



## **CORRUPTION OF NATIONAL RURAL EMPLOYMENT GUARANTEE ACT (NREGA) IN INDIA**

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### **Abstract**

The Recent reports of lurking corruption in public works initiated under the National Rural Employment Guarantee Act (NREGA) have led many observers to advocate the payment of wages through bank accounts, instead of cash payments. The main advantage of this approach is that it reduces the likelihood of any fudging of the muster rolls on the part of the implementing agencies (e.g. the gram panchayats), since the actual wage payments are beyond their reach it can be seen as an example of "the separation of payment agencies from implementing agencies", adopted by several states (in various forms) as a safeguard against payments of NREGA wages have already been introduced in a number of districts and are likely to be used more widely in the near future. Against this background, this paper presents a few observations on this arrangement, based on a field visit to Mayurbhanj district (Orissa). The investigation was carried out in October 2007, on the sidelines of a larger survey of NREGA in Orissa, A small team visited three blocks of Mayubhanj district (Joshiapur, Betnoti and Suliapada). It covered four randomly selected gram panchayats (GPS) within each block and one worksite in each GP. One worksite in each block was selected for detailed muster-roll verification and a questionnaire was filled at each worksite

**Key Words:** Rural Workers, Rural Employment & MGNREGA

### **Introduction:**

#### **Rationale of Bank Payments:**

The NREGA attempts to make the process of wage payment (even in cash) as transparent as possible. There are a series of safeguards mandated by the Act. Muster rolls are supposed to maintain at the worksite and displayed at the GP Office. Payments are to be made in public in front of all the labourers, with the details of credence and wages being read aloud from the muster rolls, so as to reduce the risk of fudged entries being made. Job cards are intended to act as a record kept with the labourers themselves of the wages they have received and the number of days they have worked. Through these there has been an attempt to create a new model of accountability in public works eliminating corruption through the vigilance of workers themselves. The fundamental attraction of the use of bank accounts for NREGA wage payments in Orissa is twofold. First, as mentioned earlier, it separates the payment agency from the implementing agency thus making corruption far more difficult for wage payments can be received only by the labourer listed on the muster rolls. It eliminated the possibility of any intermediaries - whether a contractor or a Microsoft's goal is to create and deliver sustainable technology solutions to individuals and underserved sections of society across India and help them realise their full potential.

#### **The System:**

The section discusses the system of maintaining bank accounts and the instruments of transfer.

#### **Bank Accounts:**

In Mayubhanj, accounts have been opened in a variety of banks - rural banks, cooperative banks, nationalised banks and in a few cases, post offices. The distance between the GP and the bank has been the key criterion for selecting the bank. The effort has been to open accounts in institutions that are as close as possible to the village where work is being carried out. For some of the more inaccessible tribal pockets which are not yet using bank payments, there are even proposals to introduce mobile banks. This is the case in Betnoti.

In terms of opening bank accounts for labourers, a variety of procedures have been followed. In Sulapada and Betnoti blocks, most bank accounts were proactively opened en masse for the labourers, with GPS facilitating the entire process. However, very often, long periods of time would elapse between the time when application forms are completed and the receipt of passbooks. In fact, in most cases, passbooks were received only after the first payments had been made. In Joshipur, on the other hand, there was evidence that the opening of accounts was left to the individuals. The labourers either took the initiative or were made to open accounts so as to access the payment which was compulsorily made through account payee cheques.

In most cases, these accounts were found to be zero balance or "no frills" accounts. The Reserve Bank of India directive for "no frills" accounts for NREGA purposes has been clearly helpful here. In the post office accounts, a minimum balance of Rs. 50 is a requirement and there is a cap of Rs. 2, 000/- on maximum withdrawal, per account, per day.

However, most of the accounts have been opened as operable by one individual. Ordinarily, this is the male head of the household. One of the significant aims of the NREGA is to ensure that women are paid equally

and are able to exercise some control over their earnings. To this end, it would be preferable to have at least jointly operated accounts if not individual accounts for each NREGA worker.

Individual accounts for each worker would also double up as a transparency measure. In the current set-up where wage funds are simply credited to the account, there exists no record, including passbook, to identify the particular family member for whom the wage has been deposited. Introducing individual accounts would resolve this problem. On the other hand there is a case for having a 1:1 ratio of job cards and passbooks, in which case, as will be discussed below, new ways of entering wage information into the passbook should go hand in-hand with a joint account system.

#### **Instruments of Transfer:**

There are slight variations in the methods followed by each of the three blocks vis-a-vis bank payments, but all are based on the same basic flow of funds. Once a project is sanctioned, the money for it is sent to the account of the GP. As and when payments are due on the conclusion of muster rolls at the worksite, the funds are transferred from the GP account to the labourers' bank accounts. This is done in one of four ways. Letters of credit from the GP account to the labourers' bank, cash deposits in the labourers' bank, bearer's cheques and account payee cheque to the labourers.

#### **Letter of Credit:**

This is, at the moment, the most common instrument of transfer. In this system, the sarpanch and panchayat executive officer (FEO) draft a letter of credit detailing the accounts of the labourers to which the funds are to be credited. The funds are then transferred directly from the GP's account into the bank accounts of the labourers; Delays during the course of the transfer of funds from the GP account to the labourers have been a major problem where the two accounts are not in the same bank (more on this later). One inherent flaw in this arrangement is that the labourer receives no intimation as to when the wages are credited to his or her account. An intimation procedure needs to be put in place

#### **Cash Deposits in the Labourer's Bank:**

Given that such delays were adding to those that already exist (e. g linked to record - keeping and work measurement) some GPs have found it more convenient to use the second method, to simply withdraw the funds from the bank physically and deposit them at the bank where the labourers' accounts are kept. In such cases, on a given day, the sarpanch and PEO will go to the bank together, withdraw the money, carry it to the other bank and deposit it there along with a list of the accounts into which the money is to go.

#### **Bank Payment Hurdles:**

Wage payment through banks is a recent innovation. Bank payment also means interaction of an external system with NREGA processes, which is bound to present some policy challenges as well as compatibility issues. Some of these hurdles are here.

#### **Excess Burden and Bank Reluctance:**

It appears that banks (and even more so post offices) are reluctant partners to the scheme as a whole. This is somewhat surprising, given the untapped potential rural India holds for the banking sector. Two concerns were usually cited by bank officials. First was the fact that large numbers of individuals were likely to transact business at the bank simultaneously. This would entail holding amounts of cash that the bank was not, in the past, required to keep. A second related concern is that the branches near the GPs are small and ill-equipped (staff-and infrastructure-wise) to deal with the large numbers of people involved. Opening large numbers of accounts and making entries on a given day is extremely difficult in a poorly staffed local branch (or for a single postmaster)

#### **Delays:**

As mentioned earlier, in cases where the GP account is held in a bank which is different from that of the labourers' bank, delays often ensue. Some branches of local banks refuse to accept letters of credit transfers unless they have been approved by their regional offices. Thus, the process of clearing this transfer of funds often involves sending the letter of credit from the panchayat's account to the branch where the labourer's account is held and from there to the regional head quarter of the bank, where the letter will be approved. The funds will then be released from the regional headquarters to the local branch and finally credited to the accounts of the labourers themselves, we were informed that such a process would take 15-20 days at a minimum.

**Complication of Records: Muster Rolls, Job Cards and Passbooks:** In the enthusiasm to introduce the system of bank payments, insufficient attention has been paid to the status of the documents already involved in the NREGA. Where bank payments have been introduced, a degree of ad hocism has appeared with respect to maintaining muster rolls and job cards. The operational Guidelines envisaged a system where the maintenance of muster rolls and job cards is built around the distribution of wages. In public details on the muster rolls would be read out, wages distributed, signatures / thumb impressions of labourers collected and job card entries made. Since (in most places) letters of credit mean the money is directly transferred to the labourers' bank accounts, there is no designated point in the process at which signature on muster rolls and entries in job cards can be made at all, let alone publicly. Different officials chose to complete these documents at different points of time, though

most make people sign muster rolls before payments are received and fill in job cards by and by. The uncertain status of two of the most essential transparently safeguards in the NREGA is an unacceptable situation more so because a simple policy directive can clarify matters tremendously.

**Comparison with Aadhar Model:**

The system of bank payments in Orissa took inspiration from AP's experience. We have already dealt with the issue of separation of implementing agencies and payment agencies. It is worthwhile to examine some of the other aspects of the Andhra System with respect to the payment of wages through the post office, which have a potential to be fruitfully emulated in other places.

**Enhancing Transparency:**

Bank policy on the question of kinds of accounts to be opened also needs to be clarified. So far, bank accounts in Mayurbhanj have been opened in name of male household members. This has significant drawbacks, in terms of gender equality as well as transparency. The best alternative would be a system of individual accounts, though even jointly operated accounts would be preferable to the current system.

It might be useful, also, to devise new protocols for passbook entry as they relate to NREGA wages. As mentioned earlier, the current practise is to club payments from different weeks and for different members of the family into one entry. This makes it quite difficult for the recipients to verify that they are getting their due. It would enhance the transparency of the system if there were some indication of the period for which payment is being made as well as of the person to whom it is due (as per the muster roll) Alternatively, a new kind of passbook can be designed which could cover these demands specific to the NREGA.

There is also some evidence that middle-men are being able to withdraw money from the bank for groups of people with simply the signature of the labourers on the withdrawal slips. Protocols relating to the NREGA wage payments must strictly disallow such withdrawals without the physical presence of the account holder. At the other end, some amount of information must be disseminated about the procedures to be followed at banks - the processes of deposit and withdrawal, and the importance's of the various documents related to the bank (Passbooks and withdrawal slips in particulars).

**Conclusion:**

It is only when people become more comfortable with banks and banking procedures that there can be a reasonable expectation of savings. Evidence that the payment of NREGA wages through banks is leading to savings has been quite thin so far. Either accumulated debts or manipulation by contractor has meant that most of the wages received by labourers are withdrawn immediately. Nevertheless, if the system succeeds in the long term, it would address some of the problems that seem to impede savings - contractors and indebtedness in particulars. In that case, the system of bank payment may well come into its own. Banks can also be effective in solving the problems of storage of money that people in rural areas face. NREGA wages are often received in large amounts, and it is likely that banks as a safe way to store money, might displace such repositories as gold jeweler. Last but not least, it is important that bank payments should not be seen as superseding the other transparency measures that the NREGA in place to particulars, accurate maintenance of job cards and muster rolls must be strictly enforced. From Mayurbhanj itself, it is clear that bank payments, in and of themselves cannot eliminate corruption. Improving the system of bank payments can only go part of the way towards that end. Building a culture of transparently and account ability in the implementation of NREGA remains extremely important.

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