

ASIAN DEVELOPMENT BANK

TAR: IND 36346

TECHNICAL ASSISTANCE

(Financed by the Government of the United Kingdom)

TO

INDIA

FOR

PENSION REFORMS FOR THE UNORGANIZED SECTOR

November 2003

CURRENCY EQUIVALENTS

(as of 3 November 2003)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.22
\$1.00	=	Rs45.32

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
MOF	–	Ministry of Finance
NGO	–	nongovernment organization
PFRDA	–	Pension Fund Regulatory and Development Authority
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of India requested the Asian Development Bank (ADB) to provide technical assistance (TA)¹ for considering the possible options in devising voluntary privately managed pension schemes that could be offered to all eligible participants from the unorganized, or informal, sector of the Indian economy. The schemes to be proposed will attempt to provide a retirement savings instrument for meeting the old age security needs of India's unorganized sector that will complement existing social protection arrangements available to workers in the formal economy. Accordingly, a TA grant in the amount of \$1,000,000 has been included for the above project in the Country Strategy and Program to India for 2003.

2. An earlier TA² was provided for designing a framework for structuring a more efficient, transparent, and sustainable private sector pension and provident fund system in India.³

3. The present TA proposal is part of ADB's continuing support to address the reform of India's pension system as part of domestic capital market development critical to moving the infrastructure agenda and financing economic growth, and for meeting the social protection needs of India's growing population as part of the effort to help the poor. A TA Fact-Finding Mission visited India from 26 June to 1 July 2003 to discuss with the Ministry of Finance (MOF) and other key stakeholders concerned with the reform of India's pension system the possible scope of assistance and implementation requirements for the proposed TA. A staff consultant (pension expert) assisted the Mission and the Government in determining the key factors to address in implementing the TA to meet the desired objectives of the Government. This report reflects the findings of the Mission and the understanding reached with the Government on objectives, scope, cost, implementation arrangements, and terms of reference for the TA. The TA framework is in Appendix 1.

II. ISSUES

4. Informal sector workers dominate the Indian labor market and represent some 90% of the total Indian workforce. India's unorganized sector is one of the largest, if not the largest, in the postindustrial world. As a matter of statistical definition, the organized sector in India according to the *National Accounts Statistics of India* comprises employment in the public sector and recognized educational institutions, and employment in enterprises registered under the Indian Factories, Bidi and Cigar Workers, Co-operative Societies and Provident Fund Acts. For statistical purposes, the remainder of the workforce is classified as being in the unorganized sector (see table). In more generic terms, informal employment comprises both self-employment in informal enterprises (small or unregistered)—including employers, employees, own account operators, and unpaid family workers—and wage-based employment undertaken without a transparent employment contract in both informal and formal sector enterprises.

¹ The TA first appeared in *ADB Business Opportunities* on 13 March 2003.

² ADB. 1999. *Technical Assistance to India for Reform of Private Pension and Provident Funds System and Employees' Provident Fund Organization*. Manila.

³ Although the TA was considered highly successful in facilitating the financial and operational restructuring of the Employees Provident Fund Organization, more work appears needed in developing a viable policy framework for private pensions in India as the size of the private sector pensions and varying interests of different Government agencies involve considerable consensus building.

Short Profile of India's Unorganized Sector, 2000

Item	Men	Women	Total
Total Employment (million)	274	123	398
Total Informal Employment (million)	252	118	370
% Employed in Agriculture	58	78	64
% Employed in Nonagriculture	42	22	36
% in Informal Enterprises	35	19	30
% of Nonagricultural Workers			
In Rural Areas			45
In Urban Areas			55
% Share of Net Domestic Product			60
% Share of Nonagricultural Net Domestic Product			45

Source: Staff consultant report under TA 3473-IND: Development of a Secondary Market.

5. Existing old age income security schemes and life insurance products have achieved coverage for only a small fraction of this group. As envisaged, the pension schemes for the unorganized sector will offer coverage on a voluntary basis to India's 370 million informal sector workers, including those on lower incomes. Features of the scheme include flexible contribution arrangements in both size and frequency, reflecting the volatility of many unorganized sector workers' incomes, privately managed investment funds offering the prospect of market rates of return, and a low-cost administrative environment to protect the real value of lower-income investors' contributions. Contributions will be credited to individual accounts and will be fully vested. Benefits, which are to be fully funded, will be mainly in the form of annuities. Entitlements under the scheme are to be fully portable through a network of private sector service providers. The Government has also stressed that the arrangements must be budget neutral. These initiatives provide a window for major social reform in India but will present significant challenges for the proposed pension fund regulatory and development authority (PFRDA) that will have the lead general management as well as regulatory role for the overall pension system.⁴

6. A central issue is estimating the size of the potential market for the scheme. Establishing pension schemes for workers in the unorganized sector relies critically on a working understanding of the size, composition, and dynamics of the sector. India, more than most developing economies, has concentrated resources on developing data sets in this respect, but there are still critical gaps for policy planning purposes. Critical data gaps that need to be closed for this purpose are the number, location and income distribution of the unorganized sector, and a knowledge gap concerning the attitudes and perceptions of potential contributors.

7. Closing these data gaps through specially designed surveys will be essential both for evaluating needs and capacities and for developing effective marketing strategies for reaching out to the sector. Once these data are obtained, they can be used to produce participation targets by both occupational status and location. Monitoring and evaluating progress with the attainment of targets is a key strategic task. Without a strategic planning process in place at the PFRDA, adverse outcomes in attaining objectives are highly probable.

⁴ As part of the 2003 union budget, the Government announced two new initiatives. The first is to discontinue unfunded pension arrangements for new entrants to the civil service in favor of a fully funded defined contribution scheme with funds to be privately managed. This is being assisted by a TA from the World Bank. The second initiative is to establish as soon as possible a new regulatory authority, the PFRDA to manage the new pension arrangements. The Government approved on 23 August 2003 the setting up of an interim PFRDA until the statutory PFRDA is established.

8. Available evidence indicates that greater numbers of women are in low paying informal sector work and consequently have lower capacities to pay pension contributions. However, notwithstanding a generally lower capacity to pay, women may see a greater incentive to participate in income security schemes on offer. This situation poses some special challenges in locating women who have the capacity to pay pension contributions if they are to share in the benefits of the new scheme. Further research, in cooperation with the nongovernment organization (NGO) sector, is required to develop appropriate strategies for promoting women's participation in the scheme. A summary initial poverty and social analysis report is provided in Appendix 2.

9. Given the breadth of the proposed reforms, the complexity of the tasks to be undertaken, and the extensive range of private sector players, the new PFRDA that is to implement the new scheme will require considerable support in, among others, (i) developing a strategic framework for pension system development, (ii) developing the necessary capabilities and establishing the required systems and procedures to carry out its tasks, (iii) meeting its funding requirements through an appropriate budget, and (iv) adopting principles of good governance in managing India's pension system. A key task will be to scope out appropriate powers, and define responsibilities and governance requirements for the PFRDA. An enabling legislation along with implementing regulations will be a crucial first step. Given the breadth and complexity of the responsibilities, it will be important at an early stage to identify an optimum organizational structure and staffing pattern for the PFRDA and to facilitate the strategic planning processes to guide its activities in rolling out the regulatory, administrative, and management requirements for the new schemes. Structuring fund management and service provider agreements in line with international best practice and building capacity in the PFRDA to effectively manage those arrangements will be required to position the PFRDA to meet the objectives of the reform.

10. Voluntary pension schemes for unorganized sector workers exist in many countries but typically as a supplementary tier in a larger framework of pension provision. Planning for the new scheme in India therefore takes us into somewhat uncharted waters and, if successful, could be a model for other countries to consider.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The TA will lay the foundation for developing a pension system for the unorganized sector that will provide old age security to this sector that remains outside the ambit of social protection provided to the formal sector. The first priority would be to gain a better understanding of the needs and capacities of this sector. Data gathering crucial for estimating the size of the sector and determining income distribution and preferences will be key to developing relevant products and strategies. A nationwide survey will be conducted to close this critical data gap.

12. After an evaluation of the data gathered, specific strategies and pension schemes that address the needs of the unorganized sector will be developed including an appropriate regulatory and development framework. It will be important to conceptualize the structure, scope of powers and responsibilities, functions and governance requirements of the proposed PFRDA in parallel with the development of pension schemes for various sectors. The TA will facilitate the drafting of associated legislation and appropriate pension regulations for the unorganized sector as well review the interface between the PFRDA and other regulators in the financial markets.

B. Methodology and Key Activities

13. The TA will aim to close data gaps through a specially designed national survey including attitudinal determinants, to be conducted by a domestic entity with the required network and statistical capability to undertake the work; and develop a strategic classification of the possible participants from the unorganized sector, critical to understanding the size, composition, and dynamics of the sector. Through the survey and in cooperation with NGOs, the TA will also identify potential women participants, their number and size and location, capacity to pay, and willingness to participate in possible pension schemes. A consensus-building meeting of stakeholders will be held to discuss the findings of the survey and agree on the definition, size, classification, and description of India's unorganized sector.

14. Based on an evaluation of survey results and other data gathered and their implications, possible pension schemes that meet Government requirements and the identified needs of the unorganized sector will be developed and appropriate marketing strategies laid out to reach the potential target markets. The TA will also identify gaps in pension provision and services where suitable Government support may be necessary, or where further research may be required.

15. Subsequently, the TA will determine the most suitable service providers that will comprise the network and system through which suitable pension schemes may be offered and that will facilitate participation by the target unorganized sector on a sustainable basis.

16. Finally, the TA will design the legislative and the regulatory framework and incentive structure to promote the orderly development of the pension system for the sector. The TA will propose powers, responsibilities, and governance requirements of the PFRDA in line with unorganized sector requirements and in line with best practices. The TA will help design an appropriate organizational structure and staffing for the PFRDA in line with its unorganized sector pension responsibilities. A 2-week study tour will be prepared for 4-6 key officials from MOF and the PFRDA to visit and discuss with organizations in more developed economies their experience with promoting and managing private pension arrangements.

C. Cost and Financing

17. The total cost of the TA is estimated at \$1,250,000 equivalent, of which \$590,000 will be in foreign exchange, and \$660,000 equivalent in local currency. ADB will finance \$1,000,000 equivalent, which comprises the entire foreign exchange cost and \$410,000 equivalent of local currency cost, to be provided on a grant basis by the Government of the United Kingdom and to be administered by ADB. The remaining \$250,000 equivalent will be contributed by the Government and will include office accommodation, counterpart staff remuneration, and other logistical support. The detailed cost estimates and financing plan are in Appendix 3.

D. Implementation Arrangements

18. MOF's Department of Economic Affairs (Capital Markets Division) will be the Executing Agency (EA) for the TA and will provide necessary office space, counterpart support and other services to the consultants. The EA has agreed to assign a counterpart team to implement the TA and facilitate coordination with other relevant agencies and stakeholders. The TA is expected to begin by end January 2004 and be completed by January 2005. The consulting team will have three international consultants (14 person-months total) and two domestic consultants (8 person-months total). The domestic consultants will coordinate their work with the international consultants. An international consulting firm with wide experience and exposure in

pension reform, systems and pension's product development in developed and developing countries will be engaged. In conducting the nationwide survey, the international consulting firm will collaborate with a local firm with a network of data specialists, statisticians, and social sector research experts. In view of the specialized expertise required for the project, the international consulting firm will be recruited, using simplified technical proposals under the quality-based selection method in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB on engagement of domestic consultants. The terms of reference for the consultants are in Appendix 4.

19. The local firm that will do the nationwide survey in collaboration with the international firm over 6 months will submit its planned work program, distribution strategy and target respondents, geographical coverage, and specific outputs within 1 week of engagement. The firm will submit survey questionnaire and methodologies to be used in the survey to the EA, the international consulting firm, and ADB within 2 weeks of engagement. After securing agreement, the local firm will undertake the survey. At the end of 3 months, it will submit a preliminary report of its findings to the EA, the international consulting firm, and ADB. Any adjustments or additional information, or clarifications that may be required will be communicated at this point to the local firm. Two weeks before the completion of services, a draft final report incorporating changes that may have been required will be submitted and a workshop will be held with various stakeholders including representatives from the EA, the international consulting firm, and ADB to present the findings of the survey and agree on a common definition and classification of the unorganized sector and its description.

20. The international consulting firm will initially provide its views on the recommendations of the local firm in the conduct of the nationwide survey to ensure that the survey results provide the necessary background to its own deliverables. It will prepare an inception report within 3 weeks of the start of its services in the field. The start of services will allow for a proper interface with the local firm before the survey results and report are finalized. An interim report will be submitted at the end of the first 4 months. A workshop for representatives from the EA, other stakeholders, potential service providers, and ADB to agree on strategies and overall design of the pension schemes, legislative provisions, implementing regulations, and process of oversight over the proposed pension system for the unorganized sector, as well as terms of agreements covering the participants and the service providers will be held 1 month before completion of services. A draft final report will be submitted to form the basis of discussions in a tripartite meeting among the EA, the international consulting firm, and ADB to be held 2 weeks before the finalization of the report, to consider results of discussions at the workshop and the plan for implementing the pension program. The study tour (para. 16) for 4-6 key officials from MOF and PFRDA for meeting with organizations in more developed economies will take place after the submission of the interim report. The findings of the study tour will form part of the draft final report. The draft final report will include a blueprint of the legal, regulatory, and institutional framework for the PFDRDA.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,000,000 to the Government of India to be financed on a grant basis by the Government of the United Kingdom for Pension Reforms for the Unorganized Sector, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Extend benefits of old age security to the unorganized sector of India</p>	<p>New pension schemes defined for the unorganized sector</p> <p>Pension schemes developed for target participants from the unorganized sector, absorbing all those willing to participate</p> <p>Expanded participation by and coverage of participants from the unorganized sector</p> <p>Increased number of pension contributions through expanded coverage</p>	<p>Consultants' reports</p> <p>Government reports and policy dialogue</p> <p>Market feedback</p> <p>Related studies conducted by bilateral and multilateral organizations</p> <p>Asian Development Bank (ADB) review missions</p>	<p>Concerned agencies express commitment.</p> <p>Stakeholders have a consensus on the proposed design.</p> <p>Stakeholders cooperate with consultants.</p> <p>Pension schemes and their benefits are effectively communicated and marketed.</p> <p>Affordable and user-friendly schemes that meet the needs of the unorganized sector are developed.</p> <p>Network of service providers that provide adequate coverage is established.</p> <p>Response of participants from the unorganized sector to the proposed pension schemes is positive.</p>
<p>Purpose Prepare voluntary privately managed pension schemes to be offered to target participants in the unorganized or informal sector of the Indian economy</p> <p>Help establish a regulatory, administrative, management, and incentive framework and system for the proposed pension scheme for target participants from the unorganized sector</p>	<p>Affordable and user-friendly pension schemes developed for the unorganized sector</p> <p>Proposed Pension Fund Regulatory and Development Authority (PFRDA) vested with proper authority and organized to regulate and supervise of the pension system covering the unorganized sector</p>	<p>Consultants' reports</p> <p>Policy dialogue</p> <p>Market feedback</p> <p>ADB review missions</p> <p>Consultants' reports</p> <p>Passage of Government legislation creating the PFRDA</p> <p>Establishment of the PFRDA and its operationalization</p> <p>ADB review missions</p>	<p>Stakeholders, particularly pension service providers and target participants from the unorganized sector cooperate.</p> <p>The Government is committed to pursue creation of the PFRDA.</p> <p>Budget is provided and PFRDA capacity to oversee the development of the pension system for the unorganized sector is developed.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>1. Outputs</p> <p>Database to support pension system development for the sector unorganized sector and PFRDA management and promotional activities</p> <p>Strategic classification of the unorganized sector for planning and implementation purposes</p> <p>Income and attitudinal surveys to close data gaps and develop bases for determining target market, tailor-fit pension product schemes, and develop marketing strategies for reaching out to the target participants</p> <p>Workshop(s) involving Government and other key stakeholders on above</p>	<p>Survey conducted and data base established on the unorganized sector</p> <p>Strategic classification of unorganized sector workers established</p> <p>Target market defined in terms of strategic classification, geographic location, income capacity and preferences</p> <p>Workshops held and consensus reached on definition of unorganized sector and proposed coverage and target participants</p>	<p>Consultants' survey reports</p> <p>Stakeholder consultations</p> <p>ADB review missions</p>	<p>Noncooperation of target participants from the unorganized sector</p> <p>Likely impediments in accessing information</p> <p>Authenticity and accuracy of data</p> <p>Disagreements among stakeholders, including Government on definition of and target participants from unorganized sector</p> <p>Stakeholders, including Government's agreement over proposed classifications</p> <p>Cooperation of target participants</p> <p>There may be failure to reach consensus on recommendations</p>
<p>Activities</p> <p>(i) Develop an unorganized sector database to support PFRDA management and promotional activities including a strategic classification of the unorganized sector for planning and implementation purposes</p> <p>(ii) Plan and conduct income and attitudinal surveys to close data gaps</p> <p>(iii) Conduct workshops involving Government and other key stakeholders for consensus building on survey results and marketing strategies</p> <p>(iv) Study relevant gender issues in conjunction with the nongovernment organization (NGO) sector to guide marketing activities</p> <p>(v) Develop a model for assessing old age poverty impacts of the new scheme</p>			

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>2. Outputs An appropriate pension system plan for the private sector in India that meets the country's old age security requirements on a sustainable basis based on the findings of the data survey</p> <p>A suitable study tour for key officials of the Government and the PFRDA to expose them to best-practice models for promoting and managing private pensions</p>	<p>Suitable pension product schemes developed and marketing strategies established based on survey results</p> <p>Network of service providers, accreditation and certification, and performance and risk rating systems and model agreements established</p> <p>Strengthened capacity for pension delivery and management</p>	<p>Consultants' reports</p> <p>PFRDA database/reports</p> <p>Market feedback</p> <p>ADB review missions</p> <p>Consultants' report</p> <p>PFRDA feedback</p>	<p>Potential pension service providers and target participants cooperate</p> <p>Sufficient skilled resources are available</p>
<p>Activities</p> <p>(i) Recommend a pension system design plan for the private sector pension in India that meets the country's old-age security requirements on a sustainable basis based on the findings of the data survey</p> <p>(ii) Review available data and consult with existing pension providers to develop pension product schemes and cost-effective marketing strategies for promoting the new pension arrangements among participants from the unorganized sector. Recommend strategies benchmarked against successful strategies employed elsewhere</p> <p>(iii) Develop a detailed implementation plan for the recommended marketing strategies, including management tools for the PFRDA to monitor and evaluate effectiveness</p> <p>(iv) Organize a suitable study tour for key officials of the Government and the PFRDA for exposure to best practice models in promoting and managing private pensions</p>			

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>3. Outputs A legislative, regulatory, and management framework for PFRDA under the new pension schemes</p> <p>An appropriate organizational structure and staffing establishment for the PFRDA</p>	<p>Establishment of legislative provisions, implementing regulations and oversight system at the PFRDA</p> <p>Definition of powers, responsibilities and governance requirements of the PFRDA in line with unorganized sector requirements and best practices</p> <p>Design of an appropriate organizational structure and staffing for the PFRDA in line with its unorganized sector pension responsibilities</p>	<p>Government reports and policy dialogue</p> <p>Consultants' reports</p> <p>ADB review missions</p>	<p>Concerned Government agencies express their commitment</p> <p>Concerned Government agencies express their commitment</p>
<p>Activities</p> <p>(i) Review proposed powers, responsibilities, and governance requirements of the PFRDA for unorganized sector requirements and best practice</p> <p>(ii) Design an appropriate organizational structure and staffing establishment for the PFRDA</p> <p>(iii) Draft appropriate pension regulations and associated enabling legislation for the unorganized sector</p> <p>(iv) Review draft fund management regulations, identify issues concerning the interface between the PFRDA and other regulators, and recommend desirable adjustments</p> <p>(v) Develop a template for service provider arrangements</p> <p>(vi) Building PFRDA capacity for essential ongoing data collection and analysis and to effectively manage service provider arrangements for the unorganized sector</p> <p>(vii) Establish and guide strategic planning processes in the PFRDA</p> <p>(viii) Develop option-based scenarios for achieving a low-cost administrative environment</p>			

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Inputs 14 person-months of international consultants and 8 person-months of domestic consultants</p> <p>Survey results</p> <p>Support from finance and labor ministries and the PFRDA</p> <p>Workshops outcomes</p>	<p>Implementation of activities specified as outputs</p> <p>Preliminary report submitted at the end of 3 months</p> <p>Draft final report on the survey results submitted 2 weeks before completion of the survey assignment</p> <p>Presentation of inception report by international consulting firm within 3 weeks of the start of services</p> <p>Interim report submitted at the end of first 4 months</p> <p>Workshop held 1 month before completion of services of international consulting firm</p> <p>Draft final report submitted for tripartite meeting to be held 2 weeks before finalizing report</p> <p>Draft final report to include findings of study tour</p> <p>Final report submitted by January 2005</p>	<p>Consultants' reports</p> <p>Consultation and dialogue with the executing and implementing agencies and consultants</p> <p>Progress reports</p>	<p>Ministries, PFRDA, and service providers give commitment and cooperation</p>

SUMMARY INITIAL POVERTY AND SOCIAL ANALYSIS (IPSA) REPORT FORM

A. Linkages to the Country Poverty Analysis

Sector identified as a national priority in country poverty analysis? Yes	Sector identified as a national priority in country poverty partnership agreement? No
<p>Contribution of the sector/subsector to reduce poverty in India:</p> <p>India's unorganized sector is one of the largest in the world. According to latest estimates, barely 34 million (or less than 11%) of the estimated working population in India are eligible for formal provisions meant to provide old age income security. Therefore, almost 90% of India's workforce are not eligible to participate in any scheme that enables them to save for economic security during their old age. Informal employment comprises both self-employment in informal enterprises (small and/or unregistered) including employers, employees, own account operators and unpaid family workers, and wage-based employment undertaken in both informal and formal sector enterprises without a transparent employment contract. Many observers perceive the unorganized sector as separate from the formal sector and—apart from self-employed professionals—comprises workers doing marginal economic activities producing low rates of reward (or remuneration) and whose most distinguishing feature is their poverty. In India's case, a considerable number of potential contributors to the proposed pension arrangements are workers in small formal sector enterprises and low-paid formal sector workers who are actively excluded from participation in the Employees Provident Fund and associated schemes by virtue of these factors alone.</p> <p>India is yet to have a unique social security number although attempts have been initiated for contributors to the Employees Provident Fund. This together with the high costs associated with implementation makes it impossible to have a mandatory pension scheme for all. Specifically for the unorganized sector, schemes such as the Public Provident Fund Scheme have largely failed in attaining its objective of inducing savings.</p> <p>The envisaged pension scheme for the unorganized sector will offer coverage on a voluntary basis to India's 370 million informal sector workers, including those on lower incomes. Features of the scheme include arrangements for flexible contributions, in both size and frequency, reflecting the volatility of many unorganized sector workers' incomes. This would increase the rate of savings, which would lead to a higher rate of capital accumulation and economic growth, crucial for a developing country like India.</p>	

B. Poverty Analysis

Improved Governance/ Economic Development

<p>Informal sector workers constitute a large and increasing part of the labor force and most of them are unwilling to contribute a significant percentage of their incomes to finance formal sector pension benefits that do not meet their priority needs. Increasing coverage and motivating participation are likely under pension schemes where a worker can clearly see the direct relation between contributions and benefits. The voluntary pension scheme to be established for the informal sector will (i) help provide old age security for the poor, (ii) improve overall labor market mobility, (iii) facilitate economic growth, (iv) deepen capital markets, and (v) lead to an increase in the national savings rate. It should create new opportunities for self-discipline in savings and help increase investment in human capital and physical assets.</p>

C. Participation Process

<p>Stakeholder analysis: Yes.</p> <p>A proposal to establish a pension scheme for workers in the unorganized sector relies critically on a working understanding of the size, composition, and dynamics of the sector. All stakeholders agree that part of the critical path to succeeding with the new pension scheme is to identify strategies to encourage the participation of workers. Off-the-shelf solutions are not available, although some countries, such as Australia, have made good progress in this respect—contribution model, products, and services. There are also some interesting examples worth studying of attempts in developing economies to effectively target informal sector workers. In both the Philippines and Malaysia, for example, pension compliance and take-up strategies include linking registration processes for enterprises to pension objectives. Interest in registering small informal sector enterprises is an emerging policy concern in many parts of the developing world for health and safety reasons. Operators of informal enterprises are generally positive about such initiatives, which provide better levels of security from harassment and better secure their position in the marketplace. Linking interest in greater regulation of the unorganized sector to pension promotional activities therefore would be one strategy worth considering. Efforts to understand the attitudes of unorganized sector workers</p>

through the use of sample surveys for this purpose, so that promotional activities can be informed and well directed, are highly desirable, if not essential. Equally, without a good sense of the informal sector workers capacities to pay pension contributions and at what levels, marketing efficiencies will be lost. More comprehensive and structured data on income distributions is required. Structured data will also permit segmentation of the market and is likely to be a key marker for suggesting an effective phasing approach for marketing activities. This topic will be covered in the data survey proposed under the technical assistance.

D. Gender and Development

There is a gender imbalance in informal work in India, with a higher proportion of the female workforce than male workers engaging in informal employment. In some informal work activities, women represent a majority of the total workers despite their overall lower labor force participation rates, e.g., home-based work.

Available evidence also indicates that women are more likely to be involved in low-paying work activities and may have a lower capacity to pay pension contributions than their male counterparts. Informal sector work for women generally, including in the Indian case, is less visible in that women are concentrated in home-based work. A survey conducted in the city of Ahmedabad in the state of Gujarat shows that 70% of female employment is undertaken at home or in the homes of others.

This situation poses some special challenges in locating women who may have the capacity to pay pension contributions and can share in the benefits of the new scheme. Among the many questions that remain unanswered at this point is whether female attitudes toward saving for retirement differ from those of men. Recent studies indicate that women in India fall back on family support during old age, or continue to work. Given the changing social and economic dynamics in India, both possibilities are likely to become increasingly problematic in the future. It may be that women, notwithstanding a generally lower capacity to pay, may see a greater incentive to participate in income security schemes on offer.

The data/attitudinal survey proposed under the technical assistance is expected to address the preceding issues.

E. Social Safeguards and other Social Risks

	Significant/ Nonsignificant/ None	Strategy to Address Issues	Plan Required
Resettlement	None	No issues under the proposed pension scheme	None
Indigenous Peoples	None	No issues under the proposed pension scheme	None
Labor	None	Positive labor impact is expected.	No
Affordability	Voluntary contribution	Attitude and willingness to save will be covered under the proposed survey	Will be assessed under the data/attitudinal survey
Other Risks/ Vulnerabilities	None	No other adverse issues are anticipated.	No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Government of the United Kingdom Financing			
1. Consultants			
a. Remuneration			
i. International Consultants	350	0	350
ii. Domestic Consultants	0	35	35
b. Per Diem			
i. International Consultants	80	0	80
ii. Domestic Consultants	0	20	20
c. International and Local Travel	30	10	40
2. Survey	0	300	300
3. Workshops	0	15	15
4. Study Tour	40	0	40
5. Miscellaneous Administration and Support Costs	10	5	15
6. Contract Negotiations	5	0	5
7. Contingencies	75	25	100
Subtotal (A)	590	410	1,000
B. Government Financing			
1. Office Accommodation and Utilities	0	130	130
2. Remuneration of Counterpart Staff	0	40	40
3. Communication	0	35	35
4. Contingencies	0	45	45
Subtotal (B)	0	250	250
Total	590	660	1,250

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. Pension System and Strategy Expert/Team Leader (6 person-months)

1. As team leader, the consultant will be responsible for overall management of the technical assistance (TA) and timely delivery of outputs. The expert must have an extensive background in designing, establishing and managing of private pensions systems. Experience in those respects in both developed and developing economies will be preferred. The consultant will have the following responsibilities:

- (i) Supervise the preparation and conduct of the survey by the local firm to gathering data, and ensure adequate coverage to arrive at workable proposals for the design of a pension system for the unorganized sector and the development of suitable pension product schemes.
- (ii) From the findings of the survey, recommend an appropriate design for the proposed voluntary privately managed pension system that meets the old age security requirements of participants from the unorganized sector in India on a sustainable basis.
- (iii) Using the survey results, consult with existing pension providers to develop cost-effective marketing strategies for promoting the new pension arrangements among target participants from the unorganized sector. Recommended strategies should be benchmarked against successful strategies employed elsewhere.
- (iv) Develop a detailed implementation plan for the recommended marketing strategies, including management tools for the Pension Fund Regulatory and Development Authority (PFRDA) to monitor and evaluate effectiveness.
- (v) In coordination with the pension product schemes and development expert, establish the network of pension service providers that will facilitate and provide ready access to affordable pension product schemes for the target participants from the unorganized sector.
- (vi) Develop an appropriate organizational structure and staffing for the PFRDA defining key result areas and functions in line with its unorganized sector pension responsibilities.
- (vii) Identify capacity building requirements of the PFRDA to effectively manage proposed marketing strategies, recommend suitable training programs for this purpose, and conduct a training workshop for key government and PFRDA staff.
- (viii) Identify best practice models for offering financial advisory services to unsophisticated individual investors, and develop low-cost options for effective services of this type that can be offered to pension contributors to ensure informed choices between the various investment strategies on offer.
- (ix) Develop an implementation plan, including training requirements and monitoring and evaluation techniques for incorporating the preferred financial advisory services option into the service provider network.
- (x) On the basis of international best practices, prepare a detailed template for the scope and content of service provider agreements that include robust performance measures and appropriate sanctions.
- (xi) Organize a suitable study tour for key officials of the Ministry of Finance and the PFRDA to provide exposure to best-practice models in promoting and managing voluntary, privately managed pension product schemes.

- (xii) Guide the PFRDA in establishing a mission-driven strategic planning framework for carrying out its responsibilities through a series of workshops for this purpose.
- (xiii) In consultation with the PFRDA and other stakeholders, help the PFRDA draft an initial corporate plan and a detailed set of business plans and budget with clearly defined objectives, activities, and performance measures.

2. Pension Funds Legal, Regulatory, and Supervision Expert (4 person-months)

2. The consultant will be a legal expert with extensive experience in regulating and supervising of privately managed pension systems in both developed and developing economies. The specific tasks of the consultant are as follows.

- (i) Recommend legislative and a regulatory framework to enable a pension system for the unorganized sector to operate and develop.
- (ii) Review adequacy of the powers, checks and balances, and governance framework of the PFRDA in accordance with international best practices and in line with requirements of the Government's plan to establish a voluntary, privately managed pension scheme for the unorganized sector.
- (iii) Recommend accreditation criteria and a formal process of accreditation for pension service providers that will be allowed to offer pension product schemes and manage pension funds of participants from the unorganized sector.
- (iv) Recommend a suitable certification process and procedures for specified personnel of pension service providers that will be allowed to promote and sell pension product schemes to the unorganized sector.
- (v) Prescribe information disclosure requirements for pension service providers that promote transparency in their operations and provide easy understanding for participants from the unorganized sector.
- (vi) Design an appropriate oversight and reporting and performance rating system for pension service providers that, if possible, allows immediate detection of deviations from the prescribed portfolio mix and structures and increases in volatility and risk of managed fund portfolios, and focuses on the needs of participants from the unorganized sector.
- (vii) Recommend the promotion and establishment of rating agencies for pension service providers that, among others, calculate fund yields over extended time periods and review risks of portfolios.
- (viii) Prepare a plan for setting up an appropriate structure under the PFRDA to supervise and build PFRDA's capacity to undertake risk reviews and investigations, and to pursue cases of violations of laws and regulations in the proper courts.
- (ix) Prescribe appropriate sanctions and penalties for violations of laws and regulations pertaining to the operations of pension service providers for the unorganized sector.
- (x) On the basis of international best practices, help the team leader prepare a detailed template for the scope and content of service provider agreements that include robust performance measures, appropriate limitations, and legal recourse;
- (xi) Identify issues in relation to, and make recommendations for, a smooth transition of powers from the interim regulator to the PFRDA.

- (xii) Identify issues concerned with the interface between the PFRDA and other Indian pension and capital market regulators and recommend strategies for dealing with such issues.
- (xiii) Recommend fiduciary standards, disclosure requirements, and auditing procedures for privately managed pension schemes.

3. Pension Product Schemes and Development Expert (4 person-months)

3. The consultant should have extensive experience in designing and developing pension product schemes in both developed and developing economies. The specific tasks of the consultant are as follows:

- (i) Drawing on the results of the data survey, and regional and international experiences, and examining the existing products, propose specific products and sustainable pension schemes that address the needs of the unorganized sector; provide detailed features of recommended product schemes including specifications for support systems such as software, accounting, reporting, yield measurements, and risk management.
- (ii) Develop and prepare a system for the PFRDA that identifies key factors for evaluating, rating, and approving pension product schemes, particularly those targeted to the unorganized sector.
- (iii) Recommend specific incentives to promote participation in the proposed pension schemes.
- (iv) Recommend suitable strategies for marketing the pension product schemes and creating awareness among target participants in the unorganized sector.
- (v) Design a public information campaign to educate the unorganized sector on the proposed pension system and product schemes.
- (vi) Assist in setting up a web facility with simplified generic knowledge on pension and provident funds, the return and calculation of yields of fund investments over a time period, information on service providers, simple calculators that enable members to calculate benefits, etc.
- (vii) Develop a model for assessing the benefits, particularly from a poverty standpoint, of the recommended pension product schemes.

B. Domestic Consultants

1. Pension System and Strategy Expert (4 person-months)

4. The consultant should have broad experience in marketing pension schemes and devising marketing strategies for related insurance products. The consultant will assist the team leader for timely delivery of TA outputs. The consultant's responsibilities are the following:

- (i) Prepare a report on marketing strategies of pension schemes and related insurance and financial products that have achieved success with middle- to lower-income groups in India and provide access to information and sources for this purpose.
- (ii) Provide the international consultant with strategic information on social and cultural norms of significance to mounting successful marketing campaigns in India.
- (iii) Assist the international consultant with preparing an implementation plan for marketing the new pension schemes.

- (iv) As an input to data collection and marketing strategies, produce a report on relevant gender issues likely to affect women's participation rates in the new pension scheme for informal sector workers.
- (v) Arrange meetings and help conduct discussions with relevant persons and organizations.
- (vi) Assist the team leader in evaluating the results of the data survey.
- (vii) Assist the team leader in organizing stakeholder meetings to disseminate the findings of the survey and agree on strategies.

2. Legal Expert (4 person-months)

5. The legal expert should be familiar with legal issues related to postretirement schemes, particularly pension and provident funds. The consultant will assist the international pension funds legal, regulatory, and supervision expert in all his tasks under the TA, and team leader for timely delivery of TA outputs. The consultant will have the following responsibilities:

- (i) Assist the international pensions fund legal, regulatory, and supervision expert in designing an enabling legal, regulatory, and institutional framework for the proposed pension system for the unorganized sector.
- (ii) Provide background information and assist the said international expert in reviewing the governance framework of the PFRDA in line with the requirements of the Government's plan to establish a voluntary, privately managed pension system and schemes for the unorganized sector.
- (iii) Assist the pension product schemes and development expert in designing pension schemes for the unorganized sector that conforms with the requirements of local laws, rules, and regulations.
- (iv) Arrange meetings and help conduct discussions with relevant persons and organizations.

C. Domestic Firm for Data Gathering

6. The local firm should have the required network for the survey, together with data specialists, statisticians, and social sector research experts, who are qualified, both academically and in terms of experience, in collecting and analyzing of quantitative and qualitative labor market and income distribution data. The specific tasks of the local firm follow:

- (i) Using contemporary methodologies, develop an occupational classification of the unorganized sector in India that is suitable for pension planning and management purposes.
- (ii) Conduct a sample survey on household income and expenditure based on classifications that permit extrapolation of data concerning the financial capacities of target participants from the unorganized sector to pay pension contributions.
- (iii) Conduct a sample survey (or surveys) that identifies perceptions and attitudes of participants from the unorganized sector toward joining pension schemes that may be introduced and use the results as inputs for developing successful marketing strategies for such a scheme.
- (iv) Prepare an analysis and make recommendations based both on the results of the surveys and existing statistics in India, for selectively targeting pension marketing activities in terms of capacity to pay and the perceptions and attitudes of potential contributors.

- (v) Present the results of the analysis to a workshop of key stakeholders from the Government and the private pension provider market and the interim regulator or the PFRDA.
- (vi) Propose the content and frequency of a minimum level of ongoing surveys considered necessary for pension management purposes and identify capacity building requirements of the PFRDA and elsewhere for this purpose. Proposals should include a broad order of the costs involved.
- (vii) Model the minimum pension contribution levels required to produce pension annuity values equivalent to official poverty lines.
- (viii) As an input to data collection and marketing strategies, produce a report on relevant gender issues likely to affect women's participation rates in the new pension schemes for informal sector workers.
- (ix) Develop a model for assessing the old-age poverty impacts of the new scheme.