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3. Social security in India: A patchwork quilt

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Summary

While two decades of economic reform in India have brought changes to the way in which the social security safety net operates, the country's social and economic situation is itself a challenge to the extension of social security coverage. Over 90 per cent of workers are in the informal sector, and the income of one in five informal workers is below the poverty line. Although new government programmes for food security, health care for the poor, and cash transfers have been put in place, they are mostly ad hoc; some successful experiments failed to live up to expectations when they were scaled up. Microinsurance and micro-pensions might hold out certain promise but also face challenges. This chapter highlights the difficulty of creating nationwide social security programmes that reach and meet the needs of India's poor.

3.1. Economic and social background

India is the second largest country (after China) in terms of population. Although it has less than 2.4 per cent of the world's landmass, it is home to about 18 per cent of the global population. At the time of independence in 1947, India's population was less than 350 million; by 1965 it was 500 million and by 1999 had crossed the billion population mark. In June 2011, the Indian population was estimated at 1,210,193,000.

With population growth today standing at 1.4 per cent a year, India adds one "mini-Australia" (about 18 million) every year. In the past decade it has added to its population a "mini-Brazil" (about 180 million).

There are 28 states in India along with seven union territories. The states vary greatly in size of population: the largest, Uttar Pradesh, has 199,590,000 people while the smallest, Sikkim, has 608,000.

In considering employment in India, a distinction has traditionally been made between the "organized" and the "unorganized" sectors. This distinction is similar to that made between what has been called the formal and informal sectors in other parts of the world. Although there has been some confusion between these two typologies, a Ministry of Labour Commission Report noted in 2002 that

> it has almost become the universally accepted practice to treat the words "unorganised sector" and "informal sector" as denoting the same area. They are, therefore, regarded as interchangeable terms. We too will follow the practice… (Labour Commission, 2002, p. 596).

While the international definition of the informal sector is usually that given in the 1993 New Delhi Resolution of the Fifteenth International Conference of Labour Statisticians (ICLS)[1], researchers and policy-makers in India have since pointed out that this enterprise-based definition excludes

1 "The informal sector may be broadly characterised as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees" (New Delhi Resolution, in ILO, 1999).

a large number of workers with informal job status, partly due to the increasing casualization and sub-contracting in formal enterprises. In 2008 the National Commission for Enterprises in the Unorganised Sector (NCEUS) proposed a definition of informal employment to complement the ICLS definition:

> Informal workers consist of those working in the informal sector or households, excluding regular workers with social security benefits provided by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers. (NCEUS, 2008, para. 2.7.3)

In other words, the definition of an informal worker depends largely on the existence or otherwise of social security benefits from the employer. This covers the vast majority of Indian workers.

According to figures based on the 61st Round of the National Sample Survey Organization (MOSPI, 2006),[2] total employment in India was 457.46 million in 2004/2005, of which the estimated number of informal-sector workers (i.e. defined by enterprise) was 394.9 million, 86 per cent of the total. But the number of workers with informal job status was considerably higher: almost 423 million in 2004–2005, or 92.38 per cent of total workers (NCEUS, 2008; Naik, 2009). Also, while 99 per cent of workers in the informal sector were informal workers, only just over half the number of workers in the formal sector were formal workers (i.e. with social security), down from 62 per cent in 1999–2000 (NCEUS, 2008; Naik, 2009). As shown in Table 3.1, the total number of informal workers is increasing, not only in absolute numbers but also as a proportion of employment, with increasing casualization and sub-contract work in urban employment. Productivity in the informal sector is generally low and falling, with informal workers generating just 44 per cent of GDP in 2004–2005.

Table 3.1. India: Growth of the informal sector in India, and productivity, 1983–2005 (% GDP)

Year	Informal workers	
	Percentage of economically active population	Amount of GDP (%)
1983–1984	91	49
1988–1989	91	48
1993–1994	92	47
1999–2000	92	45
2004–2005	92.4	44

The largest numbers of informal workers are in agriculture, accounting for 99 per cent of employment in the sector. In the non-agricultural sector, the highest numbers of informal workers are in retail trade, construction, land transport and textiles.

2 Although the NSS 66th Round (July 2009–June 2010) has been published, comparable computations from the raw data have not yet been made available.

3.2. Social security in India: An overview

Social insurance in India has been and continues to be a piecemeal affair. There is no such thing as one "umbrella coverage" for all workers in all sectors; and what happens in the formal sector is very different from what happens in the informal sector.

India has a long history of social security regulation. Laws governing social security have been in existence since 1923. According to the Ministry of Labour, the major social security laws that apply in India today are the following:

- Employees' State Insurance Act 1948 (ESI Act)
- Employees' Provident Funds and Miscellaneous Provisions Act 1952 (EPF Act)
- Workmen's Compensation Act 1923 and Workmen's Compensation Rules 1924 (WC Act)
- Maternity Benefit Act 1961 (MB Act)
- Payment of Gratuity Act 1972 (PG Act)

These laws are in line with statutory provisions in other countries around the world. Most of them are direct derivatives from India's colonial past. For developed countries, such laws make perfect sense. However, as we have noted, the overwhelming majority of the economically active population in India works in the informal sector. Most of these laws do not cover this sector, and even where they do, enforcement is extremely lax (with some exceptions such as the Self-Employed Women's Association (SEWA), discussed later in this chapter). There is a total mismatch between the labour market realities and the history of social security laws. Hence, efforts to provide social security safety nets in the last two decades have tended to move away from their focus on the formal sector and directly attack the problems of the informal sector. The following paragraphs briefly describe the provisions of each Act as applicable at present.

Employees' State Insurance Act 1948. The ESI Act, which is administered through the Employees State Insurance Corporation under the Ministry of Labour and Employment, covers factories and other enterprises with ten or more employees and provides for comprehensive medical care of the employees and their families. It also provides for cash benefits during sickness and maternity, and monthly payments in case of temporary or permanent disability or death.

Coverage is mainly aimed at factory workers nationwide, and is compulsory for factories with 10 or more workers if the factory uses power and for factories with 20 or more workers if it does not. In a 2001 Amendment, the Act also included workers in shops, hotels, restaurants, movie theatres and other similar establishments employing 20 or more workers. In addition, through another amendment in 2010 more autonomy has been granted to the states to run the hospitals in their locations.

Employees' Provident Funds and Miscellaneous Provisions Act 1948. The EPF Act is a complement to the Employees' State Insurance Act. While medical care, disability and death are covered under the ESI Act, the EPF Act covers money for retirement, mainly administered through the Employees' Provident Fund Organization (EPFO) under the Ministry of Labour and Employment. It applies to specific scheduled factories and establishments employing 20 or more employees, authorizing provident funds, superannuation pensions, and survivors' (family) pensions in case of death during employment. Separate laws exist for similar benefits for workers in specific industries such as coal mines and tea plantations. In 2010 the EPF Act covered some 47.1 million workers.

Benefits under the Act are funded principally through employer/employee contributions. Payout occurs under the following situations:

- on retirement at age 58 (early retirement is possible at age 50 at a discounted rate);
- on retirement as a result of total and permanent disability;
- immediately before migration from India for permanent settlement abroad through taking up employment abroad;
- termination of service upon retrenchment;
- termination of service under a voluntary retirement scheme; and
- job termination and remaining unemployed for over two months or leaving the job from a covered establishment and joining an establishment not covered by another provident fund scheme.

In addition, partial withdrawals can be made for specified purposes such as house construction, illness, natural disasters, and higher education of children. Employees have the right to withdraw 90 per cent of the balance in their accounts in the year before retirement.

Workmen's Compensation Act 1923 & Workmen's Compensation Rules 1924. The Act applies to workers in a limited range of occupations and covers permanently or temporarily disabled employees for any workplace injury, as well as the dependent family in case of a death. In case of a temporary disability, a worker should receive 50 per cent of wages, while a maximum lump sum of around USD 10,000 (in 2010) is payable for death of the employee. In reality however, only very large employers in the formal sector actually pay. In cases where the employer refuses to pay, the worker (or the family) can appeal to the state labour department, but most often such appeals do not produce results. Most small employers do not have the means to pay such compensation. In 2009, the word "workman" was substituted by the word "employee" in the Act.

Maternity Benefit Act 1961. The MB Act provides for 12 weeks worth of wages during maternity, as well as paid leave for certain other related contingencies. It also defines the parameters under which pregnant women can be employed. Section 4 of the Act states: "No employer shall knowingly employ a woman in any establishment during the six weeks immediately following the day of her delivery or her miscarriage"; while section 5 stipulates that "every woman shall be entitled to, and her employer shall be liable for, the payment of maternity benefit at the rate of the average daily wage for the period of her actual absence immediately preceding and including the day of her delivery and for the six weeks immediately following that day".

Section 8 of the Act 1961 provides that every woman entitled to maternity benefit shall also be entitled to receive from her employer a medical bonus of INR 250 if no pre-natal confinement and post-natal care is provided free of charge by the employer. In 2007, the monetary amount was revised upward to INR 1,000 by an Amendment to the Act. The Amendment also gives powers to the central Government to revise the medical bonus from time to time (subject to a maximum of INR 20,000).

Payment of Gratuity Act 1972. The PG Act applies to factories and other establishments employing ten or more workers. On completion of five years of service, employees are entitled to a gratuity of 15 days wages for every completed year of service or part thereof in excess of six months. The amounts were originally subject to a maximum of INR 350,000 (about USD 8,000), but the ceiling has since been raised to one million INR (about USD 22,000). The money set aside for this purpose by a factory or other establishment is not subject to company tax, but each company has to add to the reserve for this purpose.

3.3. Recent extension efforts

From the previous section it is clear that the legislation described above is relevant to the formal sector; meanwhile, however, the growth of the informal sector has continued unabated.

Traditionally in rural areas, people lived off the land in extended families – where first, second and third cousins lived under the same household. Over the past century, this situation has gradually changed due to migration to urban areas and other unalterable demographic changes.

As noted in the first section of this chapter, over 90 per cent of the working population works in the informal sector. This rate has been consistent over the past two decades and the percentage shows no sign of diminishing. This stands in contrast with all developed countries. For example, in the United States, in the early 1930s most of the labour force worked in the informal sector with most transactions taking place in cash. By 1950, however, that situation had changed dramatically; over 80 per cent of the population were covered by social security and most monetary transactions were taking place through the banking system. Banks help the formalization of a sector and hence the coverage of social security programmes.

The lifetime income of one in five informal workers in India is below the poverty line, and at least half the rural population has no bank account. In response to this, the first decade of the 21st century has seen the development of many innovative products, both public and private, in what has become known as microinsurance. The Self Employed Women's Association (SEWA), now famous throughout the world, has been working with poor self-employed women in Ahmadebad since 1972, and is thus possibly the oldest microinsurance scheme in India, with life, old-age (through UTI, discussed in section 3.3.1 below), health insurance and other products, although it began simply as a savings scheme. It has been advocated as a model to be replicated elsewhere in India (it is largely a Gujarat-based organization) and in other developing countries.

Founded by lawyer and trade union leader Ela Bhatt in 1972, the SEWA was formed with 1,070 members consisting of poor, self-employed women workers such as vendors, home-based workers and labourers. By 2010 it had over 1.2 million members, slightly more than half of them from Gujarat and with a large presence in Madhya Pradesh and some coverage in a total of nine Indian states. More than two-thirds of SEWA members are from urban areas.

These non-salaried informal-sector women workers realized that they had special needs; for example, secure mechanisms for collecting daily savings from their places of business or houses, or providing saving boxes; special loan procedures for illiterate women (the majority); savings and credit schemes that allowed for small savings and took into account family crises. SEWA Bank was founded on these principles.

Women who work in the streets need facilities to take care of their children when they are working. They need health care for themselves and their children. They need schools for their children. SEWA health care, child care, life insurance, asset insurance and old-age pension schemes for these otherwise unprotected workers were born out of the sheer necessities of life

India is now a global leader in the development of microinsurance, and its overall experience is generally considered to have been successful:

> The Indian context brings together a number of factors that contribute to improved risk management for low-income households by governing the intersection between financial inclusion in the insurance markets and the extension of social protection to workers in the informal economy. While there is certainly room for improvement, anyone interested in expanding social protection ... could learn valuable lessons from the Indian experience (Ruchismita and Churchill, 2012).

By 2010 over 164 million low-income persons had some form of insurance, not counting those insured under the Government's mass health-care schemes. Key elements for microinsurance to be sustainable and scalable include government commitment, facilitative regulation, technological solutions, the involvement of new stakeholders and tailored and specialized products.

In the last decade the Indian Government has launched a range of life insurance, medical insurance, health insurance and pension schemes for low-income people. Many are offered through the Life Insurance Corporation (LIC, a large government-owned insurance company) or through other publically owned enterprises. The key difference between the microinsurance outreach of LIC and the private insurers is in their distribution models. "While LIC relies on a large network of individual agents, a historical legacy that may not be considered 'good practice' for microinsurance today, private insurers typically offer loan-linked products that reach low-income households through a variety of means". These include self-help groups (SHGs), cooperatives, NGOs and, increasingly, microfinance institutions (MFIs). "The Indian achievement over the past decade to protect the poor through the involvement of all sectors of society has been nothing short of remarkable" (Ruchismita and Churchill, 2012).

3.3.1. Safety net for the elderly

Financial security in retirement depends on several critical factors:

- income during working life;
- length of post-retirement life;
- financial support from relatives; and
- income from work during retirement.

All four factors are fraught with uncertainty (see Bloom et al., 2010). Income during working life can be uncertain due to illness or fluctuations in the larger economy; the average lifespan of any group of people is highly variable; financial support from relatives may not materialize when needed; and post-retirement work is not always easy to come by.

Depending on children during old age has been the norm in India for millennia. However, such a support system has been seriously eroded in recent times. Table 3.2 illustrates the problem through data from the NSS. It shows that a majority of elderly males have no financial support, although the proportion varies between urban and rural areas. The situation is somewhat better for women.

Table 3.2. India: Elderly without financial support, 2011 (percentages)

State	Rural male	Rural female	Urban male	Urban female
Andhra Pradesh	49.24	15.82	57.00	26.16
Assam	47.95	13.58	56.28	29.81
Bihar	59.64	18.66	49.79	19.86
Chhattisgarh	57.02	28.55	58.74	23.32
Gujarat	49.93	12.98	52.47	12.54
Haryana	37.70	12.67	49.34	20.58
Himachal Pradesh	59.76	21.49	72.35	31.13
Jammu & Kashmir	67.64	11.38	63.12	11.74
Jharkhand	56.26	18.66	50.29	15.20
Karnataka	54.19	15.74	55.41	14.28
Kerala	36.39	11.72	47.26	20.52
Madhya Pradesh	59.83	17.58	65.44	21.33
Maharashtra	49.29	18.97	50.49	19.21
Orissa	46.96	10.21	51.4	10.22
Punjab	46.85	10.26	52.08	13.17
Rajasthan	47.63	9.47	55.38	12.87
Tamil Nadu	48.66	19.30	54.3	19.30
Uttar Pradesh	61.82	15.03	61.41	15.26
Uttaranchal	67.42	36.03	82.69	21.87
West Bengal	48.71	9.81	67.21	19.30
All India	**52.66**	**15.49**	**56.51**	**18.34**

Source: Prasad (2011).

With the present rapid decline in the total fertility rate (TFR), the problem is soon going to get far worse. The TFR is defined as the average number of children born per woman during her lifetime. In the Indian context, falling TFR means fewer people in the family to provide financial support for the elderly.

The Indian Government, at both the national and the state levels, has long been preoccupied with financial support for the elderly. One external strong voice with considerable power in policy-making has been the World Bank with its so-called "three-pillar model" for pensions proposed in the 1990s, later revised into the five-pillar model.

The five-pillar model. Bloom et al. (2010) suggest an adaptation of the five-pillar system proposed by Holzmann and Hinz (2005) for the World Bank, as a framework for India:

- the “zero” pillar: a government-funded social pension;
- first pillar: a government-mandated but employer/employee contribution defined benefit plan, possibly run as a pay-as-you-go (PAYG) system;
- second pillar: a government-mandated individual account plan run as a defined contribution system;
- third pillar: a tax-advantaged voluntary contribution system; and
- fourth pillar: an informal support system.

The “zero” pillar would serve the extremely or marginally poor in the informal sector. The first and second pillars would serve those in the formal sector for consumption smoothing over lifetime and to protect against longevity risk; the second pillar could also protect individuals who do not save for old age on their own. The third pillar (which includes micro-pensions) would attract a portion of the informal sector, while the fourth would take advantage of the family-based system.

The “zero” pillar has been implemented to some extent and is being expanded in India (see below). Although the first pillar exists for the formal sector, its long-term viability in the form of a PAYG system is questionable; for example, the pension plan run by the Government for central government employees runs a large deficit.

The basic problem faced by the Indian Government can be seen from the following scenario. If the Government decided to pay USD 1 per day for each person over 60, this would require over USD 40 billion a year – roughly a quarter of its entire budget. The only way the Government can even contemplate such a plan is if it can increase its tax base, and the only way it can increase its tax base is to reduce its dependence on indirect taxes and start taxing income directly. This would require a large-scale reduction in the size of the informal sector. Unfortunately there is no sign that such a transition is taking place yet.

The second pillar also exists, but only for those working in the formal sector and some parts of the informal sector, covering 10 per cent of the workforce. This is the EPF and the Employees’ Pension Scheme (EPS) administered by the EPFO, and the National Pension Scheme (NPS).

The third pillar has developed only in the last decade. Since 2009, the NPS is open to all Indian citizens to make voluntary contributions, but a scheme offering tax incentives is not generally attractive to those whose incomes are too low to pay tax. Some recent initiatives to match individual contributions with government subsidies, however, might have the potential to quickly extend social security coverage to informal sector employees.

Micro-pensions might also play a role in a relatively rapid coverage extension. The concept of micro-pensions is “long-term savings by relatively low-income informal-sector workers, with the objective of obtaining income security during old age” (Shankar and Asher, 2011). Many of the early micro-pension schemes were therefore hybrids between savings and pensions. The first micro-pension plan in India was launched in 2006 by a mutual fund, UTI Asset Management Company (AMC) in partnership with the SEWA (Self Employed Women’s Association) Bank. The UTI micro-pension has no minimum requirement for monthly or yearly contributions.

Low individual contributions (ranging from INR 50 to INR 200) are typically made until age 55, and pension payments commence from age 58. UTI is responsible for fund management. Records are maintained on an individual basis and each member receives a unique account number.

It should be noted, however, that micro-pensions must be differentiated from microinsurance programmes as the latter in most places are short term contingent contracts. It makes a big difference, if one tells low-income people who do not make enough money to eat today, to set aside money for the next 30 years when they may not even be alive. For this reason, hybrid savings pension schemes may be a more attractive option than a pure pension plan arrangement. Therefore, the successful implementation and delivery of any micro-pension scheme is dependent on an active role of a third party, representing a number of workers and who play a marketing, communication and administrative role in the collection, record keeping and transfer of contributions. This is essential if administration costs are to be kept low for a scheme with low average contribution amounts. More importantly, the government should play an active role through proper regulation and supervision, and through government subsidy for contributions (or even better, non-contributory social pension to complement individual accounts) and awareness-raising campaigns.

Indira Gandhi National Old Age Pension Scheme (IGNOAPS). The most important government direct cash payment scheme introduced for elderly low-income people is the non-contributory and means-tested National Old Age Pension Scheme (NOAPS), a centrally sponsored scheme launched by the Government in 1995. There are two components to the programme. Originally, assistance under the NOAPS was available to those (a) whose age was at least 65 years or higher; and (b) whose income was below the poverty line. The poverty line was defined as a person with income less than INR 300 (USD 7) a month. Under the scheme, an amount of INR 75 (slightly less than USD 2) per month was paid to beneficiaries.

In 2000 the scheme was renamed after Indira Gandhi and is now called the Indira Gandhi National Old Age Pension Scheme (IGNOAPS). It is estimated that almost 17 million persons above the age of 65 years and living below the poverty line were receiving assistance under the IGNOAPS up to 2011, at a cost of USD 30 million per year to the central Government.

The IGNOAPS is implemented by the Department of Social Welfare in each state. When a person applies for assistance, the local government official verifies eligibility and forwards the claim to the local Member of the Legislative Assembly (MLA), who has the final authority of approval of the payment. Half the funding for the scheme is provided by the state governments, with the other half coming from the central Government. The state governments typically (a) increase the amount of money per beneficiary and/or (b) reduce the age of eligibility. As a consequence, there is wide variation in the implementation of the scheme. Some states have substantially increased the amount of benefit (often more than doubling it) while other states have reduced the eligibility age.

On 9 June 2011 the central Government lowered the eligibility age for the IGNOAPS from 65 to 60. It also raised benefits for those aged 80 or older (purportedly to help keep pace with inflation, although the benefits are not indexed to inflation). The changes were retroactive to 1 April 2011 – the beginning of the fiscal year.

The expanded scheme is projected to cost significantly more, but the extension envisioned for the programme is substantive. The Government estimates that the lower age limit for IGNOAPS will bring in an additional 7.2 million persons aged 60 to 64. India has about 80 million persons aged 60 or older, with 51 million with incomes below the poverty line. IGNOAPS beneficiaries aged

80 or older, of whom there are an estimated 3 million, will now get INR 500 (slightly over USD 11) per month. The administrative expenses are estimated to be around 3 per cent of the total cost.

Informal Sector Workers Social Security Scheme. Following the recommendations of the Second National Labour Commission, the Government of India launched the Informal Sector Workers Social Security Scheme (2002) on a pilot basis in 50 districts. It was targeted to workers in the informal sector with incomes less than INR 6,500 (USD 130) per month. The scheme was financed through a contribution of INR 50 per month from workers in the age group 18–35 years and INR 100 per month for workers in the age group of 36–50 years. The employers were required to contribute another INR 100 per month. The Government contributed 1.16 per cent of the monthly wages of the workers.

The scheme included the following three benefits: (i) an old-age pension scheme: a minimum pension of INR 500 per month at the age of 60 or on permanent/total disability, and a family pension in case of the death of the worker; (ii) personal accident insurance: INR 100,000 paid following death from an accident; and (iii) medical insurance: reimbursement of hospitalization expenses up to INR30,000 a year. However, only a few thousand workers signed up for the scheme and it was closed in 2005. This scheme is an example of an unsuccessful attempt to provide social protection to those in the informal sector. It may be interesting to compare its design to that of more successful schemes.

Varishtha Pension Bima. This scheme is reserved exclusively for informal-sector workers aged 55 years and above. It is a single premium (deferred) annuity that guarantees a minimum rate of return of 9 per cent on investment. The investment varies from a minimum of INR 33,335 (USD 670) to a maximum of INR 266,665 (USD 5,300). The minimum monthly pension would be INR 250 (USD 5). The Government provides a subsidy to make that payment possible. The scheme is implemented by the LIC.

Rajasthan Vishwakarma Unorganized Sector Workers (Motivational) Contributory Pension Scheme (RVPS) and New Pension System-Lite. Launched in 2008 and jointly implemented by the Rajasthan state government and Invest India Micro Pension Services (IIMPSL), the RVPS is open to resident workers of the state who are aged between 18 and 60 and who belong to 20 identified occupations. The scheme specifically targets those who are not members of any other pension or provident fund scheme. The minimum single contribution for the scheme is INR 100, while the Rajasthan state government has committed to add a matching contribution to the members' savings, subject to a maximum contribution of INR 1,000 per annum per worker. Individual retirement accounts, each with a unique identification number, are maintained under a central server, with IIMPSL as the record-keeping agency. The accounts are portable across the state. The government pays an interest rate of 8 per cent per annum on the retirement account. On reaching age 60, the member will receive a pension based on the sum total of his or her contributions plus government matching contributions and interest (Shankar and Asher, 2011). As of 1 April 2011, RVSP membership had reached 51,700 individuals.

In January 2012, the state government decided to merge the existing RVSP with the "New Pension System-Lite (NPS-Lite) Swavlamban Yojna Scheme" of the Government of India. The latter is administered by the Pension Fund Regulatory and Development Authority (PFRDA), for existing members of RVPS and other workers in the unorganized sector across the State. The idea is to make use of a cost effective model of the National Pension System (NPS), referred to as NPS-Lite, so as to allow grass root intermediaries including NGOs and other organizations identified through public bidding to function as the "subscriber interface" and facilitate collective affiliation of economically weaker sections of society. Participants will have freedom to switch between pension funds and service providers and will have nationwide access over a period of time (Government of Rajasthan, 2012).

3.3.2. Old-age income security for the formal sector

Unlike the informal sector, the formal sector has a series of well-defined programmes for health care and retirement. There are also well-funded programmes for government employees both at the state and the central government levels.

The Employees' Provident Fund Organization (EFPO). Most people who work in the formal sector contribute to the Employees' Provident Fund (EPF) and the Employees' Pension Scheme (EPS) of 1995. They are both administered by the same central agency: the Employees' Provident Fund Organization (EFPO). The administration consists of 45 members of the Board, with the Minister of Labour as Chairperson. With so many Board members, it is difficult for the EPFO to change policies quickly.

The structure of the EFPO is very unusual. On the one hand, it provides services to its members – the common function of pension funds. However, it is also the enforcement agency to oversee the implementation of the EPF Act. Thus, the Commissioners of the Organization are vested with extraordinary powers under the statute. Thus, with (quasi) judicial authority, it can search and seize records, assess financial liability on the employer for violation of regulations, impose fines, auction off a defaulter's property, prosecute and arrest and detain a guilty employer in a civil prison. No other pension fund in the world has such authority.

For the private sector, any establishment with more than 20 employees and belonging to one of the nearly 200 scheduled industries is required by law to make contributions. Such contributions are made on the basic wage plus dearness allowances and not on the full wage, with a wage ceiling of INR 6,500 (USD 150) per month. For many, the actual wage is double that amount. Total contributions to the EPF were around USD 1 billion per year in 2008–2010, while total funds managed under the EFPO were around USD 50 billion in 2010, making it by far the largest pension fund in India. Not surprisingly, the management of the EFPO has been subjected to political pressure (see below, section 3.4).

Most contributions are administered directly by the EPFO; however, companies can seek exemption status, which means they would be allowed to manage their own funds. In that case, they pay to the EPFO 0.09 per cent of wages as an administration fee. Of the total 47.1 million members in the scheme, 42.7 million belong to the un-exempt category and 4.4 million to the exempt category. The average contribution of the un-exempt members was USD 120 during 2009, while it was nearly USD 300 for exempt members.

Contribution rates for these funds are as follows. In general, it is 12 per cent of wages from the employee and 12 per cent from the employer. While the employee contribution goes to the EPF, the employer contribution is divided into two: 3.67 per cent to the EPF and 8.33 per cent to the EPS. The employer also contributes another 0.50 per cent to a life insurance plan (EDLIS); thus, the total contribution of the employer is 12.50 per cent. The Government pays 1.17 per cent of the worker's monthly salary to the EPS for eligible employees. There is an additional charge of 1.10 per cent for the un-exempted sector contribution, while for the exempted sector the charges are 0.18 per cent. In all, the total cost for social security coverage is around 27 per cent of wages, although there is a reduced rate for the beedi, brick, jute, coir and guargum industries.

While the EPF is (largely) a defined contribution (DC) scheme that provides a lump-sum payment at retirement, the EPS is a defined benefit (DB) scheme that pays a pension proportional to earnings at the time of retirement and to years of service. The benefit rate is 50 per cent of the final wage for affiliates who have contributed for at least ten years. The scheme is financed partly by the employer contributions and partly by the government contributions described above.

For central government employees – who are the main contributors to the scheme – the EPS is non-contributory and tax-financed for those who started work before 1 January 2004. Those who were appointed on or after 1 January 2004, however, have contributed to the National Pension Scheme (NPS) since then.

The National Pension Scheme or New Pension Scheme (NPS). Came into operation on 1 January 2004 following the establishment of the Pension Fund Regulatory and Development Authority (PFRDA), the National Pension Scheme (NPS) was a defined contribution pension scheme that replaced the defined benefit pension scheme (the EPS) for all government employees (except the armed forces) who joined government service on or after 1 January 2004. In most states, state government and public-sector company employees were eligible to participate in the NPS. Since 1 May 2009 when the scheme was re-named the New Pension Scheme, all Indian citizens have also been eligible to open an NPS account on a voluntary basis so long as he or she is in the age group 18–55, but with one crucial difference – there is no matching contribution from the government for the open system. Under the NPS, at the time of retirement, a minimum of the cumulative amount in an individual's account is used to purchase an annuity, with the rest paid as a lump sum.

The minimum contribution is INR 500 a month, INR 6,000 per year (USD 140), and there should be a minimum of four contributions per year. There are two types of accounts:

- Tier I: A non-withdrawable account to which the affiliate shall contribute his/her savings for retirement. This is mandatory.
- Tier II: A voluntary savings facility which provides liquidity to the affiliates. This tier is optional. An affiliate cannot open a Tier II account without having a Tier I account first.

The pension fund managers manage three separate schemes in three different asset classes: Equity (E Class), government securities (G Class) and Credit risk-bearing fixed income instruments (C Class). In E Class, investment is in equity market instruments that replicate the portfolio of either the BSE Sensitive index or the NSE Nifty 50 index. In G Class, investment is in government securities such as bonds issued by the Government of India and or by state governments. In C Class, investment is in fixed income securities other than government securities (such as liquid funds of asset management companies regulated by the Securities and Exchange Board of India (SEBI) with filters suggested by the Expert Group; fixed deposits of scheduled commercial banks with filters; debt securities with maturity of not less than three years tenure issued by corporate bodies including scheduled commercial banks and public financial institutions; and credit-rated public financial institutions bonds, credit-rated municipal bonds or infrastructure bonds).

If the affiliate does not choose an asset allocation, the contribution will be invested in a "default choice" option. The investment will be determined by a predefined portfolio depending on the age of the affiliate. At the lowest age of entry (18 years) the default choice will entail investment of 50 per cent of pension wealth in E Class, 30 per cent in C Class and 20 per cent in G Class. These ratios of investment will remain fixed for all contributions until the participant reaches the age of 36. From age 36 onwards, the weight in E and C Classes will decrease annually and the weight in G class will increase annually till it reaches 10 per cent in E, 10 per cent in C and 80 per cent in G class at age 55.

The charges levied on each account in the NPS are as follows. There is a fixed fee of INR 280 per account per year. In addition, there is a 0.0075 per cent (of total balance) of asset services fees and 0.0009 per cent (of total balance) of investment management fees. If a person contributes the minimum amount of INR 6,000 (USD 140) a year then the charges amount to INR 300 a year – making it 5 per cent of the flow. For contributions above USD 1,000 per year, the fees drop to 1 per cent of the flow – making it the lowest cost DC pension plan anywhere in the world. In contrast, in Mexico, the charges are 20 per cent of the flow.

Employees' State Insurance Corporation (ESIC). Under the ESI Act, the Employees' State Insurance Corporation (ESIC) provides many benefits including health coverage for employees in private enterprises in the formal sector. It includes retirees and their dependents. By 2011, the number of insured family units had grown to 15.5 million; the total number of beneficiaries including family members was over 60 million (ESIC, 2011).

Funding comes from tripartite contributions: from the employee (1.75 per cent of gross wages), the employer (4.75 per cent of gross wages) and the state government which contributes 1/8th of the expenditure on medical benefits. For workers earning less than USD 1 per day, the employee contribution is waived.

Government and public enterprise schemes. The state and central governments and public enterprises have separate schemes. For central government workers there is the Central Government Health Scheme (CGHS). For state government employees and public sector employees, there are similar plans to cover against the financial risk of ill health and financial losses due to sickness and disability. There is a nominal contribution by the employees but they are mostly tax-financed. The benefits are generous. For example, beyond routine diagnostics, specialist needs are referred to expensive facilities in the private sector. These benefits continue at the same level even after retirement.

3.3.3. Health insurance

State-driven mass health insurance schemes, often subsidized by the Government, have proliferated in recent years. Often implemented through the insurance industry through public–private partnerships, they have also been able to draw on the widely reported experience of mutual and NGO health microinsurance schemes, including community-based health insurance (CBHI) schemes (Radermacher et al., 2006).

Coverage is estimated to have risen from about 75 million in 2007 to over 300 million in 2010, with three of the schemes – *Aarogyasri* in Andhra Pradesh, *Kalaignar* in Tamil Nadu, and the national *Rashtriya Swasthya Bima Yojana* (RSBY) reportedly insuring 56 million families at that date (Ruchismita and Churchill, 2012). The earliest such scheme, Yeshasvini, started in 2003 by the

Karnakata Department for Cooperation and with over 3 million beneficiaries in 2010, has been an inspiration for later schemes but has certain unique features which make it difficult to replicate or scale up. A few of these schemes are highlighted below.

Universal Health Insurance Scheme. The Universal Health Insurance Scheme was introduced by the government-owned general insurance companies in 2003. For families below the poverty line, it charged a premium of INR 165 for individuals, INR 248 for a family of five and INR 330 for a family of seven. The benefits included reimbursement of medical expenses up to INR 30,000 for hospitalization; accidental death cover of INR 25,000; and compensation for loss of earnings at the rate of INR 50 per day up to a maximum of 15 days. The coverage for the first few years was low (INR 130,000 in the first three years) and a task force was set up to examine the matter. The requisite changes were made and the numbers insured increased to 10 million by the end of 2006, although this growth has since slowed because of competing programmes. The management has now been opened to private-sector insurance companies.

Rashtriya Swasthya Bima Yojana (RSBY). This programme was launched in 2007 to provide health coverage for those living below the poverty line in India. The beneficiaries are entitled to hospitalization coverage of up to INR 30,000 annually (USD 700) for most diseases. Beneficiaries pay INR 30 for registration, but the central and state governments pay the premium to the insurer.

Depending on the location, the premium ranges from INR 400 to 600 per person covered. Benefit packages also provide beneficiaries with transportation assistance of up to INR 100 per visit, but not exceeding INR 1,000 per year. Over 2,000 hospitals nationwide, together with 1,500 private clinics, provide this service. Each beneficiary is issued a SmartCard and all transactions are cashless. Providers are paid on a fee-for-service basis, with costs specified for each of the covered procedures and interventions. Claims submission and processing is also cashless. The technology allows for real-time monitoring and underwriting of the relevant processes, and the ability to take appropriate action.

Self Employed Women's Association of India (SEWA). SEWA offers special health and life policies for its members with several private and nationalized insurance companies. The scheme is financed through three separate channels:

- 25 per cent is provided by the interest paid on a grant provided by GTZ;
- 50 per cent comes from direct contributions by SEWA members; and
- 25 per cent is provided by a subsidy from the Government of India through the Life Insurance Corporation.

In 2010 the total health and asset insurance premium was INR 175 (USD 4) per year, covering INR 10,000 (USD 2,100) for natural death, INR 40,000 for accidental death, INR 10,000 for assets, and INR 10,000 for the house. There is also a range of other bundled and unbundled product options (see the SEWA website http:/www.sewa.org for further details).

3.3.4. Other social insurance schemes

A number of insurance schemes started since 2000 are discussed below and summarized in Table 3.3.

Janashree Bima Yojana. The objective of this scheme is to provide life insurance protection to rural and urban poor persons living below and marginally above the poverty line. The eligibility requirements are that the applicant is (a) aged between 18 and 59 years; (b) below or marginally above the poverty line; and (c) a member of any of the approved vocational/occupational groups.

The point of contact can be a state government department which is concerned with the welfare of any such vocational/occupational group; a welfare fund or society, a village *panchayat* (council), an NGO, or a self-help group, among others. The scheme is a group life insurance policy, with the requirement that there are at least 25 persons in the group.

The premium is set at INR 200 per year and the scheme pays INR 30,000 for natural death and INR 75,000 for accidental death or permanent disability. Of the INR 200 premium, 100 is paid by LIC's Social Security Fund, INR 60 by the Government of India and the rest – INR 40 – by the affiliate. The policy also has a component of child education, providing a scholarship to the children of parents with coverage – an amount of INR 1,200 per year for up to two children.

Krishi Samajik Suraksha Yojana. This programme started on 1 July 2001 and closed on 24 February 2004 due to lack of funds. The scheme was carried out in 50 identified districts to cover about a million agricultural workers. Each worker paid INR 1 per day, with the Government contributing INR 2 per day. Implemented by LIC, the scheme covered agricultural workers in the age group 18–50. Benefits included life-cum-accident insurance, a lump sum amount of INR 4,000 as money back after 10 years, to be doubled after every additional 10 years until the insured person reached the age of 60. The pension ranged from INR 100 to 1,900 per month, depending upon the age of entry.

Aam Admi Bima Yojana (AABY). The AABY covers rural landless households by insuring the head of the family, or one earning member in the family, for a premium of INR 200 per year per person to cover death and disability. Half the money comes from the Government of India and the other half comes from the state governments. The programme started in 2007. It pays INR 30,000 for natural death and INR 75,000 for accidental death or total disability. Unlike the *Janashree Bima Yojana* discussed above, the beneficiary pays no premium out-of-pocket at all. By the end of 2010 6 million persons were covered by the scheme. In many states, there have been huge actuarial losses.

Table 3.3. India: Selected social insurance schemes since 2000

Scheme	Objective	Target groups	Sources of contribution
Janashree Bima Yojana	Insurance cover in the events of natural and accidental death as well as partial or permanent disability	Urban and rural poor who live below the poverty line or on the margin	Central and state governments, and beneficiaries
Krishi Samajik Suraksha Yojana	Some life/accident insurance, a lump sum money back after 10 years and a moderate pension	Agricultural workers 18–50 years of age	Central Government and beneficiaries
Aam Admi Bima Yojana	Some death and disability benefits to the rural landless poor	Informal landless households	Central and state governments

Source: Adapted from Remesh (2010).

These programmes are targeted rather than universal; however, the long-term goal is to have universal programmes of health care and pension schemes for all in the informal sector.

3.3.5. Social assistance programmes

A number of social assistance programmes have been launched by the Government at both the central and the state levels. There are three distinct kinds of programmes. First, there are employment programmes for able-bodied persons, such as *Sampoorna Gram Swarozgar Yojana,* food-for-work programmes, and employment assurance schemes. These programmes were consolidated and expanded in the National Rural Employment Guarantee Act, 2005 (renamed the Mahatma Gandhi National Rural Employment Guarantee Act on 2 October 2009, Mahatma Gandhi's birthday).

The Act provides that the state government in a rural area shall provide employment paying at least the stipulated minimum wage to every poor household whose adult members volunteer to do unskilled manual labour for at least 100 days a year. If the state government fails to provide such a level of employment it is liable to pay an unemployment allowance.

There are also welfare programmes for specific vulnerable groups (e.g. the elderly and disabled, pregnant/lactating mothers), and programmes for basic education and nutrition for children.

An important element of social assistance in India is food assistance. A brief description of the major food programmes follows (see also the summary in Table 3.4).

Mid Day Meal Scheme (MDMS). This scheme started in 1923 in the City of Madras (now Chennai) for the schools under the jurisdiction of the City Corporation. It was expanded to the whole state in the 1980s as a populist measure. In response to a court case, in 2001 the Supreme Court of India directed state governments to provide mid-day meals for primary schools, setting in place a statutory right. The scheme has since been expanded across India. Of course, such a scheme cannot be expected to eradicate malnutrition in India; indeed, the attendance of children at primary school has not increased beyond 50 per cent in many parts of the country.

Village Grain Banks Scheme. The scheme was started in 1996–1997 with the objective of setting up grain banks in tribal areas prone to starvation, in identified districts in specific states. The scheme covers 234 villages in such districts in 13 states: Andhra Pradesh, Bihar, Gujarat, Kerala, Madhya Pradesh, Manipur, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, Maharashtra, West Bengal and Tripura. The "banks" are initially stocked with grain supplied by the Government. Community members can "borrow" up to 40 kilograms of grain in times of distress with the expectation that they will pay "interest" of 2 kilograms per month and return the amount of grain borrowed plus the interest. The grain banks are managed by local tribal representatives. In the majority of the villages concerned, the banks are almost always full in the absence of extreme drought. Similar schemes are in operation in many countries across the globe.

Targeted Public Distribution System (TPDS). The public distribution system (PDS) of food has been a constant in India since the 1930s. At that time, urban areas were covered by "fair price shops" that distributed certain kinds of grains, legumes and sugar. The programme continued through World War II; however, such public distribution did not prevent the death of millions in Eastern India.

In the post-Independence era, the PDS continued despite the following common criticisms: (a) it failed to serve people living below the poverty line; (b) there was a perceived urban bias; (c) there was low coverage in states with a high density of rural poor; (d) there was a lack of transparency and accountability; and finally (e) it was an extremely inefficient and wasteful distribution system. The budget for the PDS continued to hover at about 3 per cent of the total budget of the Government of India.

In June 1997 the Government launched the Targeted Public Distribution System (TPDS) with a focus on the poor. Under the TPDS, states are required to formulate and implement foolproof arrangements for identification of the poor for delivery of food grain and for its distribution in a transparent and accountable manner at the fair price shops. There are still, however, a number of challenges in the implementation of the TDPS; these are discussed in section 3.4.2.

Annapurna Scheme. About 20 per cent of the population (especially in poor rural areas) are eligible for an old-age pension under the National Old Age Pension Scheme (NOAPS) were not actually getting the pension. In the year 2000 the Ministry of Rural Development set up the Annapurna Scheme to address this gap. There are three eligibility criteria: (i) applicants should be at least 65 years old (it is not clear whether the lowering of the age limit for the IGNOAPS will also be implemented for the Annapurna Scheme); (ii) an applicant must be destitute, with no means to support himself or herself through regular income or through family support; and (iii) the applicant should not be getting a pension from NOAPS.

Antyodaya Anna Scheme. Launched in 2001, this scheme was intended to create food security in India in the following five years. It was targeted to the poorest of poor. It has been estimated that 5 per cent of families are unable to get two meals a day throughout the year even at the subsidized prices available for persons below the poverty line. The Antyodaya Anna Scheme targets this 5 per cent.

Table 3.4. India: Major food security schemes since the mid-1990s

Programme	Benefit/target group	Objective	Coverage
Mid Day Meal Scheme (MDMS)	Cooked meal, 100 gm per child per day or 3 kg of dry food grains conditional on 80 per cent attendance	Nutritional support and incentive for enrolment and attendance of primary school	97 million children
Village Grain Bank Scheme	Mainly tribal population in remote areas	Prevention of starvation deaths in 13 identified states	Selected regions in 13 identified states
Targeted Public Distribution Scheme (TPDS)	Food grains of 35 kg per household at 45 per cent of cost	All Below Poverty Line	198 million households
Annapurna Scheme	Relief for the elderly poor (10 kg food grain per person per month at no cost)	Indigent persons above 65 who are eligible for old-age pensions (IGNOAPS)	500,000 persons
Antyodaya Anna Scheme	Freedom from hunger (35 kg of food grain with 50 per cent subsidy)	Targeted to the poorest of the poor	20 million families

Conditional cash transfers (CCT). Given the quagmire of problems with food distribution, policy-makers in India are considering conditional cash transfers. A conditional cash transfer, as the name suggests, transfers money to the target individual or family based on some condition that triggers that payment. The condition may be a certain level of attendance at school by the children in the family, attending a health clinic or getting infants immunized. Some estimates have shown that the present government subsidies of fuel, food and fertilizer would be more than sufficient to pull the 370 million people below the poverty line out of poverty if the same amounts were given as cash transfers. Conditional cash transfers are widely used in countries in Latin America. Mexico pioneered the initiative with its *Progesa* programme. In Brazil, a similar programme, *Bolsa Família*, has been successfully implemented (see Chapter 1). Both have shown substantially better outcomes in anthropomorphic measurement of children where the programmes have been implemented.

Several small-scale CCT programmes have already been tried in India. For example, *Janani Suraksha Yojana* provides a cash benefit of INR 500 for every live birth to a woman from a household below the poverty line. An additional amount of INR 100 in rural areas and 200 in urban areas is provided to poor women if they deliver in a hospital and has helped reduce the maternal mortality rate in India.

3.4. Key challenges and solutions

In India, the implementation of any programme faces challenges at various levels. The first barrier arises at the legislative level: any new legislation is tested first in Parliament itself and then in the courts at local and national levels. After a law is passed, it faces another challenge at the level of implementation: there is a lack of transparency and consequent endemic corruption, and there have been a number of efforts to deal with these problems through technology. Some of these challenges are discussed through the examples below.

3.4.1. Administrative issues

Pension Fund Regulatory and Development Authority (PFRDA). The regulator of the pension funds, PFRDA, was established by the Government of India in 2003. Even before the Authority came into existence there were struggles between various government authorities such as the Central Bank (Reserve Bank of India) and the newly formed Insurance Regulation Development Authority (IRDA), among others, as to who should regulate the pension funds. There were even regional lobbies as to where to locate the proposed PFRDA.

The Bharatiya Janata Party Government and its allies did not have enough votes to establish the PFRDA through parliament, so the Authority was provisionally launched through an executive order with the mandate to act as a regulator for the pension sector. Its main purpose was to regulate the unfunded defined benefit pension funds of central government employees that were to be converted into a fully funded defined contribution plan. The defined contribution pension system (NPS) was announced in the 2003–2004 Budget, and was immediately opposed by the left-wing parties in India. In early 2004, new elections were held and the opposition came to power with the support of the left-wing parties. The main party now in power, the Indian National Congress, proposed to formalize the existence of the PFRDA by Act of Parliament, the left-wing parties threatened to bring down the Government. The opposition of the left continues.

Since the pension system introduced in 2004 does not have legislative backing it is vulnerable to court challenges. Indeed, a number of court cases are slowly making their way to challenge the authority of the provisional PFRDA at the highest level. The existing set-up is also vulnerable to political uncertainty, and could be dismantled by a new government.

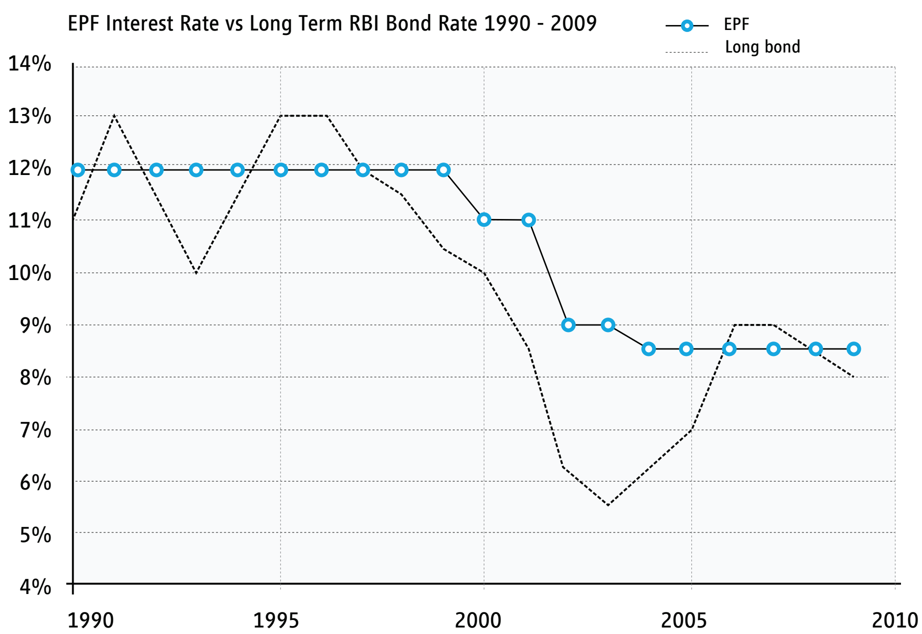
A new PFRDA Bill in 2011 (known as the Pension Bill) aims to give the PFRDA statutory powers to regulate and develop the industry, but a sensitive sticking point is whether to allow foreign investment in the sector. An earlier draft of the Bill allowed up to 26 per cent foreign ownership into pension fund management. However, as now proposed, the Bill says that the Government will separately announce a foreign investment policy for the sector, perhaps in line with the insurance sector (where 49 per cent foreign ownership is allowed).

Even in its provisional existence, the PFRDA has set up defined contribution pension funds with very low fees for government employees. Whether the plan is able to attract workers from the informal sector in large numbers, however, remains to be seen.

Employees' Provident Fund Organization. The EFPO has been discussed in section 3.3.6 above. It too faces some administrative challenges, among them the following.

By law the EPFO is allowed to invest only in government bonds, with a guaranteed minimum rate of return. However, the interest earnings it declares do not correspond to the bond yields (see Figure 3.1). Between 1990 and 1999 the EPFO declared yields of 12 per cent each year. These declined between 2000 and 2005 but were consistently above the long-term bond rate in which it had invested the money, so the central Government had to put extra money into the coffers of the EFPO under the guaranteed minimum rate of return arrangement. For the most recent financial year for which figures are available, 2010–2011, the Board again declared a yield of 9.5 per cent, while the best performing fund yielded 8.72 per cent. The Ministry of Finance protested, but to no avail: the EFPO Board declared that this yield was on the basis of a one-time-only surplus.

Figure 3.1. India: EFPO and long-term government bond yields, 1990–2009



In 2011 the Government proposed a set of changes to the rules that would eliminate such a guarantee of a minimum rate of return. Unfortunately, several partners in the coalition Government are unhappy about this proposal

3.4.2. Implementation and organizational issues

As we have already noted, corruption is an endemic problem in India. For example, in the *Rashtriya Swasthya Bima Yojana* health care scheme, the private providers encouraged people to stay longer in the hospital even though they did not need to. It was a "win-win" situation – both for the providers, who got their scheduled fees, and the patients, who stayed in relative luxury. But it certainly did not help the Government – it was a classic case of a moral hazard problem.

Another case concerns the Targeted Public Distribution System (TPDS) discussed in section 3.3.5 above. A study by the Planning Commission (2005) found the following problems:

- The implementation of the TPDS is plagued by targeting errors – there is a prevalence of "ghost cards" (where the cardholder does not exist or has died) and unidentified households.
- Only about 57 per cent of the households below the poverty line are covered.
- The fair price shops themselves are generally not viable because of low annual turnover. They often stay in business through theft of the food grain received and sell it at a higher price in the marketplace.
- There are large leakages and diversions of subsidized grain.
- Target households receive only about 42 per cent of the subsidized grain issued from the Central Pool.
- Some 36 per cent of the budgetary subsidies on food is siphoned off the supply chain; another 21 per cent reaches households above the poverty line for whom they are not destined.
- The cost of income transfer to the poor through the TPDS is much higher than that through other modes used.

In the six years since the study was published and tabled in the Indian Parliament there have been some changes to identify the ghost cards. It has been estimated that there are 20 million ghost cards, and at least 15 million persons below the poverty line who are not receiving the food intended for them.

In 2011, in the Monsoon Session of the Indian Parliament a new Food Security Bill was tabled. This was supposed to tackle some of these problems. Unfortunately, at the same time a different corruption scandal erupted that overshadowed all other agenda items; it involved the allocation of a telephone auction, a scam worth nearly 5 per cent of GDP.

As of December 2011, a new Bill, called the National Food Security Bill (NFSB) was due to be tabled in Parliament. Starting in the 2012/13 fiscal year, the scheme is to be rolled out in phases. There are three important elements:

- The new Bill attempts to consolidate all the food programmes that have been operating independently (listed in Table 3.4).
- It will have provisions for everyone, from infants and lactating mothers to senior citizens, all the way to the homeless and destitute.
- It comes with a price tag of USD 23 billion annually starting from 2014.

Unfortunately, the NFSB does not even begin to address the problems of corruption highlighted above. With larger programmes, such problems tend to multiply. Neither has it addressed the inflation of food prices that such large-scale procurement of food might ignite.

Indira Gandhi National Old Age Pension Scheme (IGNOAPS). The IGNOAPS scheme stipulates that payments should be made to the account of the beneficiary in the post office, savings bank or commercial bank, or through postal money order and beneficiaries are asked to open an account. However, over half the village populations in India do not have bank accounts, nor are there any banks nearby. In many states, the money order option was not available when the scheme began, making it difficult for many to receive their payments.

In practice, there have been other difficulties too:

- In many cases, the necessary form was not available in the district administrative office. On the other hand, some nearby photocopy shops sold them, indicating corruption of the process.
- Among the eligibility conditions is the age of the applicant. In India, most poor persons do not have birth certificates, so that verifying one's age is not a simple matter. In many cases, the certificate of age is issued by a government certified medical officer. Just to get an appointment with the doctor often requires a bribe.
- Another condition of eligibility is that the applicant has to be below the poverty line of USD 7 per month. However, the scheme does not set out how to verify the economic status of the potential beneficiary. Since there is no uniform procedure, different methods are adopted by different local governments. Sometimes, applicants have to get such certification from the local revenue officers (Tehsildar and Patwari). Besides the revenue officer, the *Gramsewak* (village level worker) also has to verify whether the applicant comes from a household below the poverty line or not. Sometimes even district social welfare office or members of the state legislative assembly (MLA) have to recommend the applications, based on their personal knowledge of the economic status of the applicants.

In a country like India, where democracy collides with corruption, where poverty overwhelms everything else, it is always going to be a challenge to make programmes operate smoothly, efficiently and without such problems.

3.4.3. Sustainability issues

There are many challenges to sustainability of the various schemes, including microinsurance and micro-pension schemes. These include:

- *Risk management.* For example, the Yeshasvini health microinsurance scheme, with three million beneficiaries at the end of 2012, has no risk provider.
- *Investment management.* Despite increasing attractiveness of some schemes, the financial cost imposed on the government through the need to maintain fund returns at relatively high fixed rates may require considerable financial expertise and constitute a financing challenge for the government since India's fiscal deficit is already higher than 10 per cent of its GDP. Its internal debt to GDP ratio at 80 per cent is well above the 60 per cent considered fiscally sustainable.
- *Claims management.* With a claims ratio of 157%, for instance, Yeshasvini scheme risks bankruptcy, unless claims experience can be improved.
- *Scaling.* There are challenges of scaling up small scale or regional programmes to the national level. Up-scaling calls for a sound top design, good governance via proper public-private partnership and ICT support, government financial commitment, and systematic integration of fragmented schemes.

Replicability. The SEWA has all the hallmarks of a good social insurance plan: (i) it is run by the stakeholders themselves; (i) it has successfully been scaled up; and (iii) government involvement has been limited to providing the legal framework and a certain amount of subsidy; it has stayed away from day-to-day operations.

But whether the SEWA model is replicable or would be sustainable in other contexts is open to question. The SEWA's success is based on a number of unique factors that have worked in its favour. It was led by an extremely able leader who was also an experienced labour lawyer. She was able to navigate the organization through many challenges such as the payment of a minimum wage to members. This cause galvanized members into standing up for their rights to an extent rarely seen in other organizations. Because of her reputation, Ela Bhatt also found a sympathetic ear at the central level of government. This helped the organization to become recognized under the trade union charter as an organization of the unorganized sector. In addition, her contacts were instrumental in getting the banking arm going, along with the insurance function that the SEWA has been able to offer to its members (Venkatesh, 2005). It remains to be seen whether the SEWA model can be replicated in India by others.

3.5. Conclusions

The best way to describe social security coverage in India is a patchwork. In some cases it has grown organically without direct government support, as in the example of SEWA. In other instances, programmes have been actively encouraged by the Government, as in the food programmes as well as some of the cash transfer programmes. In many cases, however, government programmes have been launched with inadequate prior in-depth study as to cost, leading to the failure of a number of programmes.

Probably the most glaring example of this kind, is the launch of the regulatory body PFRDA itself. Eight years after it came into existence by decree, it has yet to be ratified by Parliament. Another example is the launch of the NPS-Lite programme – the pension scheme for the informal sector.

In its first four years it was taken up by fewer than 30,000 people (see Shankar and Asher, 2011). Since over 90 per cent of Indian workers are in the informal sector, this cannot be considered a good start. The programme was clearly not marketed well, despite the fact that it is an inexpensive programme with low management fees.

Some programmes, such as the SEWA, are scalable, but some require a lot more effort to reduce corruption and waste. Some require centralization, which would help in their implementation in the future. If each state has to launch its own social security safety net, it becomes costly; a centralized plan would help. The IGNOAPS, for example, requires several layers of administration to implement it at present. If India had a national identification system in place, many of these steps could be curtailed.

There have been attempts by the Government to try "technological solutions". In 2009 a programme called *Aadhaar* was launched. The purpose is to give each resident in India a 12-digit unique number issued by the Unique Identification Authority of India (UIDAI). The number will be stored in a centralized database and linked to basic demographics and biometric information – a photograph, ten fingerprints and an iris print. If and when such a plan is implemented nationwide, it would greatly simplify the identification of the person and substantially reduce the implementation costs of many other programmes. So far, 130 million identity numbers have been issued, with the target of 600 million by the end of 2014.

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