

Working paper

# Observations on the Scope of Corruption in NREGA Projects

Final Report

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Siwan Anderson  
Ashok Kotwal  
Ashwini Kulkarni  
Bharat Ramaswami

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# **Observations on the Scope of Corruption in NREGA Projects**

(Final Report on the project "The Impacts of Linking NREGA payments to UID: A study of Maharashtra)

Siwan Anderson  
Ashok Kotwal  
Ashwini Kulkarni  
Bharat Ramaswami

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## **1. Introduction**

This paper reports some preliminary findings of a baseline (pre-treatment) survey in our project that attempts to measure the impact of UID linked wage payments on corruption in public works projects funded under NREGA (National Rural Employment Guarantee Act). The goal of our research project is to investigate the potential of biometric-based identification (on the UID or Universal Identification platform promoted by the government of India) coupled with electronic money transfers in improving governance of NREGA public works projects. Our research design envisages the treatment of making wage payments through UID in the administrative unit of Karjat block of Ahmednagar district and comparing it with households in the control group of Shevgaon block of Ahmednagar district. The control group continues to receive wage payments as before.

The baseline survey was carried out during a period of three months (October 2012 through January 2013) in Karjat and Shevgaon blocks of Ahmednagar District in Maharashtra. Over 8000 households were interviewed on various aspects of the workings of NREGA and the local governance in addition to the relevant information about the households that would serve as control variables in our econometric analysis. The objective of the pre-treatment survey was to form a baseline that would be the reference against which we would measure the change in outcomes due to the treatment.

The post-treatment surveys will be carried out later in 2013 and in 2014. At this point, we have only the data from the baseline survey. Therefore, we cannot comment, as yet, on the efficacy of the treatment. However, the pre-treatment survey does allow us to assess the state of governance and the scope of corruption that exists under the present (pre-UID) system. In this paper, we present a sketch of the picture that emerges from examining about 12% of our sample (i.e., about 1000 households). All the households are from among those who have worked on NREGA projects.

The outline of the paper is as follows: First, we present some background on the NREGA initiative. Second, we layout what the Act specifies as the guidelines for this initiative, which will allow us to assess how far has the actual practice strayed from the guidelines. Third, we go into some detail about

the working of NREGA to develop an understanding of the various stages of implementation and also the responsibilities of various local government officials. Fourth, we take a close look at the existing pipeline through which money is delivered for wage payments so that we can look for cracks through which some of it is pilfered away. At the end we will draw on the available evidence based on our pre-treatment survey to construct a picture of how the present system is working.

## **II. Background**

India undertakes substantial transfers to the poor under various programs. Total transfers from the Central government amount to at least 2% of GDP. Transfers to the rural poor come in various forms; either as direct subsidies (like the PDS), or via the implementation of government programs administered through the Panchayat system. The National Rural Employment Guarantee Act (NREGA) is the second largest poverty alleviation programme of the Central government. This program extends across the country and is the largest public employment program in the developing world (Ambasta et. al. 2008). NREGA operates in rural areas and gives individuals the right to 'demand' work. The government has the obligation to start public works involving manual labour to meet this demand and workers are paid accordingly.

NREGA has been operational since 2006 with mild success. On the one hand the reach of the program continues to grow, however on the other hand, it is plagued by reports of poor implementation and systemic corruption (Vanaik 2008, Bhatia and Dreze 2006).

Improving the delivery of this program, and other subsidies and social services in general, is the express aim of the nation-wide program (Aadhar) to provide every citizen of India with a unique biometric identification (UID). The general idea is to provide a platform that can be used to authenticate transactions and hence reduce corruption.

## **III. Guidelines of NREGA**

Mahatma Gandhi National Rural Employment Guarantee Act (or NREGA in short) was passed with the objective of providing employment (and wages) to rural labourers, who have no alternate source of employment (especially in the slack season). Employment would be provided on infrastructure projects such as irrigation and roads. NREGA also therefore becomes a means of creating productive assets in the rural economy. NREGA has been operational since 2006.

The program has the following features.

- It is embodied in an Act of Parliament. By this Act, individuals have the right to demand work. Furthermore, the legislation also makes the program impervious, to some extent, to changes in government at either the Centre or the States.
- Universal – All adults in rural India are entitled to it. The program provides up to 100 days of employment for a household.

- Self-selection: While the program is not targeted, it offers only unskilled hard manual labour and corresponding wages. The wages under the program are independent of minimum legal wages (lower in most states).
- Demand driven: Labourers who need employment give a ‘demand’ to the concerned official and as per the Act, works have to start within 15 days of putting in the demand.
- Payment – Labourers receive task based payments, where earnings are calculated based on the work output. Each task involved in a particular project has a rate, which is prescribed in the Schedule of Rates of each State Government. The basis for which is a wage rate fixed by respective State Governments that is renewed at least once a year to adjust to inflation. Once the Works begin and labourers start work, wages earned by the labourers must be paid within a fortnight.
- No Contractors – Contractors are not allowed to start or supervise Works.
- Transparency – This is the first program of the Government which gives almost all the information on a dedicated website ( <http://www.nrega.nic.in/> ). This website gives updated consolidated Progress and Monitoring Reports of Expenditures and Works. The data available contains information on each labourer household, each Works, and each payment earned over the years. Note however that one needs one’s job card number to be able to assess the information. Without one’s job card number, there is no transparency.
- Grievance Redressal – This is another first for any development program. The website mentioned above provides a facility to lodge complaints for anybody. There is also a facility to track the action taken on the complaint lodged.
- Social Audit – In addition to the mandatory financial audit, there is an additional provision for a Social Audit conducted by the villagers and the labourers. Gram Sabha and people of the village question the authorities regarding the lacunae in implementation as well as financial irregularities. The observations and findings voiced during the Public Hearing of Social Audits are treated as complaints and an Action Taken Report is required on these as a completion process.
- Unemployment allowance - If the works are not started within 15 days after the demand has been put up, the labourers are entitled to an unemployment allowance. The labourers have to apply for the unemployment allowance.
- Type of Works – The rule is that for any Work project a minimum of 60 % of the total expenditure has to be spent on unskilled labour wage component and a maximum of 40% can be spent on skilled labour, material and other costs. A maximum of 6% of the total Works costs is allowed on all administrative expenses.

### **III. Implementation of NREGA**

### **(i) Registration**

A potential worker registers herself/himself and family with the Gram Panchayat. The purpose of registration is to obtain a job card with a 16 digit unique number that is used in muster rolls attendance, tracking payments, and to administer the limit of 100 days.

The lack of registration is not, however, a constraint to starting work. Registration can also be done on site. If the operations are centralized at the block level, there can be significant delays in the generation of the job card number.

### **(ii) Demand for work**

A labourer can demand for work either personally or in a group. S/he submits the demand to the Gram Sevak (GS)/Block Development Officer (BDO).

### **(iii) Starting work**

After demand of work arrives, the BDO issues a Work order (which gives instructions to start the work) to the implementing agency (which could be a line agency such as the Forest Department, Irrigation Department, or Gram Panchayat). The implementing agency or Gram Sevak (GS) issues a 'work commencement letter' to the Gram Panchayat and to the labourer who demanded the work.

### **(iv) Opening bank/post accounts for all labourers**

Opening an account for each labourer is the responsibility of the administration. Accounts can be opened in the nearest bank or post office, whichever is more convenient to the labourer. In practice, such an option is not typically available to individual workers because the entire Gram Panchayat makes payments either through the Post office or a bank.

### **(v) Muster period, measurement and evaluation**

Payments under NREGA are based on tasks and the amount of work accomplished; they are not daily wages. At the beginning, the technical officer defines the scope of work and assigns it to 'gangs' (of about 5-15 workers). A 'muster period' consists of 7 days during which attendance is recorded. At the end of this period, a technical officer does the measurement and evaluation of work and wages to be paid. Wages are calculated gang-wise and then distributed (according to average) across the individual members. This process is repeated with a fresh muster period.

### **(vi) Payment disbursal**

From the evaluations done by respective Technical officers of implementing agencies, the GS prepares a list containing name, job card number, account number and amount payable to all labourers. This is normally called a Pay-Order. If there are labourers who do not have job card numbers, the labourers are then registered so as to get the requisite job card number. If the labourers do not have post/bank accounts, their accounts are opened in coordination with the corresponding bank/post office.

After the Pay Order is complete, with job card numbers and account numbers, the Pay Order is sanctioned by the BDO and given to the bank/post office at the block level. The bank/post office then disburses payments to the labourers directly into their accounts according to the Pay Order.

## **(vii) Back-end processes**

### *(a) Planning for Works*

The different line agencies and Panchayat Samiti technical officers, along with villagers take a site visit at the village. Walking around the entire village with the villagers (GP members, farmers), they identify probable works that can be started according to the need of the village, the topography and availability of work sites.

The Gram Sabha discusses these works proposed by this team and a list of approved works is prepared. Then the list is sent to the Panchayat Samiti for approval. The Panchayat Samiti consolidates and approves the lists of all Gram Panchayats in the block. Then the village wise lists are sent to Zilla Parishad which consolidates and approves the lists of all blocks. Finally a list of works is sent to each Gram Panchayat.

### *(b) Preparation of the “Shelf of Works”*

The proposed work along with the necessary approval letter(s) of private land owners goes to the Technical team (Line agency/Panchayat Samiti). The Technical officer then takes on-site readings (such as trial pit, initial measurements of the work site) and prepares a Technical estimate. This is technically sanctioned by the Technical officers at a higher level and forwarded for Administrative sanction to the BDO. After the sanction of the BDO, the work goes on the ‘Shelf of Works’. These are a set of works that can be started when the labour demand arrives.

### *(c) Administration*

There are multiple lines of hierarchy in the implementation of this program. Registering demand, start of works, sanctioning of works up to a limit, maintaining a shelf of works ready, keeping records, the data entry of all records as per NIC, keeping accounts as per norms of 60: 40 ratio and 6% administration are responsibility of the Block/Tehsil administration. So the loop from registration to payment of the labourers with its pre and post tasks like shelf of works and account keeping are accomplished at this level.

At the Gram Panchayat level, the GS is entirely responsible for all aspects of delivery, getting information, creating records, keeping records, passing information like registering labour families, taking demand, maintaining the muster, passing on the muster every week and starting a new one, keeping record of musters received and given, opening post/bank accounts, ensuring measurements are taken, processing evaluations from the technical office, preparing pay orders and obtaining sanction

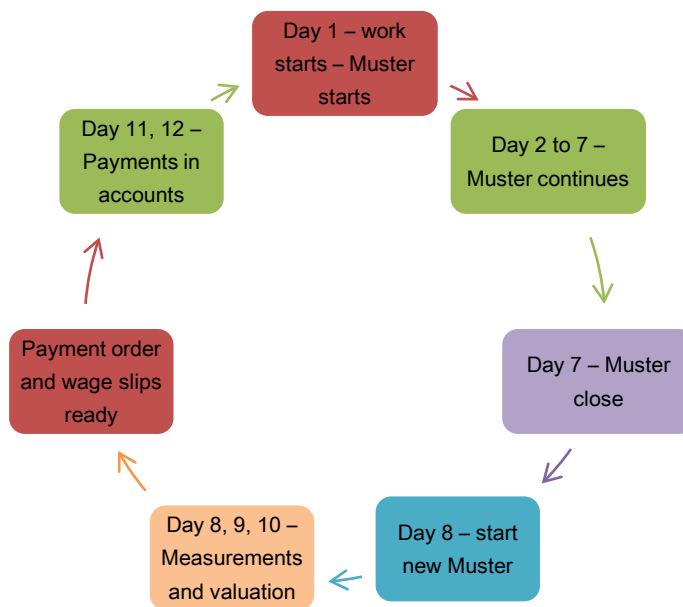
from the BDO for payment. For all these tasks, most of which repeat every cycle of work-measurement-payment, the GS is assisted by a Gram Rozgar Sevak (GRS). GRS is appointed by the Gram Sabha from among the educated youth of their village.

The District level authorities are more concerned with Supervision, Monitoring and Coordination than with trouble shooting and managing fund flows. The State level authorities are managing fund flows, monitoring, policy making and bringing in changes for better administration. They coordinate with the Central agencies.

#### IV. Payments Mechanisms: A More Detailed Look

There is a periodicity in the work and payments mechanism. As mentioned earlier, NREGA work is split up into 7 day muster periods, during which attendance is recorded and the progress of work is measured and evaluated (according to the task rate). The process of approving and disbursement of payments to individual accounts takes place at the end of the muster period.

This is graphically represented below. It should be noted that there are many functionaries involved in the cycle: the Gram Rozgar Sevak, Gram Sevak, Engineer, APO/BDO, Bank and Post personnel, and data entry operator. There are also many locations involved: the work site, Engineer’s office, BDO office, Computer Centre, Bank/Post. For these reasons, there are multiple points of delay in wage payments.



Presently there are three different methods of wage payment reaching the labourers:

(1) Payment through Post Office

The fund moves from Collector/Zilla Parishad to the Block Office by Cheque, DD or e transfer. If both these Offices have accounts in the same Bank and if they both do e-transfer then this movement is the fastest, otherwise this takes at least a week. From the Block Office, based on the Pay Order ( this is called Pass Order or Advice or Advice in different places), the money is transferred to the Block Post office. The Sub Post Office comes to the Block Post for cash withdrawal and gives the cash to respective Branch Post office for disbursal. This movement takes another week at least. This entire process is inherently not equipped to make payments to labourers within 15 days as per the Act. The labourers have a Pass Book with a photo and this Passbook is manually updated by the Branch Post office. Payments are made based on a withdrawal slip.

(2) Payment through Banks

Like in the case of post office transfers, there is the initial movement of funds from the District office to the Blocks. This can happen by cheque or e-transfer. The second stage transfer happens when the BDO transfers the amounts to individual bank accounts by e-transfer or cheques. The third stage is the interface between the bank and the NREGA worker (the so called last mile connectivity). This can take several forms depending on technology.

The simplest form is the use of business correspondents (BC) who carry cash to the villages during specified times. Workers make withdrawals based on photographic identity and a bank pass book (that records transactions). A variant of this system is one where the BC carries a portable ATM and the workers authenticate the transactions with a smart card (with or without biometric id). Here workers are permitted partial withdrawals - something not possible with the first system.

(3) UID enabled banking payments

Here the bank accounts are linked to the unique biometric id (UID) provided by Aadhar. This number is then being used to open accounts in a bank that has the backend infrastructure to access the Aadhar authentication protocol. The business correspondent makes payments in the villages using a Micro ATM. The Micro ATM is a portable, biometric id enabled electronic device, connected to a GPRS system through the cellular networks. It enables villagers to receive, deposit money and do a balance enquiry in the village. It generates a receipt for every transaction and has a voice record system that announces every transaction.



## V. Last Mile Connectivity

The stages up to the last mile consist of a sequence of transfers from the district level to the BDO and then on to the post office or bank. While much can be improved about the timeliness of these operations through digitization and the use of e-transfers, UID by itself does not have much of a role in this process. UID will make its presence felt in the last stage - in its use for authenticating transactions and enabling banks to reach out to its customers in a secure manner. In Maharashtra, the Post office has been the primary channel of NREGA payments.

UID based systems matter most for the last mile connectivity and therefore in this pre-treatment survey we have to look for the possible glitches in the last mile connectivity, as it exists today.

### *(1) Distance to payment systems*

A sub-post office is available for a group of Gram Panchayats. Hence for many villages, distance is a significant factor constraining accessibility. A business correspondent facility is usually available within a village and therefore more accessible. However, often individual workers do not visit post offices. Rather a representative visits the post office on their behalf and brings back the cash for them. There may be some minor leakage here.

### *(2) Distance of women to payment systems*

Women rarely visit post offices to collect the payments due to them. This is done on their behalf by somebody else. (This would not be possible in a UID enabled system.)

### *(3) Irregular updating of passbooks*

Manual passbooks are difficult to read, not updated regularly and many times the Gram Rozgar Sevak or the Branch Manager keep them for updating. Labourers are not very alert about notifications and do not realize the discrepancies. This makes it easier for small underpayments to escape attention. Again not possible with any type of electronic banking that automatically generates account statements.

### *(4) Partial withdrawals*

They are not possible with post office payments and are not utilized whenever the cost of accessing the payment system is large. A village level business correspondent model would enable partial withdrawals and its use.

*(5) Identification of beneficiaries*

No documents are required for the issue of job cards. Therefore, fake job cards are possible with post office systems or any banking system without biometric IDs. This would not be possible with UID linked job cards.

*(6) Ghost labourers*

This refers to the payments against individuals with genuine job cards but who have not worked. In the current post office based system, where the identification of beneficiaries is imperfect, these payments can be siphoned off through the collusion of a few officials (and without knowledge of the individuals whose job card numbers are used). This will not be possible in a UID system where payments have to be collected by the individual. The system can still be corrupted but the collusion will require a large number of players.

A similar system is to inflate the number of days of work. The most extreme form of this is when no work is done, but expenditure is made by the use of ghost labourers and fake job cards.

*(7) Improving the viability of last mile connectivity in banking*

The main stumbling block has been foolproof identification of account holders for cash withdrawal. To address this issue, some banks did try to have their own biometric systems. But the investment of the backend software application, maintenance of records, connectivity, cost of infrastructure and such has been discouraging the banks. With UID enabled payments through Banks with BC, the investment costs of biometric capturing, providing identification numbers and processing the record for authentication is taken up by the UIDAI.

**VI. What does our sample of the pre-treatment survey data indicate?**

Key shortcomings of the current NREGA program widely commented on include: the poor are often not able to access the program or too little demand is registered; typically there are huge delays in receiving their payments; and often they do not receive the entire benefits due to them. NREGA has been repeatedly questioned for its administrative complexity and for corruption and fraud. There is also skepticism about the quality of public works built under the NREGA.

Let us see take these one by one and see what our data indicate. But at the outset we should point out that 78% of the respondents in our sample expressed their unhappiness with their experience of NREGA programme.

(1) Too little demand for NREGA projects is registered.

This could be due to the failure of the relevant government official to disseminate information to villagers making them aware of their legal rights to demand employment or due to a deliberate action to not act on the approach made by a villager in need of work. We found that 55% of our sample received help from government officials. A vast majority of the demands for work was made to Gram Sevak. 45% of the sample did not receive any assistance from government officials in registering their demand.

If a demand for work was not acted upon within a reasonable amount of time, it can serve as a discouragement to the applicant. We found that in 13% of the cases in our sample the work did not start until 45 days after the application; in 15% of the cases until 30-45 days, in 25% of the cases until 15-30 days and in 57% of the cases in less than 15 days. This should be seen in the context of the official guideline that the work should start within 15 days after the application for work. In short, in 43% of the cases, the local officials did not stay within the guidelines.

It is also noteworthy that in 75% of the cases the applicant did not receive a receipt that they had officially applied. Without such a receipt, the applicants have no recourse to any grievance mechanism if the application is ignored.

On an average, only 18 days of work was provided during the year in the dryland blocks where we are holding our survey. This is woefully low compared to the central government's promise of 100 days per year. Clearly, given the agro climatic conditions in Karjat and Shevgaon, one would expect a need for a far greater number of days of employment sought by the residents there. The weak registration of demand here is unlikely to be due to a lack of need for work by the residents.

(2) Delays in receiving wage payments.

According to the guidelines in the Act, labourers on NREGA projects have to be paid every week as shown in the earlier section. However, according to our data as many as 58% have received payments more than 2 weeks late and out of this 47% of workers experienced delays for more than a month. This kind of delay discourages villagers from applying for work.

Furthermore, most individuals only received one wage payment for the project. Clearly, payments across several muster periods were cumulated and paid together. Such delays are costly to the poor. They indicate that weekly and timely payment is too demanding of the existing payment system.

For those expressing interest in NREGA work, the local government officials are obligated to give them a job card. In our survey sample, about 84% of the NREGA households did have a job card - however, for more than half of these cards, there is no job card number. This can be expected to be problematic in

processing and making wage payments. As mentioned before, without the job card number the job records cannot be retrieved and there is no recourse to filing a grievance.

It is difficult to know which link in the chain is responsible for the delays in payment. In our sample, 81% of workers had their accounts in the post office. It is possible that the post office employees are responsible for the delays.

(3) The NREGA workers do not receive the entire amount due to them.

Interestingly, over 60% of workers do not even know how much they had earned. Since the wages on NREGA projects are based on work output (i.e., piece rate) and the amount of work done (e.g., the volume of soil dug up) is calculated by the engineer on site, the workers seldom know what is due to them. There is little incentive for the officials involved with the project to reveal this information to the workers, and without it, they have no way of ascertaining whether they received their fair earnings. Consistent with the earlier statistic, about 62% of the workers in our sample said that they did not know how much was deposited in their account.

Despite their ignorance about what was due to them, workers carry perceptions about whether they were paid their full amount. 52% of the sample thinks they earned lower payments than they should have. This is possibly indicative of their expectation of the system - the fact that they are deprived of knowledge of their own earnings leads them to suspect corruption.

(4) Intermediaries and corruption

20 % of workers depend on the Gram Rozgar Sevak to withdraw their earnings from their post office accounts. This opens avenues of corruption for Post Office employees, Gram Rozgar Sevaks and Gram Sevaks. Interestingly, for 17% of workers the post office accounts were opened by Gram Sevaks, 26% by Gram Rozgar Sevak and 22% by Post Office employees.

(5) Assets

Nearly 30% of projects were for constructing and improving the productivity of private assets (e.g., land levelling, private well). However, 32% of the projects did not get built. From our preliminary analysis, it is not clear whether these are incomplete or abandoned or whether these are phantom projects.

## **Governance**

The data thus suggest that the present system leaves some scope for corruption and inefficiency and that the local officials may be in a position to take advantage of it. Does the village government system lend itself to patron client relationships that would keep any strong reaction by the exploited villagers at bay? In our sample, 45% of the respondents say that if they received help from a GP (Gram Panchayat) member in times of crisis, they would be expected to vote for him. 40% of them say that GP members lend money to individual members. 76% of them say that the candidates in upcoming GP elections provide favours to individual villagers in exchange for votes, 19% say they don't know and only 5% say

they don't. 77% of them say that GP members give private benefits to members of their own caste. All this evidence does point to local governance through patron client relationships.

## **Conclusions**

These preliminary observations on the workings of NREGA projects and the possibilities of corruption and inefficiencies (e.g., payment delays) accomplish two things. First, they point out the avenues of corruption that we should pay close attention to in our larger project. Second, they establish a priori justification for an alternative such as UID to bypass the corruption occurring in the last mile connectivity.

In fact, it has the potential to make direct cash transfers as a viable substitute for some government schemes riddled with corruption and waste. However, putting such a massive registration system into operation and maintaining the database of this scale without any abuse is simply unprecedented at least in a developing country. It is not surprising that the project has generated a great deal of skepticism. Will the goal of transferring resources to the target groups (poor) with minimal leakages indeed be accomplished by the introduction of the UID? Will UID in fact improve the delivery of government services? Or, will we observe a new channel of corruption and leakage that we have not anticipated about this new technology? Also, being a new technology, there may be many glitches and systemic failures imposing costs that exceed the potential benefits?

We hope to answer these questions from the post-treatment surveys that will be done later in the year.

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