Evaluation of Existing Schemes of Provident Funds in India

Late R.S. Kaushik

1. Introduction

Withering away of the institutional base for security and support necessitated finding alternative approaches to protect the newly emerged urban labour class from destitution. The first approach was savings through individual thrift, which involved planning for future and providing for safeguards against economic distress. The schemes under this approach are popularly known as Provident Fund Schemes.

2. Historical Perspective

Provident Funds are essentially institutions created by the British before their former colonies got independence. These soon became a means of achieving greater industrial efficiency and promoting industrial harmony. One of the manifestations of industrial welfare and paternalism was occupational provident funds. These were established by new employers seeking to provide a means by which the Provident Fund employees could be protected against old age, death and invalidity.

In India also, a few big employers had instituted private schemes of provident funds voluntarily in early 20th century. The position of provident funds in private industries as summed up by the Labour Investigation Committee (1946) disclosed that there were only some private provident funds in the country, which were registered. In cases of unregistered funds, the amount standing to the workers credit was attachable. The existing schemes were not very liberal especially in regard to the employers' contribution to the provident fund of workers and the restrictions of withdrawal of employers contribution seemed to be harsh.

A need was therefore, felt to address the whole problem of making provision against old age or death of the bread earner as a part of social security. Recognising the responsibility of society to relieve economic distress faced by individual members of society on account of contingencies beyond control, the founders of the Indian Constitution made suitable provisions in this regard under the "Directive Principles of State policy". Article 41 of the Constitution provides that *State shall within the limits of its economic capacities make effective provision for securing right to work and to public assistance in cases of unemployment, old age, sickness and disablement and in case of undeserved want.* Recognising the responsibility of the State, a series of interventions by Government were made through different legislation at the Central as well as State level thus reflecting their social responsibility as enshrined in the Constitution.

3. Evolution of Income Security for Elderly, Disabled and Survivor's In India

In spite of the provisions of Article 41 of the Directive Principles of State Policy, the central government could not introduce a single universal scheme. Of late it introduced National Social Assistance Programme with central assistance. Some of the state governments introduced destitute old-age pension, and widow pension schemes in the sixties but the coverage was very limited, amount of pensions meagre and budget allocations, insufficient. The schemes were implemented through government machinery, which resulted in only a nominal coverage.

3.1 Introduction Of Provident Funds In India

The question of making some provision for the future of the industrial worker after he retires or for his dependents in case of his early death engaged the attention of Government of India soon after independence. The ideal way would have been provisions through old age and survivors pensions as has been done in the industrially advanced countries. But in the prevailing conditions in India, the institution of a pension scheme could not be visualised in the near future. Another alternative was of provision of gratuities after a prescribed period of service. But the gratuity scheme was considered to be inadequate as the amount paid to a worker or his dependents would be small, as the worker would not himself be making any contribution to the fund. Taking into account the various difficulties, financial and administrative, the most appropriate course appeared to be the institution of contributory provident funds, compulsorily envisaging contributions from both the workers and the employers. Instead of pension in case of superannuation or in case of disability or for survivors' , the Government of India introduced Contributory Provident Fund Schemes for different sections of the employees.

In India, there are two types of Provident Funds, namely:

- Non-contributory Provident Funds.
- Contributory Provident Funds.

3.2 Non-contributory Provident Funds

Non-contributory Provident Funds are employees own savings mandatory provident fund schemes. These are more commonly known as *General Provident Fund* and are generally meant for Central and State Government employees. Contributions to these funds are made solely by employees. These General Provident Funds are governed by the GPF Act, 1925 and GPF Rules (Central Services) Rules 1960.

3.3 Contributory Provident Fund

The Contributory Provident Funds are applicable to industrial workers not working in Government sector. The employers as well as employees essentially contribute to these funds and the accumulation with interest are paid back on exit from service or death. The following laws pertaining to Contributory Provident Funds are in operation in India.

1. Employees' Provident Funds and Miscellaneous Provisions Act, 1952 administered by the Employees' Provident Fund Organisation. This is meant for all workers engaged in industries and other classes of establishments as listed in the Schedule to the Act. Apart from Provident Fund, there are two other Schemes providing for Pension and Deposit Linked Insurance Scheme.
2. Coal Mines Provident Funds and Miscellaneous Provisions Act, 1948. This is meant for coal mines workers in the country. Apart from Provident Fund, there are two other Schemes providing for Pension and Deposit Linked Insurance Scheme.
3. Assam Tea Plantations Provident Fund and Pension Schemes Act, 1955. This is applicable only to the plantation workers in Assam State. Apart from Provident Fund there is a Pension Scheme also.
4. Jammu & Kashmir Provident Fund Act, 1961.This exclusively provides for Provident Fund and caters to workers in the State of Jammu & Kashmir.
5. Seamen' s Provident Fund Act, 1966. This is solely a Provident Fund Scheme and is applicable to Seamen only.

The legislations for Tea Plantation workers in Assam and for industrial and other workers in J&K are State Acts while others are Central Acts, labour being a concurrent matter under the Constitution of India.

4. Evaluation Of Provident Funds In India

An evaluation of the Contributory Provident Funds Schemes in the national context has been conducted to take stock of the present scenario and status of implementation of the schemes, to identify the gaps and inadequacies and also the strategies for the future. The results of the analytical study are summarised in Table 1 alongwith the overall national, economic and industrial scenario.

Table 1: Industrial Scenario

Total Population (1991)	837 million
Labour Force (1991)	314 million

Distribution of workers industry-wise

Agriculture	63.90 %
Manufacturing	11.13%

Community, Social and Personal Services	08.80%
Trade	07.30%
Construction	03.96%
Transport	02.78%
Financing, Real Estate, Insurance & Business Service	00.63%
Mining & Quarrying	00.77%
Electricity, Gas and Water Supply	00.34%
Others	00.61%

Distribution of workers by nature of employment

Organised Sector	9.4%
Un-organised Sector	90.6%

Distribution of workers by category of employment

Self Employment	53.6%
Regular Salaried Employment	15.2%
Casual Wage Employment	31.2%

4.1 Coverage

The working population of India is estimated at 314 million (1991 census) out of which 34 million are members of one or the other provident fund schemes as shown in Table 2 and Table 3.

Table 2: Non-Contributory schemes

	Members
Central Government	41.76 lakhs (4.176 Million)
State Government	68.00 lakhs (6.8 Million)
Union Territory Employees	01.63 lakhs (0.163 Million)
Total	111.39 lakhs (11.139 Million)

Table 3: Contributory Provident Fund Schemes

	Members
Employees' Provident Fund	214.48 lakhs (21.448 Million)
Coal Mines Provident Fund	8.06 lakhs (0.806 Million)
Assam Tea Plantations Provident Fund	7.56 lakhs (0.75 Million)
Seamen' s Provident Fund	0.33 lakhs (0.03 Million)
Jammu & Kashmir Provident Fund	1.45 lakhs (0.145 Million)
Total	231.88 lakhs (23.188 Million)

The number of members of the contributory provident fund schemes and the non-contributory schemes aggregates to 34 million, which shows that only about 10.8% of the estimated working population is enjoying benefits of one or the other provident funds schemes in the country. It would be of interest to know that the number of employees availing the benefits under the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 and the schemes framed thereunder was of the order of 21 million, which constitutes 91\% of the total employees covered by all the contributory provident fund schemes. The nature, scope, extent of coverage and benefits vary from scheme to scheme.

Gaps and Inadequacies

A further analysis into the nature, scope and extent of coverage under the various contributory provident fund schemes has disclosed the following gaps and inadequacies:

- Provident Fund schemes cater to the industrial and other workers in the organised sector, which constitute only 9.4% of the total work force. The unorganised sector, which represents 90.6% of the total work force, is mainly beyond the purview of the provident fund schemes though isolated provisions exist in some of the Acts where such employees working in or in connection with the work of covered establishments are entitled for these benefits through principal employers.
- Agricultural workers which constitute 63.9% of the total work force are out of reach of the Provident Fund benefits except those employed in agricultural farms, orchards, gardens, tea, rubber, coffee, pepper, cardamom plantations etc. which are mainly in the organised sector.
- Even all the regular salaried employed persons which constitute 15.2% of the work force are not covered. The extension of coverage to this category of employees has been to the extent of 10.8% only.
- Self-employed which constitute 53.6\% of the total workers are not covered under any of the Provident Fund-cum-Pension Schemes.
- These schemes do not however provide for unemployment benefits, which may be needed all the more in the present context of economic globalisation/liberalisation.

The present scenario thus indicates that the extent of coverage is low both in terms of working population and nature of benefits. Thus need is felt for universal coverage of all wage earners in the organised as well as unorganised sectors.There are two dimensions of dealing with the low coverage and extension of benefits.

1. Introduction of new benefits.
2. Coverage of new areas and additional persons for the existing benefits.

Introduction of new benefits

As regards the introduction of new benefits, the ultimate object of the Provident Fund Scheme is to establish themselves as social security instruments rather than purely savings generation instruments. The most useful old age benefit is "pension" which three of the existing Contributory Provident Funds have already provided. There are, however, other areas in which Provident Funds could further establish themselves as social security instruments. These are:

1. Unemployment benefits.
2. Family benefits.

The question is whether these propositions could be thought of at this stage and if so, how. However, at the same time the quantum of benefits under the existing schemes may require a review so as to make these uniform and need based.

Coverage of new areas and Additional persons for the existing benefits

The second question is the coverage of new areas and additional persons for the existing benefits. Separate schemes for the self-employed, the agricultural labourers and the unorganized sector workers can be thought of. This could be done by devising separate schemes to be implemented through the existing Provident Fund institutions. The National Commission on Rural Labour had also recommended that separate schemes be devised to cover agricultural labourers. Difficulties are experienced in identifying unorganized workers although some of these are covered under the Employees' Provident Fund Scheme through the principal employers. For other categories of unorganized workers, who are not able to be covered through principal employers, could be provided Social Security through "Welfare Funds" or through separate schemes as has been done in a number of states, the forerunner being Kerala. The Kerala government introduced Social Security

Schemes in 1986 for the benefit of artisans and skilled workers. The scope of the scheme has been further extended to all workers earning their livelihood by manual labour. This is a contributory scheme and the state government also contributes. Benefits available are on retirement (lump sum), death and education of children.

Main impediments in Extension of Coverage of existing Schemes are

1. *Industrial Classification for Coverage:* Contributory Provident Fund Schemes do have Industrial classification based coverage. Employees' Provident Funds \& Miscellaneous Provisions Act, 1952 one of the main contributory Provident Fund Schemes in India is applicable to *Every establishment which is engaged in any one or more of the Industries specified in Schedule I of the Act or any class of establishment notified by Central Government in the Official Gazette*. Initially the Act was made applicable to six major industries in November, 1952 which has gradually been extended to 177 industries/classes of establishments.' ' This provision is one of the impediments in extension of coverage because of two main reasons:
    - It limits application to industries/establishments notified instead of providing a universal coverage. Social security being need-based, has to have a universal application as every one needs economic protection.
    - Existence of schedule gives rise to disputes as many employers contest coverage on the grounds that their establishment does not fall within a particular industry. In the process, the workers of that establishment get deprived of the social security cover.

2. *Threshold for Coverage:* Contributory Provident Fund Schemes in India at present, have a threshold for coverage. Employees' Provident Fund Scheme is limited in its scope ofcoverage which is decided with reference to number of workers employed. Employees' Provident Funds \& Miscellaneous Provisions Act, 1952 originally applied to factories in the scheduled industry in which 50 or more persons were employed. By an amendment i.e. the Employees' Provident Fund (Amendment) Act 1960, this was made applicable to factories employing twenty or more persons. This amendment came into force with effect from 31-12-1960. Threshold for coverage of 20 or more employees has been persistent for about four decades (since 1960). Similar provisions exist in J&K Provident Fund Scheme (5 or more persons). This deprives workers of small-scale industries/establishments of social security benefits who are more vulnerable to economic distress and need protection more than anybody else. The National Commission on Labour in 1969 also recommended extension of coverage to establishments employing 10 and more. This was endorsed by Central Board of Trustees of Employees' Provident Fund andLabour Ministers Conference in 1977. Ramanujan Committee (1980) also recommended for extension of benefits to all establishments employing 10 or more persons. The Employees' State Insurance Corporation Act also has 10 or more persons ceiling. Coal Mines Provident Fund & Seamen' s Provident Funddo not have any threshold for coverage. Other labour laws also do not have threshold ceiling for applicability. Limitations of applicability of social security laws with reference to number of persons employed are considered to be a sign of under development of the country. Most of Asian and African countries do not have any ceiling for coverage. Countries like Nepal and Uganda have a lower ceiling at 5/10 persons. Social security being need based, exclusion of workers of smaller establishments lacks rationale. Arguments that it may be administratively difficult also are not tenable because survey in one of the offices (Andhra Pradesh) disclosed that about 15\% already covered establishments are having less than 20 persons on rolls and accounts thereof being maintained/serviced satisfactorily. That apart, all the offices are computerised and the staff norms are based on workload.

3. *Wage Ceiling for Coverage:* At the inception of the Employees' Provident Fund Scheme, 1952an employee who was in receipt of pay upto Rs.300 p.m. and who worked for one year was eligible for membership of the Fund. As a result of amendments made, the conditions of eligibility for membership have been liberalised in favour of the employees as given in Table 4.1. Presently, there is a wage ceiling of Rs.5000/- for initial membership in the case of Employees' Provident Fund and Assam Tea Plantations Act. Every worker whether working in an organised sector or unorganised sector – whether highly paid or low paid needs social security during employment and after retirement. Their families also need social and economic protection in the event of death of worker. As such coverage should be totally delinked from consideration of wages. Even the existing ceiling of Rs.5000/- need to be reviewed because of upward revision of wages over the years.

Table 4.1 : Wage Ceiling for enrolment

Period	Wage limit per month
01-11-1952 to 31-05-1957	Rs.300/-
01-06-1957 to 30-12-1962	Rs.500/-
31-12-1962 to 10-12-1976	Rs.1000/-
11-12-1976 to 31-08-1985	Rs.1600/-
01-09-1985 to31-10-1990	Rs.2500/-
01-11-1990 to 30-09-1994	Rs.3500/-
01-10-1994 onwards	Rs.5000/-

Table 4.2 Qualifying period of Service

From the inception of the Employees' Provident Fund Scheme in 1952 till December, 1971	Completion of one years continuous service or has actually worked for not less than 240 days within a period of one year or declared permanent whichever is the earliest.
From 03-12-1971 to 09-08-19874	Completion of one years continuous service or has actually worked for not less than 120 days within a period of one year or less or has been declared permanent in any such factory or the establishment whichever is the earliest.
From 10-08-1974 to 30-01-1981	Completion of six months continuous service or has actually worked for not less than 120 days within a period of six months or has been declared permanent in any such factory or the establishment whichever is the earliest.
From 31-01-1981 to 31-10-1990	Completion of three months continuous service or has actually worked for not less than 60 days within a period of three months or has been declared permanent in any such factory or the establishment whichever is the earliest.
From 01-11-1990 onwards	From the date of joining the factory/establishment

Remedies

- Doing away with system of extending the application of the Provident Fund-cum-Pension Schemes industry by industry and class of establishments by class of establishments and making it applicable to all industries and establishments subject to such exclusions as are considered necessary.
- Removal of threshold for coverage or reducing the threshold for coverage from 20 to 10 or 5.
- Removal of wage ceiling for coverage of members or increasing the same.

4.2 Contributions/Financing

Contributory Provident Fund Schemes are financed mainly on the basis of contributions from employees and employers. Governments generally do not contribute any amount as a share or rarely give small subsidies for meeting deficits. However, on transformation of provident fund schemes into partly social insurance schemes, the government at times contributes to some extent in addition to the contributions from the employers and employees. Contributions by central government towards Employees' Pension Scheme operated by Employees' Provident Fund Organisation during 1996-97 was Rs.283 Crores. The rates of contribution towards provident funds are fixed on an adhoc basis as a percentage of wages. Often the rates remain fixed for long periods of time. The rate of contribution in the Employees' Provident Fund is 12 per cent of basic wages. The employers also contribute at the same rate 12 per cent. The rate of contribution is still 8.33\% in J\&K Provident Fund & 10% in other contributory Provident Fund Schemes. The rate of minimum contribution to the non-contributory provident fund is 6% of emoluments which include pay, leave salary & any other remuneration in the nature of pay but excludes dearness allowance.

Average yearly amount of contributions received varied from Rs.20 crores in Seamen' s Provident Fund to Rs.6000 crores in Employees' Provident Fund. Annual accretions in the case of General Provident Fund were Rs.950crores. (1993-94).

The common problems being faced are due to:
1. Poverty and low wages
2. Fixation of rates on adhoc basis rather than acturial valuation, resulting in imbalance in financing i.e. benefits and contributions
3. Inflation resulting in shrinking of the contributions in real value
4. Impact of economic recession
5. Lack of liquidity and return on investments.

The contributions should venture to attain an equilibrium with the benefits provided in the schemes.

4.3 Exemption Of Establishments

On the applicability of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 to an establishment, the provisions of the Employees' Provident Funds Scheme become applicable to it and the employees are required to comply with the statutory provisions of the scheme. However, such of these establishments, which have their own Provident Fund scheme in vogue conferring benefits to their employees equal to or more than those provided under the statutory Scheme may seek exemption under section 17 of the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 from the provisions of the statutory scheme, if their employees are in favour of such exemption. Likewise individual employee or class of employees who contribute to the employer' s private Provident Fund scheme may also seek exemption under Paragraph 27 and 27A of the statutory scheme to continue to be members under their Provident Fund scheme. Similar provisions for exemption exist in the case of Coal Mines Provident Fund Act and J&K Provident Fund Act. The grant of such exemption is to enable the employees to continue to enjoy the better benefits available to them under the private Provident Fund scheme. Such exemptions do not amount to the total exclusion from the provisions of the Act and the exempted establishments continue to be covered under the Act, the only distinction being that a Board of Trustees properly constituted according to rules in the exempted establishment administer the exempted Provident Fund subject to the terms and conditions under which exemption is granted and subject to such supervision and control as laid down by the Government.

Exemption granted to an establishment is liable to be cancelled for contravention of any of the conditions governing exemption and on such cancellation, the establishment will be required to comply with the statutory scheme. Though the functioning of exempted establishments is the responsibility of the Board of Trustees in each establishment, the Employees' Provident FundOrganisation exercises control over such establishments through periodic inspections for ensuring proper compliance of conditions of exemption. 2970 establishments were in the exempted category at the end of the year 1996-97. There were 45.36 lakh members as at the end of March, 97 in the exempted sector.

The exempted establishments are required to follow the same pattern of investment as is prescribed for the un-exempted funds. The exempted establishments are required to declare interest to their members which would not be lower than the interest rate declared for the members of the Statutory Fund. As per available information, with reference to 2,987 establishments, out of which 450 had not declared interest for the year and 15 establishments were reported closed. The broad pattern of the remaining 2,522 establishments which have declared interest are given in Table 5.

Table 5: Exempt funds

Rate of Interest allowed to Members – Exempted Establishments		
	Establishments	Members Involved
Higher than the Statutory Rate	164	3,57,780

Equal to the Statutory Rate of 12%	2,129	33,24,165
Less than the Statutory Rate	229	4,66,873
Total	2,522	41,48,818

4.4 Investment Policy Of Provident Fund And Its Financial Impact

The investment of the Provident Funds and Pension Funds are made on the pattern prescribed by the Government of India from time to time. In the beginning of these schemes, major part of investible funds were required to be invested in securities issued by state/central Governments or in the securities payment of principle and interest was guaranteed by the central/state governments.

Upto 1969-70, entire investment in respect of Employees' Provident Fund was required to be made in central and state government securities only. However, since then the government has been revising the investment pattern so as to reduce the investment of provident fund accumulations in government securities where the yield is comparatively less. At the same time, investment in Special Deposit Scheme, bonds/securities of public sector financial institutions and public sector banks were also prescribed which generally carried higher rates of return. Recently, the pattern has been further liberalised envisaging investment of a small percentage in bonds/securities in the private sector as well.

The pattern applicable from 01st April 1998 is shown in Table 6.

Table 6: Investment Pattern of Provident Funds

	Investment Pattern	**Percentage of Amount to be invested**
(i)	Central Government Securities as defined in Section 2 of the Public Debt Act, 1944.	Twenty five percent
(ii)	(a) Government Securities as defined in Public Debt Act, 1944 created and issued by the State Government; and/or (b) Any other negotiable securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government	Fifteen percent
(iii)	(a) Bonds/Securities of ' Public Financial Institutions as specified under Companies Act, "Public Sector Companies" as defined under Income tax Act, 1961 including public sector banks and the Infrastructure Development Finance Company Limited (IDFC); and/or (b) Certificates of deposits issued by a public sector bank.	Forty percent
(iv)	To be invested in any of the above three categories as decided by the Board of Trustees	Twenty percent
(v)	The Board of Trustees, subject to their assessment of the risk-return prospects, may invest upon 10% out of (iv) above, in private sector bonds/securities which have an investment grade rating from at least two credit rating agencies.	Twenty percent

The investment policy of the Provident Funds has a significant impact on the quantity of benefits to the members. The amounts invested in the contributory Provident Funds during and upto the year 1996-97 are given in Table 7.

Table 7: Amounts invested in Provident Funds

Amount Invested during the year	Total Investment as on 31st March 1997	Average Yield (EPF only)
11859.18	74666.91	11.91 %

The annual yield under Employees Provident Fund during 1996-97 was 11.91%. However, the rate of interest credited to Employees' Provident Fund members is 12%. The rate of interest of Employees Provident Fund is 12%, which is more than inflation rate of 10.00\%, which helped in ensuring maintenance of value of deposits and also generating return.

Fund Management - Need For Professional Approach

A question is generally raised whether Provident Fund and Pension Funds should be managed by professional body so as to generate better yield. At present, Provident Funds & Pension Schemes operated by Employees' Provident Fund are managed by professionals. Till recently, Reserve Bank of India was handling the work. Since 1994-95, the State Bank of India has been appointed as fund managers who invest the funds as per the pattern prescribed by Government.

Recently, however, the pattern has been liberalised envisaging investment of funds to a very small extent of 10% in private sector subject to satisfaction of investment ratings obviously on an experimental basis.

One has to strike a balance between security and profitability. Profitability could be ensured if investment made in private sector but the more important principles of *safety, security, social and economic utility* have also to be given due consideration.

Finally, when safety, yield and liquidity have been taken into consideration, social security funds should, to the extent possible, be invested in order to improve the overall quality of life. Investments in the health and education infrastructure and in enterprises which create employment opportunities are in this category. One important principle, however, is that the funds should be invested only through financial intermediaries, so that the attention of the management of the social security scheme is not diverted from its primary concern of ensuring the efficient operation of the scheme.

4.5 Administration Of Provident Fund Schemes

Tripartite body with representations from government, employers and employees
is envisaged for administrating the schemes. The administration of these schemes involves:
1. Collection of contribution and
2. Delivery of benefits.

These schemes are implemented through organisations set up for each with a view to provide efficient and prompt service nearer the doorsteps of members. All the organisations have generally adopted decentralisation on a large scale. Employees' Provident Funds & Miscellaneous Provisions Act, 1952 and schemes framed thereunder are implemented through a network of 17 Regional offices at State Head Quarters and 84 Sub-Regional Offices. There are 155 inspectorates for enforcing the provisions and providing guidance to the employers and employees. Employees' Provident Fund Organisation covers 2.99 lakhs establishments, and 2.14 crore members. It handles about more than 2.5 lakh claims every month, which casts a heavy responsibility on the organisation.

As is evident from the foregoing result of study that there are multiplicity of organisations/departments administering provident funds and schemes framed thereunder for various types of industries and different regions. So in effect, different organisations are operating in the same territorial jurisdiction. The multiplicity of the institutions involves greater administrative costs in administering the schemes. The average cost of administering various Provident Funds per member serviced during 1996-97 is shown in Table 8. It would be seen that administrative cost per member served varies widely.

Table 8: Cost of Administering Provident Funds

	Cost of Administering (per member)
Employees' Provident Fund	Rs. 61.04
Coal Mines Provident Fund	Rs. 130.27
Assam Tea Plantations	Rs. 54.76
Seamen' s Provident Fund	Rs. 127.27
J&K Provident Fund	Rs. 32.41

Future directions

- A need is felt for integration of various Provident Funds-cum-Pension Schemes and even Social Security schemes with a view to enforce economy, cost efficiency and cost effective delivery of benefits to the members through a single window. Constitution of a "National Provident-cum-Pension Fund" with a Central Regulatory Authority could be thought of.
- At field level more decentralisation and devolution of more powers to functionaries of organisations for better implementation and delivery system.
- Total and comprehensive computerisation.
- Enforcing the accountability in implementation of schemes and delivery of benefits.

5. Effect Of Cash Benefits Of Provident Funds In Maintaining Purchasing Power

During 1996-97, under the various contributory Provident Fund schemes controlled by the Employees' Provident Fund Organisation and other Organisations/Departments, cash benefits of about Rs.5353.97 crores were paid to 25.31 lakh members on account of final settlement of members claims, financing insurance policies, housing and illness, marriage, education as below

(in Lakhs)

	Number	Amount
Payments to outgoing members on retirement, death, leaving service	13.22	330615.53
Payments to members on illness, marriages, education	9.14	113826.94
Payments to members for financing life insurance policies.	0.44	865.11
Payments to members for Housing	2.51	90090.06
Total	25.31	535397.64
Average per member (in Rupees)		21,154

A comparison of the payments made to Provident Fund Members with the percapita Net National Product of the country at current prices for the year 1996-97 (estimated at Rs.10771) would indicate that the cash benefits to the Provident Fund Members have helped them not only in meeting the contingencies but also in maintaining their purchasing power.

6. Provident Fund Resources And Benefits And Their Macro Economic Effect

Provident Funds have proved to be vehicle of social protection on one hand and an effective instrument of savings for the country on the other. The effect of Provident Fund schemes on savings is of very high importance in our country. The Provident Fund schemes are also a means of mobilising savings and an internal source of resource for development purposes, as may be seen from the extract of the Budgetary Transactions of the Central and State Governments and Union Territories shown in Table 9.

Table 9: Provident Fund Resources.
(Rs in Crores)

	1994-95	1995-96	1996-97 (BE)	1996-97 (RE)	1997-98 (BE)
Total outlay	300881	340313	384653	384236	445193
Development	171488	189050	213199	213154	240076
Non-development	129393	151263	171454	171082	205117
Current Revenue	202310	241428	273947	267196	316957
Tax Revenue	147848	175255	204941	204855	238505
Non-Tax Revenue	54462	66173	69006	62341	78452
GAP Financed by :	98571	98885	110706	117040	128336
Net Capital Receipts	100866	73575	103196	103158	123924
Internal (Net)	96247	72119	97126	99370	120388
Net Market Loans	25449	39936	10236	10481	41013
Net small savings	14426	10075	12354	12270	10950
Net State and Public Provident Funds	**7885**	**9043**	**8075**	**10556**	**12090**
Special deposits of non-Government Provident Funds	**7238**	**5168**	**9500**	**8750**	**9900**
Long and medium term loans	-	-	21798	21473	-
Net misc. capital receipts	41249	7897	35163	35840	46435
Internal (Net)	96247	72119	97126	99370	120388
Net Market Loans	25449	39936	10236	10481	41013
Net small savings	14426	10075	12354	12270	10950
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Special deposits of non-Government Provident Funds	**7238**	**5168**	**9500**	**8750**	**9900**
Long and medium term loans	-	-	21798	21473	-
Net misc. capital receipts	41249	7897	35163	35840	46435
External	4619	1456	3270	3788	3536
Overall Budgetary Deficit	- 2295	25310	10310	13882	4312

Since the institution of the contributory Provident Fund through the Employees' Provident Fund and other institutions in India, an amount of Rs.60754.34 crores has been received as Provident Fund contributions from the establishments covered under the contributory provident Funds. The extent of the contributions received during the last two years and their percentage to gross domestic savings of the country are given in Table 10

Table 10: Provident Fund Contributions

	During the Year 1995-96	Upto the year 1995-96	During the year 1996-97	Upto the year 1996-97
Provident Fund Contributions from the establishments covered under the Employees' Provident Fund Organisation (including exempted establishments)	5765.87	48276.95	5971.06	51763.69
Provident Fund Contributions from the establishments covered under other contributory Provident Fund Acts.	1549.97	7652.96	1702.18	8990.65
Total	7315.84	55929.91	7673.24	60754.34
Gross Domestic Savings (household).	210417 Crores		259543 Crores	
Percentage of Contributory Provident Fund Savings to Gross Domestic Savings (household).	3.4		3.0	

It would appear from the above that the Provident Fund schemes in Indiahave contributed substantially in efforts of the state in maintaining a reasonable rate of household savings which is essential for providing adequate funds for economic growth. The need for savings is all the more urgent in India because of high rate of population growth. The savings are also needed to check inflation and thereby prices.

7. Conclusions & Recommendations

Provident Fund Schemes are basically savings schemes with participation from employers and employees envisaging lump sum payment with interest on retirement/attaining certain age or death. These do not seem to provide Social Security in true sense in their original conceptual form. Some inherent shortcomings of these schemes are evident from the analytical study. These are:

- Exposure to inflation leading to erosion of benefits.
- Exposure to recession and poverty affecting capacity of workers to pay the contribution.
- Absence of provision for long-term protection on regular basis.

However, the analytical study of different Provident Fund Schemes reveals a notable feature that the Provident Funds continue to occupy a place of eminence in national context, in view of the following:

- Promotes the idea of self-help.
- Inculcates habit of regular savings.
- Provides a feeling of ownership.
- Simplicity and ease in administration.
- Financial participation from government not essential.
- Acts as a secured, definite financial reserve for the country.
- Provides Social Security to members and family.

The nature and role of Provident Funds is, however, undergoing a change. Transformation from one that is primarily focused on providing financial savings for meeting future needs, to the one that is concentrating on the improvement of the well-being and quality of life of its members. These schemes are becoming increasingly relevant in developing countries today as a result of transformation/diversification into Social Security Schemes like - Pension Schemes, Provision for Insurance cover against accidents, disabilities and similar other benefits.

It is an accepted fact that social and economic developments proceed together. A contented working class having all sorts of protection is necessary for economic development. Economic and social developments are dependent on each other. These programmes help in economic development in many ways -

- Better health and medical care of the working population
- Improvement in the standards of health
- Impact on production
- Better living and working conditions.
- Social Security fund reserves in national development help in the growth of economy.

Therefore, the view that Social Security is a burden and the developing countries like India cannot afford it, is not correct. Ever since the Provident Funds, were instituted in India, these have taken deep roots. Provident Funds are developing with the economic and social development process of these countries despite constraints of poverty, malnutrition, diseases, illiteracy, unemployment and such other situations.

Provident Funds are not only generating huge savings from internal resources for the nations economic development but are also acting as an umbrella during economic distress for its members. These also help in providing steady workforce to the employers.

Strides have been taken not only in the matter of extending the scope of coverage but also undertaking a number of Social Security Schemes. Like partial conversion of Provident Fund Scheme into Pension Scheme thereby providing longterm Social Security benefits on regular basis and Deposit Linked Insurance Schemes. Economic liberalisation and globalisation have put more pressure on Social Security organisations.

Large gaps and inadequacies in the Provident Fund Schemes still persist. Vast majority of workforce is still out of the Social Security net. These schemes are still to be extended to:

- Unorganised sector
- Agricultural labourers
- Self Employed persons

Despite what the critics of Provident Fund systems may say, it appears to be the only feasible option available so far in developing countries like India. But there is an urgent need to attend to the changing Social Security needs of human beings.

7.1 Recommendations

1. Sustained monthly income in case of old-age, invalidity/disablement and for the survivors in case of death of the bread-winner is a must in any egalitarian or welfare society. The right of protection under these circumstances has been accepted as one the basic ingredients of Social Security by ILO and the Constitutions of various countries including India.This protection is not available to overwhelming majority of work-force of 320 million in India in the unorganised sector, agricultural workers or workers in small scale and tiny section of the industry or the artisans, or the small and marginal farmers as well as for all types of self employed.

2. Keeping in view the economic conditions of work-force it is essential that we have two types of schemes for this purpose i.e.

    - A Social Assistance Scheme, by liberalising the conditions of coverage and increasing the amount of pension in the existing National Social Assistance
    - Programme and in the State Governments' Social assistance pension schemes and a Social Insurance Scheme for all the employed or self-employed persons who are in a position to make contributions.

3. Integrating existing Provident Fund and Pension Schemes. There is a need for setting up a Central Regulatory Authority, which can rationalise and set upsome benchmark standards keeping in view Social Security parameters relevant to the quality and quantum of benefits.

4. Removing the impediments in extension of coverage of existing schemes by removal of:
   a. Industrial classification based coverage
   b. Threshold and wage ceiling for coverage

5. Enhancing the statutory age of superannuation from existing 58 to 60 years.