

2006 | ASIAN DECENT  
2015 | WORK DECADE



International  
Labour  
Organization

**SERIES:**

**SOCIAL SECURITY EXTENSION  
INITIATIVES IN SOUTH ASIA**

**INDIA:  
A PROVIDENT FUND FOR  
UNORGANIZED WORKERS  
(WEST BENGAL)**

**“CONTRIBUTING TO OLD AGE PROTECTION OF DISADVANTAGED GROUPS”**

**ILO Subregional Office for South Asia**



*Decent Work for All*

*Asian Decent Work Decade*

## INTRODUCTION

The fourteenth Asian Regional meeting of the ILO recently organized in Busan, Republic of South Korea (August 29th – September 1<sup>st</sup>) endorsed an Asian Decent Work Decade (2006-2015), during which concentrated and sustained efforts will be developed in order to progressively realize decent work for all in all countries. During the proceedings, social protection was explicitly mentioned as a vital component of Decent Work by a number of speakers including the employers and workers representatives. The need to roll out social security to workers and their families in the informal economy, to migrant workers and to non regular workers in the formal economy was also perceived as a major national social policy objective. The need to enter into a more intensive dialogue with respect to the design and financing of national social security systems to equip them to cope with the new requirements and challenges of a global economy also emerged as a major outcome of the meeting.

The challenge of providing social security benefits to each and every citizen has already been taken up in India. In 2004, the United Progressive Alliance (UPA) Government pledged in its National Common Minimum Programme (NCMP) to ensure, through social security, health insurance and other schemes the welfare and well-being of all workers, and most particularly those operating in the informal economy who now account for 94 per cent of the workforce. In line with this commitment, several new initiatives were taken both at the Central and at the state level, focusing mainly on the promotion of new health insurance mechanisms, maternity benefits and old-age protection schemes considered as the social protection priority needs.

Given this context, the ILO's strategy was to develop an active advocacy role aiming at facilitating the design and implementation of the most appropriate extension strategies and programmes. Since any efficient advocacy role has to rely on practical evidence, the ILO first engaged a wide knowledge development process, aiming at identifying and documenting the most innovative approaches that could contribute to the progressive extension of social protection to all. One such innovative and promising approach was illustrated by the Provident Fund set up by the Government of West Bengal targeting a wide range of workers operating in the unorganized sector.

## BACKGROUND

Wishing to introduce a pension mechanism for the unorganized sector workers, the Government of West Bengal entered into a wide consultation process with various trade unions and professional associations. Recognizing the complexity attached to such a mechanism, a general consensus soon emerged in favor of a provident fund that would benefit from a regular financial support from the Government.

In 2001, as an outcome of this social dialogue process, the Government of West Bengal introduced via the Labour Department, special regulations allowing for the setting up of a new voluntary state-wide provident fund.



The fund was especially designed to answer the particular needs and contributory capacity of informal economy workers. It also aimed at an extensive coverage encompassing both workers employed in small industries as well as the self-employed engaged in various occupations. In order to encourage enrolment, the scheme provides for a matching contribution from the State.

## TARGET POPULATION

According to the survey conducted by the National Sample Survey Organization (NSSO) during 1999-2000, the total number of workers in the unorganized sector was about 37 crore (93 per cent of the total workforce of the country). This number has increased to 43.4 crore (94 per cent) as per the recent survey conducted by the same organization during 2004-05. There is thus plenty of evidence that the informal economy, as the shock absorber of the reform period is still poised to grow in the coming years.



According to the National Planning Commission, the Below Poverty Line (BPL) population was estimated to be about 21.3 million or 27% of the entire population in 2001-02.

In its report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector (August 2007), the National Commission for Enterprises in the Unorganized Sector estimated that about 77 per cent of the population totaling 836 million people, lived on less than 2 US\$ per day.

Unorganized sector workers are hardly regulated by the State of West Bengal and lack enforceable rights at work and rights to social security.

Fixed at a mere Rs 449 per capita per month (US\$ 11) in urban areas, the State of West Bengal has adopted one of the lowest poverty lines in India.

## PROVIDENT FUND'S PROVISIONS

### Eligibility

All wage employed and self-employed workers between the age of 18 and 55 years operating in the State and having an average family income of not more than Rs. 3,500 per month are eligible to be covered under the scheme. For the purpose of this scheme, the family includes the beneficiary, his or her spouse, and wholly dependent daughters, sons and parents.

### Scope of Coverage

The Government has identified so far some 55 sectoral activities whose workers may benefit from the scheme. Choosing a progressive approach, the scheme selected 13 industries and 8 occupations (\*) to be covered under the 1<sup>st</sup> implementation phase currently under way.

### Enrolment Modalities

At the time of enrolment a worker under the scheme will be issued an identity card-cum-pass-book signed by the authorized officer. The contribution becomes due on and from the month following that in which the identity card-cum-pass-book is issued.

### Contributions

Each subscribed worker has to contribute a sum of Rs. 20 per month. A matching amount is contributed by the State Government. Total contribution amounts to Rs 480 per annum. The interest on the balance

of the saving account of a subscriber will also be paid by the State Government annually at the rate declared by the Government.

### **Benefits**

Total contribution along with interest will be refunded to the workers on reaching the age of 55 years or in the event of the account becoming inoperative due to death or prolonged default in making contributions.

An account is under prolonged default if monthly contributions are not paid for six consecutive months. The account may however be revived when the contributions are made up-to-date by making adequate payments in one or more instalments subject to a maximum of six instalments.

In the event of death, the total amount (i.e. worker's contribution, plus matching contribution along with interest) will be paid to the nominee. The State government may also prescribe provisions for loans and withdrawals from the fund as and when deemed necessary.

### **State Additional Assistance**

Interest to be paid by the Government will be calculated as on 31<sup>st</sup> March of every year and is deemed to be credited on the same day in the account of the subscriber.

The State Government bears all expenditures relating to the administration of the scheme including commission to be paid to collecting agents, service charges to the banks and also cost of various forms and stationery.

### **Management of the Scheme**

The scheme is implemented and managed by the Labour Department through Labour Directorate under the guidance of respective Advisory Committees set up at Block, Sub-Block, Sub-Division, District and State Level.

### **Final Closing of an Account**

If an account has been closed due to the absence of regular contributions, the entire Government contributions and interest will be forfeited. The contribution made by the account holder, without any interest, will be returned to him/her after the expiry of a lock-in period of three years.

## **CURRENT COVERAGE**

As on December 31, 2005, a total of 676,000 workers (40% women) had already enrolled in the scheme.

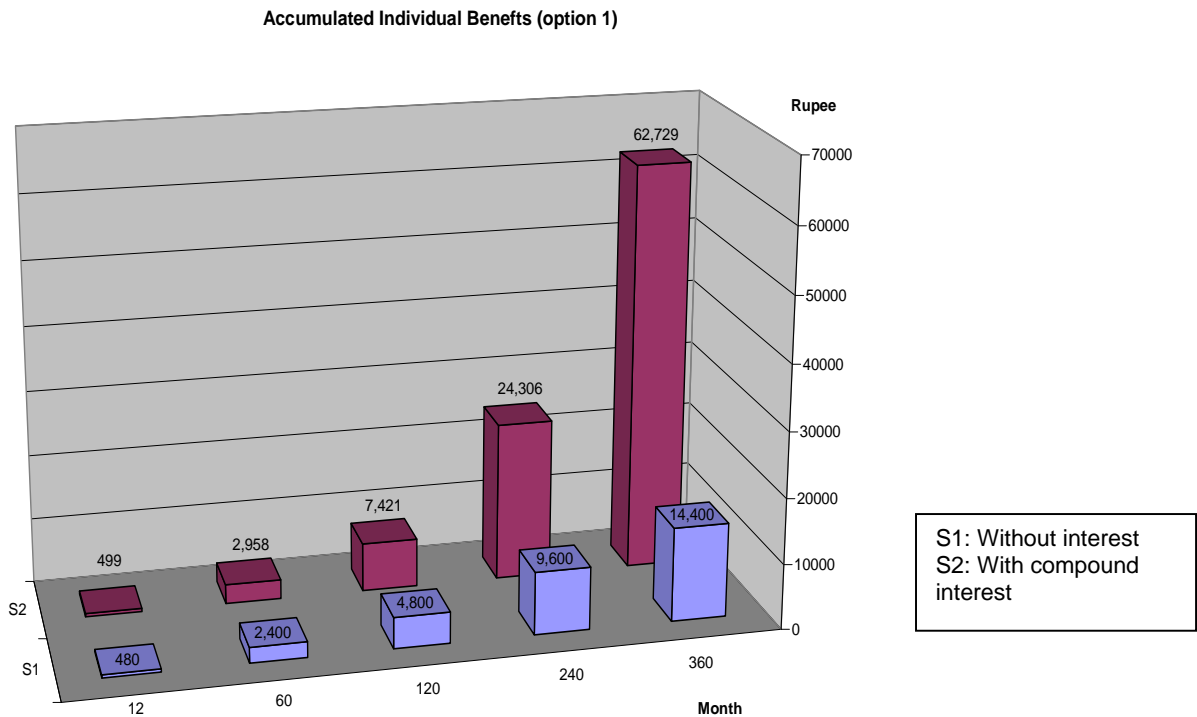
## **FINANCIAL PROJECTIONS**

By April 2006, the scheme has accumulated some Rs. 250 million in subscriptions from workers. In addition, Rs 220 million had been granted as matching fund by the Government. Interest applied by West Bengal State Government on fund deposits has been 8.25% since 2001 which was the same as Central Provident Fund.

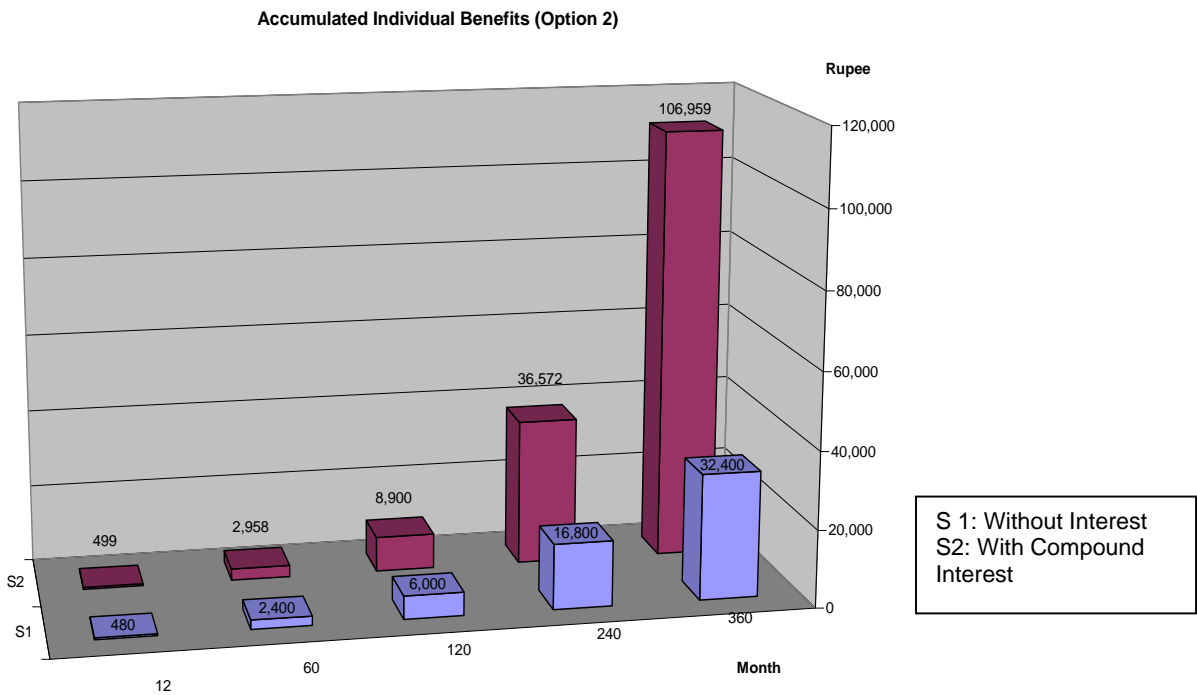
Based on this last figure, some financial projections can be made as regards the total benefits to be reached at the end of the contribution period, using the following two options:

1. Present contribution remains unchanged during the whole contribution period
2. Present contribution is increased by Rs 10 after each 5-year period

Accumulated individual benefits (option 1)







Accumulated individual benefits (option 2)



## THE LINKAGE EXPERIENCE

Developing efficient partnership arrangements is already seen as a key element for the successful implementation of any social security scheme targeting the disadvantaged groups. Evidence also suggests that building efficient linkages between community-based initiatives and government programmes in order to exploit their respective strengths is another major requirement. This necessary synergy may be developed at various levels.

Scope of Linkages	
Financing:	
Operations:	
Governance:	No
Policy Planning:	
Legal Framework:	

The setting up of the Provident Fund emerged from the strong commitment of the Government of West Bengal to address the specific old-age benefit requirements of workers operating in the unorganized sector. In order to design the appropriate mechanism, the Government engaged a broad social dialogue process with the multiple organizations defending workers' interests. Given the complexity of providing full pension benefits to workers spread over a wide range of sectors/occupations, a general consensus was found with the setting up of a Provident Fund.

### 1. Financing

The scheme succeeded in organizing an efficient mechanism allowing for the provision of old-age benefits to unorganized sector workers. Not only does the scheme benefit from a matching contribution from the Government, but it also offers a guaranteed return on attaining 65 years. Furthermore, all administrative costs are borne by the state Government.

### 2. Operations

The scheme is operated in close collaboration with various informal economy trade unions and occupation-based associations in order to ensure the full information reaches the unorganized sector workers, allowing for a broad and prompt enrolment of workers belonging to the specific branches of occupation that were first targeted.

### 3. Governance

The scheme is fully administered by the staff of the Labour Department, Ministry of Labour and Employment, Government of West Bengal.

### 4. Policy Planning

A similar provident fund has already been set up for agricultural workers in the same state. The scheme has also elicited the interest of some other states. The state of Tripura has introduced a similar Fund, calling for a monthly contribution of Rs 25, with a matching contribution from the state government.

### 5. Legal Framework

The Provident Fund comes under the purview of special regulations N° 180 and 305, introduced by the Labour Department, Government of West Bengal.

## CONCLUSION

The Provident Fund set up in West Bengal provides a good example of a tailor-made mechanism allowing a wide range of unorganized sector workers to access much needed old-age benefits. The simplicity of the operational modalities of the scheme, which resulted from a broad consultation process and already shows a significant impact, gives credence to the need to involve all stakeholders in the design phase of any new social security programme.

## LIST OF INDUSTRIES AND OCCUPATIONS

### List of Industries:

● Stone breaking and stone crushing	● Cashew processing
● Brick/tile manufacturing	● Khadi
● Building operations	● Small scale engineering industry
● Security agencies	● Clinical nursing home
● Beedi making	● Flour mill*
● Rice mill including husking mill	● Silk printing*
● Hired motor vehicle service	● Dal Mill
● Boatman service	● Oil Mill
● Tailoring industry*	● Decoration
● Printing press	● Oil mill
● Book binding	● Decoration
● Sericulture	● Medical plants
● Forestry and limber operation	● Iron factory
● Bangle making*	● Paper board manufacturing
● Fire-works*	● Straw board manufacturing
● Embroidery work*	● Garments making
● Shops including saloons	● Motor garage*
● Leather and leather goods	● Handloom weavers*
● Bakery*	● Copy writing work
● Rubber and rubber products	● Chicken or zari workers
● Saw mill	● Kite manufacturing
● Bone mill	● Slaughter house
● Plastic industry	● Type copying work
● Ceramic industry	● Earth pottery work*
● Small scale chemical units	

### List of Occupations:

● Auto rickshaw operator*	● Head-load worker*
● Van puller*	● Fishermen
● Mason	● Street hawkers*
● Carpenter	● Newspapers sellers*
● Painter	● Aya/hospital attendant
● Electrician	● Weaver/handloom workers
● Plumber	● Domestic servants
● Cobbler*	