

No EPFO benefits for workers of small firms

Cabinet rejects plan to extend EPFO benefits to companies with 10-19 workers over worries it could financially hurt MSME sector



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New Delhi: The Union cabinet has rejected a proposal to bring all companies with 10 or more workers within the ambit of the Employees' Provident Fund Organisation (EPFO) in an apparent bid to protect the interests of small and medium factories that are thought to be key to the success of the Make in India mission.

The rejection came after the government realized that although the move would have brought around five million more workers under social security benefits, it would have affected the micro, small and medium enterprises (MSME) sector financially, two government officials said requesting anonymity.

At the moment, only those companies that deploy 20 or more workers come under the EPF and Miscellaneous Act (EPF Act). Every month, employees pay 12% of their basic salaries to the EPF and a matching contribution is paid by the employer. However, in practice, in a majority of the cases, both the portions are included in the workers' cost-to-company packages.

The labour ministry had worked for almost a year on the proposal to increase EPFO coverage by amending the EPF Act and was waiting

for the cabinet's approval.

"The cabinet has returned the proposal to the labour ministry. In a way, the plan now stands rejected," said one of the two officials cited above.

"The basic concern is that at a time when you are promoting the MSME sector for making the Make in India mission a success, you cannot burden small factories with statutory deductions," the second official said.

The second official said low-paid workers in small factories prefer better take-home salaries to a pension. The official said in May the Union government eased labour compliance for the MSME sector after granting similar relaxations for start-ups. The key objective was to promote sectors that can create more jobs rather than control them through regulations, the official said.

The MSME sector accounts for around 8% of gross domestic product, 40% of exports and around 45% of manufacturing output, according to the official website of the MSME ministry. The sector consists of 36 millions units and provides employment to over 80 million people.

Welcoming the move, Rama Kant Bharadwaj, vice-president of Laghu Udyog Bharati, a federation of small and medium industries, said that the federation had been raising the issue with different stakeholders, including the labour ministry. "If India wants to boost manufacturing and become competitive, it must support the MSME sector," Bharadwaj said.

D.L Sachdeva, national secretary of the All India Trade Union Congress, said, "The bigger question is that neither the government nor the companies are addressing the welfare of workers. Why are the wages so low?"

The cabinet rejection also means that the EPF Act will not be amended in a hurry, leading to delays in interoperability of EPF and national pension system accounts. Through an amendment of the EPF act, the union government was planning to allow EPF subscribers to move out of EPFO and join the the National Pension System (NPS). The idea was that since EPF does not give good returns because of its investment restrictions, subscribers should be allowed to move to NPS.