

Combating Inequality and Poverty in Pakistan: A case for introducing Universal Basic Income at Home

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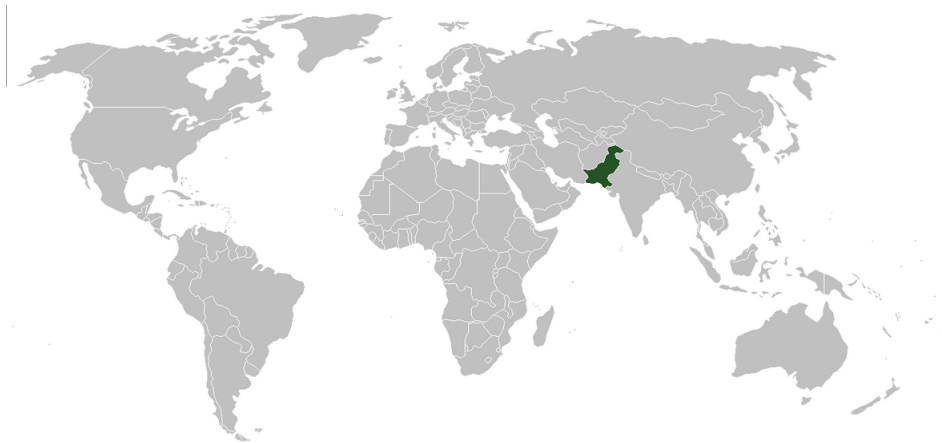


Figure: Pakistan

Pakistan

Some Facts

- Pakistan is the fifth largest country in the world (231.40M).
- In 2023, 38.3 percent of the population is considered to be multidimensionally poor, while an additional 12.9 percent are classified as vulnerable to multidimensional poverty.
- Pakistan ranks 99th out of 116 developing countries with a severe hunger level (Global Hunger Index, 2022) and 154th among 195 countries in access to quality health facilities.
- It has the world's second-highest number of out-of-school children (OOSC) with an estimated 22.8 million children aged 5-16 not attending school.
- Home to one of the largest slums in the world is also located in Karachi, Pakistan - Orangi Town Slum Area (2.4M people).
- Eighth most vulnerable nation to the climate crisis (Global Climate Risk Index).

Policy Options

Benazir Income Support Programme (BISP)

- The BISP is one of the largest social safety programs in South Asia, with eight million beneficiaries.
- Eligibility is determined by calculating a BISP poverty scorecard using the Proxy Means Test (PMT) method developed by the World Bank.
- A household below the threshold score and containing at least one ever-married woman with a valid national identity document is eligible for a cash transfer.
- In January 2022, BISP transfers amounted to PKR. 13,000 biannually.
- Initially disbursed through the Pakistan Post, debit cards were introduced for the transfer of payments.

Policy Options

Programs nested within the Benazir Income Support Programme (BISP)

- Waseela-e-Taleem (2016): a conditional cash transfer program that comprises a supplementary income of PKR 750 per child (aged between 5 and 12) in a household enrolled in the BISP and is conditional upon eligible children maintaining a 70 percent attendance rate each quarter.
- The Waseela-e-Haq program was a micro-credit lending program that comprised giving loans up to PKR. 300,000 to females to come out of the poverty trap and set up a small business. Recipients were selected based on a computerized balloting process and a ten-day training was provided for the female beneficiaries. This program was shut down in 2016.

- What is Universal Basic Income (UBI)?
 - UBI is an income paid by a political community to all its members on an individual basis, without means test or work requirement. It is provided in cash, without any restriction as to the nature or timing of the consumption or investment it helps fund.
 - UBI's unique features: Universality, Unconditionality and Cash Transfer modality have led many to view it as a radical policy.

		Unconditionality (i.e., no willingness to work needed)	
		Yes	No
Universality (no means-test)	Yes	1. Basic income 2. Negative Income Tax	3. Unemployment benefits 4. Old-age insurance benefits
	No	5. Medicaid 6. Child tax credit	7. Earned income tax credit 8. Minimum guaranteed income

Figure: Comparison of similar welfare programs with UBI: Raventós (2015)

Policy against Exclusion

- Pakistan is one of the world's most ethnically and linguistically complex states and is divided into Punjabis, Pathans, Sindhis and Baluchs; religiously it is divided into many factions: Shias, sunnis, Ahmedis, and as many as eighty languages are spoken in Pakistan.
- Research on existing cash transfers has shown that targeted cash interventions can lead to negative spillovers to non-beneficiary households.
- UBI can streamline the distribution of resources without any bias or discrimination towards a particular ethnic or religious group.

Answer to Feminization of Poverty

- Poverty “does not affect people equally, ” with more women disproportionately affected by poverty than men.
- Pakistan is ranked 142 out of 146 countries on the World Economic Forum’s Global Gender Gap Report (2023).
- While there are many pro-poor relief programs where women are direct beneficiaries (like the the BISP), there are two issues that arise with targeted interventions:
 - ① The targeted nature of these programs limits the impact of the policy only to beneficiaries, leaving out many women who are closer to the eligibility threshold.
 - ② In developing countries, where power structures are entrenched in patriarchal customs and norms, women tend to pass their allocated funds to male family members.

Elimination of Stigmatization

- Poverty can cause significant mental and emotional strain that can impede the decision-making process of those trapped in poverty (Mullinathan and Shafir (2013), Mani et al. (2013) and Banerjee et al. (2019)). UBI can help address this issue by providing a direct anti-poverty stimulus.
- Additionally, society has a negative perception of those who receive welfare, characterizing them as lazy and lacking ambition, with recipients experiencing embarrassment, shame, and humiliation when accepting state assistance.
- With everyone receiving cash transfers, the blight of stigmatization can be eliminated, and beneficiaries would not be exposed to constant monitoring and checks and balances by government officials and social workers.

Countering Corruption

- In 2021, Pakistan ranked 140 out of 180 countries on the Corruption Perceptions Index, scoring the worst in a decade.
- UBI has the potential to reduce corrupt incidents:
 - 1 Among the donors: In 2023, it was reported that approximately PKR 19 billion of the BISP's money was unlawfully distributed among government officials. When everyone receives money, incentive for corruption goes down.
 - 2 Among the recipients: UBI has the potential to reduce incidents of tax fraud and under-declaring of income and assets, as there is no incentive to hide new income sources or asset accumulation by beneficiaries (Raventós, 2015).

Ease of Administration

- With literacy rate of 60 percent, Pakistan faces many administrative challenges in implementing social welfare programs.
- The problem of incomplete take-up of social programs due to information barriers is prevalent in developing countries. UBI is “administratively simpler” (Banerjee et al., 2019).
- UBI can lower administrative costs by:
 - 1 The government would no longer be required to collect, assess, monitor, and verify the income data of households to determine eligibility for conditional schemes.
 - 2 Recipients would not be required to complete forms or incur the costs associated with paperwork in order to verify their eligibility.

Creation of the Idle Class?

- Concerns that UBI will influence people to spend more on temptation goods (tobacco and alcohol).
- Evidence in research Evans and Popva (2014), Banerjee et al. (2015), Banerjee et al. (2017) show that transfer programs do not have any effect on work behavior for either men or women and that transfers do not increase spending on temptation goods.
- UBI may potentially reduce, but not completely eliminate, the incentives to work, unlike conditional programs since the stipend provided under UBI is modest and intended to cover the basic necessities of life. To enhance their quality of life, individuals would be better off working than remaining unemployed, and thus, would seek employment in the formal sector.

UBI around the World

	Date	Recipients	Universal	Long-term	Basic	Randomized controlled trial	
Completed pilots	New Jersey	'68-'72	1,216	X	X	✓	✓
	Seattle & Denver	'70-'80	4,800	X	X**	✓	✓
	Rural Iowa & North Carolina	'70-'72	809	X	X	✓	✓
	Gary, Indiana	'71-'74	1,799	X	X	✓	✓
	Manitoba, Canada (Mincome)	'75-'78	1,300	X*	X	✓	✓
	Alaska Permanent Fund Dividend	'82-today	state-wide	✓	✓	X	X
	Eastern Band of Cherokees, North Carolina	'96-today	15,000	X	✓	X***	X
	Otjivero-Omitara, Namibia	'08-'09	930	✓	X	✓	X
	Madhya Pradesh, India	'11-'12	6,000	✓	X	X	✓
Current / Upcoming	Mein Grundeinkommen, Germany	'14-today	250	X	X	✓	X
	Finland	'17-'19	2,000	X	X	✓	✓
	Utrecht, Netherlands	'17-today	250	X	X	✓	✓
	Ontario, Canada	'17-'18 <i>cancelled</i>	4,000	X	X	✓	✓
	Stockton, California	'19-today	130	X	X	✓	X
	Y Combinator, United States	'19	3,000	X	X	✓	✓
	Kenya - GiveDirectly	'16 to today	20,000	✓	✓	✓	✓

*Included a single saturation site as part of overall study; **Provided long-term payments to very small subset (169 families; payments stopped before promised); ***Varies with profits

Figure: Prior Studies on UBI by NGO, GiverDirectly

UBI: Developed vs Developing World

It is crucial to distinguish the objectives and consequences of UBI as a policy in both developed and developing contexts. This classification is vital as the goal of UBI for both countries might be the same, but the motivations for initiating such a policy differ significantly between the two economies.

- In the context of developing countries, supporters of UBI are primarily focused on eliminating extreme poverty and promoting "human freedom and dignity" in the face of low living standards.
- Wealthy nations aim to establish a version of UBI to address the labor market disruption brought about by automation and globalization rather than the motivation to eradicate poverty.

Evidence from the Developing World

- The program in the Indian state of Madhya Pradesh provided basic income to approximately 6000 residents in nine villages between 2011 and 2012. The two pilots led to improved living conditions, school attendance, and health outcomes such as nutrition for the recipients of the program.
- The Basic Income Grant (BIG) pilot project in Namibia (2008) showed a reduction in school dropout rates by 30 – 40 percent and improvement in children's nutrition, with underweight children falling from 42 percent to 17 percent within the first six months.
- In 2011, as part of reforming energy and bread subsidies, Iran introduced a nationwide cash transfer program for all citizens. Despite concerns about the negative effect of large flows on unearned income, Salehi-Isfahani and Mostafavi-Dehzooei (2017) find no evidence of negative effects on labor supply for either the number of hours worked or the probability of participation in the labor market.

- Implications for any policy are “country-specific”. Therefore, although Pakistan can learn from the results of the programs implemented in other low-income countries, it is imperative that more resources are allocated for studying UBI in a local context.
- What is the financing mechanism for UBI payments?
 - ① Negative Income Tax
 - ② Natural Dividend
 - ③ Freedom Dividend
- What is the optimum payment that should be made under UBI?