To
Smt Nirmala Sitharaman
Union Finance Minister

Dear Smt Sitharaman,

I understand that the Employees Provident Fund Organisation (EPFO) has further reduced the interest rate on beneficiaries' deposits from 8.5% during 2020-21 to 8.1% during 2021-22, adversely affecting more than 7 crores of EPFO subscribers (https://www.livemint.com/news/epf-interest-rate-for-2021-22-reduced-to-8-1-lowest-since-197778-11647069646411.html). The rate of interest fixed by the EPFO for 2021-22 is the lowest since 1977-78.

In fact, interest accruals to EPF subscribers have steadily declined year after year since 2018-19, when the interest rate was fixed at 8.65%, even though the wage accruals for government employees on the other hand have registered annual increases during the same timeframe.

It is surprising that this should happen when the Union labour Ministry had assured as recently as in December, 2021, that the savings of the EPF subscribers would be protected, irrespective of the returns made on EPFO investments in corporate bonds of private companies (https://theprint.in/economy/modi-govt-assures-savings-in-epf-will-be-safe-despite-reliance-capitals-payment-default/784856/)

The EPFO provides a large social security cover for its subscribers across the country, the majority of whom belong to the low-income groups. Any reduction in the interest rate on their deposits would thus dent the social security cover to which they are entitled.

The government cannot put forward the Covid crisis as an alibi for this interest rate reduction, as the decline started well before, since 2018-19, immediately following the government's ill-planned demonetisation announcement in 2016.

One of the main reasons for the EPF rate reduction is the way the EPF fund is mismanaged.

The EPFO has approximately Rs 12,874 crore invested in downgraded debt securities. Its investment in Reliance Capital alone is around Rs 2,500 crore; about Rs 4,300 crore in Yes Bank; about Rs 2,500 crore in Indiabulls; about Rs 1,700 crore in IDFC; about Rs 1,300 crore in DHFL; and about Rs 574 crore in IL&FS (https://indianexpress.com/article/business/epfo-looks-at-criminal-action-to-recover-stressed-investments-6597536/).

In other words, ever since the EPFO started investing its funds in private corporate instruments, its finances have started plummeting. There have been allegations about some of these corporate-owned financial companies misappropriating the funds obtained from provident fund and pension fund institutions.

For example, at least 40 pension and provident fund trusts in the country, mainly from the public sector, including the UP Power Corporation Ltd provident fund, Coal Mines provident fund, have a combined exposure of around ₹3,300 crore to troubled Dewan Housing Finance

Ltd (DHFL), a housing finance company that has faced a series of credit rating downgrades (https://www.livemint.com/companies/news/pension-pf-trusts-dhfl-exposure-3-300-cr-1558546112503.html).

Against some of these defaulting corporate finance companies, the Enforcement Directorate, the CBI, the Serious Fraud Investigation Office (SFIO) and others are investigating allegations of money-laundering and other offences. Those investigations need to be expedited, pending which the public sector institutions should be discouraged from investing in private financial companies.

The government needs to draw lessons from the problems faced by the public sector provident fund and pension institutions as discussed above, which provide a vast social security cover for the low-income households in the country.

It is imprudent for the government in principle to expose the funds of such social security providers to the vagaries of profit-seeking corporate financial companies and stock market investors.

A similar lesson needs to be learnt in the case of the LIC, which is the largest social security provider in the country. To expose the LIC to privatisation will mark the beginning of dismantling the social security cover provided by the LIC and force a shift in its role towards a mere stock market driven insurance company, no longer involved in reaching out to the low-income households, the rural and the remote areas of the country. It is unfortunate that the government should resort mindlessly to pulling down such an effective welfare-oriented insurance institution assiduously built by its predecessors over the last six decades.

It is high time that the government revisits its ill-advised policy of looking upon privatisation as the means to reform, ignoring the welfare mandate that it should fulfil in line with the Directive Principles of the Constitution. By privatising the CPSEs and exposing the low-income households' hard earned savings to the whims and fancies of private investors, the government will be committing a serious breach of the public trust.

Regards,

Yours sincerely,

E A S Sarma

Former Secretary to Govt of India
Visakhapatnam