4	0.8	104.1	364.2	1,055.9
Total assets	36,009	41,690	48,190	5,9253	6,9897	81,041

However, its portfolio investment remained concentrated in Government securities with the largest share ranging from 90.4 percent to 96.1 percent during the six year period between 1999 and 2004 (see **Table 6.6**).

Figure 6.8: EOBI-Return on Investment



Return on investment in government securities which was the highest at 19.4 percent in June 2001 declined to about 14 percent in the subsequent years (see **Figure 6.8**).

The steep decline in rate of return on government securities was attributable to a dramatic decline in interest rates on government securities in response to discount rate cut in 2001 and 2002 due to excess liquidity with the banking sector. Similarly, the return on other investment also declined from 18.6 percent in 1999 to 3.8 percent in 2004. On the other hand, return on equity increased remarkably to 80.0 percent in FY02 which then declined to around 29 percent in 2003 and 2004 reflecting a surge in share prices (see **Figure 6.8**).

Due to the declining return on government securities, EOBI started diversifying its investment since FY02. As a result, share of government securities in EOBIs' total investment reduced from 96.1 percent in 2002 to 91.7 percent in 2004. On other hand, share of equity in its portfolio increased from 0.2 percent to 4.6 percent over the same period (see **Table 6.6**). The effort of diversification is reflected by the fact that investment on equity increased from Rs 131 million in FY02 to Rs 3694.5 million in FY04. EOBI made remarkable achievement in capital market in 2004. While increase in income on equity was at Rs 1055.9 million in FY04 or 189.9 percent higher over the last year, the capital gain was at Rs 933.74 million in FY004 compared to Rs 258.2 million in 2003. Likewise dividend income increased by 15 percent to Rs 122.2 million by end FY04 (see **Table 6.5**).

The above analysis suggests that the major source of EOBIs' income is its yield on investment. Other important source of income is the contribution received from employers and workers. The income of EOBI from all sources was at Rs 14.7 billion in June 2004. Of which Rs 12.1 billion was the yield on investments whereas Rs 2.6 billion was received from contribution. On the expenditure side, EOBI paid benefits of Rs 1.7 billion and spent Rs 0.6 billion in 2004 on management expenses. As a result, EOBI has a surplus of Rs 12.4 billion in 2004.

Table 6.6: Share of Investment Portfolio/Income

Description	FY99	FY00	FY01	FY02	FY03	FY04
Portfolio Position						
Govt securities	90.39	91.10	93.09	96.14	93.85	91.73
Others	9.51	8.82	6.82	3.63	4.33	3.70
Equity	0.10	0.08	0.08	0.23	1.82	4.57
Total	100.0	100.0	100.0	100.0	100.0	100.0
Investment Income						
Govt securities	90.35	91.31	93.51	95.62	94.57	90.31
Others	9.65	8.67	6.48	3.14	1.90	0.95
Equity	0.01	0.01	0.01	1.24	3.52	8.74
Total	100.0	100.0	100.0	100.0	100.0	100.0
Investment Income on Equity						
Capital gain	0.00	32.96	0.00	91.54	70.89	88.43
Dividend income	100.0	67.04	100.0	8.46	29.11	11.57
Total	100.0	100.0	100.0	100.0	100.0	100.0

The EOBI pension has a minimum amount at Rs 700 and a maximum amount at Rs1600 per month. In June 2004, the registered employers (establishment of 10 or more employees) were 52,856. The number of insured persons registered was around 2.1 million, while 246,000 persons benefited from the scheme till June 2004. It may be noted that coverage of workers is not sufficient since 5.6 million workers were employed in manufacturing and mining sector in FY03. Thus, EOBI scheme needs to broaden its coverage.

Benefits paid by EOBI in terms of pensions have increased from Rs. 914.4 million in FY00 to Rs 1,591.7 million in FY03. This was enabled by the size of EOB fund rising from Rs. 41,514 million to Rs 69,419 million during the same period. However, the last actuarial valuation of the fund (carried out on June 30, 2002) showed that the existing EOBI scheme is not financially viable. Valuation indicated that the Fund would start depleting from the year 2024 and will become negative in 2035. Adequate amendments in the scheme are currently being explored by EOBI to make it viable.

Table 6.7: Investment made by the Workers Welfare Funds

million Rupees

Type of the investment	FY00	FY01	FY02	FY03	FY04
Federal Investment Bonds	2,937.5	2,937.5	2,912.5	2,912.0	2,593.0
Pakistan Investment Bonds	0	500.0	700.0	3,150.0	4,825.0
Term Deposit Receipt	0	0	113.2	139.7	0
Regular Income Certificates	3,850.8	3,850.8	3850.8	2,933.3	500.0
Defence Saving Certificates	1,088.9	1088.9	1,088.9	1,088.9	1,088.9
U.S.$ Bonds	150.0	199.3	199.3	199.3	28.0
WAPDA bonds	0	0	0	500.0	500.0
Total	8,027.2	8,576.5	8,864.6	10,923.1	9,534.9

6.2.2 Workers' Welfare Fund (WWF)

The Workers' Welfare Fund was established under an ordinance in 1971. The objective of Workers Welfare Funds (WWF) is to allocate funds for development projects and other welfare measures. Under the WWF every industrial establishment in the private sector is required to deposit 2 percent of assessable income exceeding Rs 100,000 in an accounting year to the ministry of labor. The other source of income of WWF is the left over amount of Workers Profit Participation Funds and income from investment by WWF. While contribution under WWF Ordinance, 1971 is collected through income tax department and credited into Federal Consolidated Fund, the contribution from left over amount after distribution of workers participation profit collected through district treasury and credited into Federal Consolidated Fund.

Table 6. 8: Shares in Investments the Workers Welfare Funds, 1999-2000 to 2003-04

Types of the investment	FY00	FY01	FY02	FY03	FY04
Federal Investment Bonds	36.6	34.3	32.9	27.9	27.2
Pakistan Investment Bonds	-	5.8	7.9	30.2	50.6
Term Deposit Receipt	-	0.0	1.3	1.3	-
Regular Income Certificates	48.0	44.9	43.4	28.1	5.2
Defence Saving Certificates	13.6	12.7	12.3	10.5	11.4
U.S.$ Bonds	1.9	2.3	2.3	1.9	0.3
WAPDA bonds	-	-	-	-	5.2
Total	100.0	100.0	100.0	100.0	100.0

Funds under WWF are allowed for investment only in Government securities. WWF's portfolio investment indicates that a substantial proportion of WWF are now invested in Pakistan Investment Bonds (PIB) followed by Federal Investment Bonds (FIB) and Defense Saving Certificates (DSC) (see **Table 6.7)**. The gradual decline of WWF's investment in FIBs and Regular Income Certificates (RICs) reflect the maturity of these instruments. On the other hand, investment in PIB increased rapidly because this was best alternative available to the institutional investors As a result, the WWF's share of investment in FIBs and RICs declined from 36.6 percent to 27.2 percent and 48.0 percent to 5.24 percent, respectively during FY00 to FY04, whereas the share of investment in PIBs increased from 5.8 percent in FY01 to 50.6 percent in FY04 (see **Table 6.8**).

Table 6.9: Interest earned by WWF on its investment

million Rupees

Period	Investment	Interest income	Rate of return %
FY99	7,739.8	1032.3	13.3
FY00	8,027.2	1,127.8	14.1
FY01	8,576.5	1,182.1	13.8
FY02	8,864.6	1,301.4	14.7
FY03	10,923.1	1,330.8	12.8
FY04	9,534.9	1,343.6	14.1

The WWF's total investment declined by 12.7 percent to Rs 9.53 billion in FY04 from Rs 10.92 billion in FY03 after a steady increase from Rs 8.0 billion in FY00. The decline was mainly attributed to the maturity of RICs since Rs 2.4 billion RICs reached its maturity in FY04. Over the past five years, rate of return to WWF's investment remained in the range of 12.8 percent to 14.7 percent (see **Table 6.9**). However, the rate of return to investment was the lowest at 12.8 percent in FY03 which was attributable to a decline in interest rates on PIBs which declined from 14 percent FY01 to 8 percent in FY03 due to excess liquidity with the banking sector.

It is noteworthy that in the wake of low interest rates on government securities, WWF was unable to diversify its investments due the regulatory constraint as the Fund was allowed to invest only in Government securities. Thus, there is a need to make a regulatory amendment to allow WWF to invest in other opportunities such as equities. This would enable the Fund to benefit from the increasing profit in equity market.

Table 6.10: Consolidated Statement of Expenditure on account of Releases to Provincial Government

Year	Punjab	Sindh	N.W.F.P	Balochistan	Total
FY00	604.6	311.3	193.6	303.2	1,412.8
FY01	452.6	514.6	392.4	149.5	1,509.1
FY02	692.7	602.1	245.3	170.9	1,711.1
FY03	570.9	366.2	119.9	121.7	1,178.7
FY04	550.8	600.6	263.2	137.9	1,552.4

The funds under WWF are utilized for development projects for welfare of workers at provincial level. **Table 6.10** gives the consolidated statement of expenditure on account of releases to provincial governments. The governing body of WWF allocates funds to provincial governments for the welfare of workers particularly for the establishment of labor colonies, schools and health facilities. The allocation of funds to provincial government does not reflect a clear trend. However, Sindh received the highest allocation at Rs 600.6 million followed by Punjab at Rs 550 8 million, NWFP at Rs 263 2 million and Balochistan at Rs 137.9 million in FY04. Over the past five years, while total grant to provinces remained stagnant the interest income increased from Rs 1.1 billion in FY00 to Rs 1.3 billion in FY04 (see **Table 6.10**). This reflects some fiscal space to raise grant to provinces. Thus, total grant to provinces may be increased for the welfare of workers.

6.2.3 Workers' Participation Fund (WPF)

Under the Companies Profits (Workers' Participation) Act, 1968 and Rules, 1971, every registered company, with 100 or more employees, is required by law to establish a workers' participation fund by paying 5 percent of its net profit to this fund.

Annual income of the fund, including capital gains, are distributed by the company each year to its workers in proportion to their unit of entitlement based on their average monthly wages. Workers are divided into three categories on the basis of average monthly wages: (1) up to Rs 2,200; (2) Rs 2,200-Rs 3,200 and (3) Rs 3,200 to Rs 5,000. The left-over portion of these funds are deposited to the Ministry of Labor which are then transferred to Ministry of Finance for a further transfer to the Workers' Welfare Fund (WWF).

Table 6.11 shows the collection and distribution of funds. Over the past four years Rs 4 billion or above have been allocated each year to Workers' Profit Participation Fund. Of which about an amount of Rs 0.9 to Rs 1.3 billion were distributed amongst the workers every year. As a result, a left over amount of Rs 3 to 4 billion were transferred to Workers Welfare Fund. However, collection under WPF was not fully transferred to the WWF.

Table 6.11: Collection and Distribution of Funds under the Companies Profits (WP) Act,1968 - (1973-74 to 2003-04)

million Rupees

Financial Year	Number of Companies	Total Amount Allocated	Total Amount Distributed	Left over Amount Transferred to WWF	Total Workers Benefited (Thousands)
FY74	433	76	56	20	346.5
FY75	546	100	70	30	223.8
FY76	559	73	43	30	253.7
FY77	470	114	83	31	269.3
FY78	472	114	90	24	259.1
FY79	381	138	87	51	208.8
FY80	439	202	112	90	244.6
FY81	369	238	137	102	226.8
FY82	386	209	110	100	271.2
FY83	397	266	121	145	236.2
FY84	401	311	120	191	208.1
FY85	382	416	157	258	236.6
FY86	567	423	193	230	256.8
FY87	373	380	162	217	193.3
FY88	398	740	351	389	213.2
FY89	427	415	180	235	197.7
FY90	384	745	244	501	233.9
FY91	412	735	214	521	235.3
FY92	360	850	187	663	186.9
FY93	287	1026	279	747	161.6
FY94	274	1039	267	772	160.7
FY95	214	1146	222	924	129.7
FY96	209	720	173	547	110.3
FY97	386	1640	315	1325	270.2
FY98	335	2365	374	1991	262.3
FY99	745	1974	490	1484	368.4
FY00	664	2379	380	1999	292.1
FY01	814	4682	1325	3357	362.4
FY02	565	5031	1132	3899	500.4
FY03	533	5726	1292	4434	331.0
FY04	639	4989	936	4053	778.2

This is mainly due to the fact that while collection of contribution under WWF and left over amount of WPF is credited into Federal Consolidated Fund, the Funds are transferred by the Finance Division to the WWF through budgetary allocations. It is noteworthy that collections under WWF and WPF have never been fully transferred. Collection under these funds implies contribution of companies for workers' welfare rather than a tax collection. It is estimated that a total of Rs 20.7 billion funds have been stuck up with the Finance Division so far. As a result, a little progress has been made for the workers welfare at province level. It is important to note that the insufficient allocation of funds to provinces for workers welfare is one of the main causes for a deteriorating living standard of industrial workers Thus, collection under these funds should not be utilized for budgetary support to the federal government. Rather it should be fully transferred to WWF for further allocation to provinces for the welfare of workers.