

# NREGA Wage Payments: Can We Bank on the Banks?

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The government of India has shifted from cash payment of wages under the renamed Mahatma Gandhi Employment Guarantee Scheme to settlement through bank accounts. This has been done in order to prevent defrauding of workers and to give them greater control over their wages. Has this been achieved after the switch? Based on a survey in December 2008 in one block each in Allahabad (Uttar Pradesh) and Ranchi (Jharkhand) districts, this article probes questions related to payment of wages through banks.

## 1 Introduction

The switch from cash to bank payments of wages under the National Rural Employment Guarantee Act (NREGA) has been acclaimed by the government of India as the “world’s largest ever financial inclusion scheme”. But has this switch really served as an effective check against the embezzlement of NREGA wages? Has the siphoning off by intermediaries ceased? Have workers really gained greater control over their wages? This article probes these questions on the basis of findings from a survey conducted in December 2008.

Critics have often decried public works programmes on the grounds that they are easy prey to corruption. The NREGA, before and after its inception, has also been a target of such criticisms in spite of various transparency safeguards being built into the Act.<sup>1</sup>

### 1.1 Rationale for Bank Payments

Prior to the introduction of bank payments, NREGA wages were paid in cash based on the entries made in the “muster roll” (or attendance sheet) by the implementing agency – in most cases the gram panchayat. The muster roll, prepared every week, is a record of the number of days worked and wages due to each labourer. After the muster roll is submitted to the block office, funds are transferred to the gram panchayat account. The money is then withdrawn by the implementing agency to make cash payments to the labourers. Under this system of cash payments, the implementing and payment agencies are the same, i.e. wages are paid by the same agency that maintains the record of attendance and dues. This makes embezzlement of funds easier, as the money from inflated or fake muster roll entries made by a corrupt official will come into his own hands. In order to monitor wage payments

under this system, the NREGA includes a range of transparency measures to maximise vigilance of public funds by workers themselves. These include public disbursal of wages (which also creates an opportunity for the public scrutiny of muster rolls), maintenance of workers’ “job cards” (enabling them to check their payment details at any time), and regular social audits. Despite being mandated by the Act, these checks have often been flouted and irregularities in wage payments have been widespread. Investigating these irregularities has given rise to a widely-held view that the vulnerability of the programme to diversion of wage funds is born from a system where the implementing agency and payment agency are the same. Also, a system where cash passes through different hands before it reaches the workers was making it easy for contractors and middlemen to collude with gram panchayat officials to divert wage funds.

Against this backdrop, the main reasons for introducing bank payments<sup>2</sup> (or, in some areas, post office payments) of NREGA wages were presented as follows. First, by making an independent financial institution, which is not involved in the actual implementation of the NREGA, responsible for paying wages to workers, there is a distinct separation of the implementing and payment agencies. It is believed that this will de-incentivise the implementing agencies from fudging muster roll entries, as they no longer have access to funds at the time of the payment of wages. Second, by paying workers directly through their bank accounts, the possibility of middlemen laying their hands on the wages of workers will also be made more difficult. Third, workers will be initiated into the organised banking system which will then pave the way for developing a habit of saving in the future. Fourth, this new system was also expected to lead to more transparency in record-keeping, as banks generally maintain fairly good records.

### 1.2 Motivation for a Survey

Despite these seemingly clear advantages of the system of bank payments, it is important to recognise that the banking system

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does not function in a vacuum and is vulnerable, in some respects, to the same pressures as the system that preceded it. Social hierarchies which bind workers in a feudal and exploitative relationship with gram panchayat officials and contractors are deep-rooted rural realities, which are bound to exert their influence on the system of bank payments as well. Findings from previous surveys and social audits in Orissa in 2007 as well as in Deogarh (Jharkhand) in October 2008 have shown that even wage payments through banks are not free of the maladies which afflicted the previous system of payments: corruption, fraud and misconduct (Vanaik and Siddhartha 2008; Drèze and Khera 2008; Kar 2009).

The most disturbing findings have emerged from a recent social audit of five gram panchayats in the Karon block of Jharkhand's Deogarh district, where the earlier nexus of corruption between contractors and gram panchayat officials now includes banks as well.<sup>3</sup> In a case of blatant collusion, in the Ranidih gram panchayat, it was found that contractors had been siphoning off funds from the accounts of NREGA workers in connivance with the officials of a cooperative bank. The workers' accounts were brazenly manipulated by the contractors; in fact, many workers were completely unaware that an account had been opened in their name! Other irregularities included asking NREGA workers to sign withdrawal slips in bulk (for the purpose of "proxy withdrawals" in their name), and extorting money from workers after they withdrew money from the bank. For instance, in the Ganjebari gram panchayat of the same district, the local postmaster had taken signatures of the NREGA workers on blank withdrawal slips, in collusion with a contractor, making it possible for them to extract money from their post office accounts.

As this experience illustrates, the system of bank payments is not a fool-proof protection against corruption, and the ground realities can be quite different from what one might expect from the positive arguments presented earlier. However, bank payments certainly offer useful opportunities for tightening the noose. In order to explore these issues more deeply, determine

whether Deogarh was an isolated case or the manifestation of a more widespread problem, and more generally to evaluate this new system of NREGA wage payments, a survey focusing specifically on bank payments was undertaken.

### 1.3 Survey Method

Our survey covered two blocks each in Allahabad district (Uttar Pradesh) and Ranchi district (Jharkhand). In Allahabad, the sample blocks were Karchana and Shankargarh. Karchana is well connected to Allahabad city and, being close to the Ganga, is predominantly agricultural land. In comparison, Shankargarh is relatively remote and has a primarily

rocky terrain, with silica mining and rock breaking as the main activities. In Ranchi district, both sample blocks (Mander and Angara) are relatively accessible from the city of Ranchi. Mander lies in the plains, with most land under agriculture. Angara, on the other hand, has a hilly terrain, and some Maoist activity is palpable here.

As mentioned earlier, gram panchayats are the main implementing agencies under the NREGA. In Allahabad district, the implementation of the NREGA is largely carried out by the sarpanch and the panchayat secretary on behalf of the gram panchayat. In Jharkhand, however, there are no gram panchayats (because gram panchayat elections are yet to take place), and the NREGA is primarily implemented by the block administration with the panchayat secretary and the *abhikarta* (de facto entrepreneur).<sup>4</sup> The absence of gram panchayats and other grass roots institutions in Jharkhand has given space to private contractors and middlemen. The block administration and panchayat secretary, incapable of implementing and monitoring NREGA works on their own, often contract them out (in effect) to private parties. Since there is no role for private contractors in NREGA, these private players can only make a profit through swindling.

Two payment agencies (i.e., specific banks, or post offices where applicable) were selected in each block (see Table 1).

From these, five "Payment Orders" (the most recent) for worksites in different gram panchayats were chosen for verification.<sup>5</sup> Thus, the survey covered five gram panchayats in each block.<sup>6</sup> Twenty workers were randomly selected from each payment order, and banks were asked to furnish their account details.

Banks were also asked to share the details of the gram panchayat accounts, for the sample gram panchayats. The

**Table 1: Sample Payment Agencies**

District	Block	Sample Payment Agencies
Allahabad	Karchana	Bank of Baroda, Eastern Uttar Pradesh Grameen Bank (Panchdeora, Bhaderwa and Bharaon branches)
Allahabad	Shankargarh	Bank of Baroda Bank of Baroda, Eastern Uttar Pradesh Grameen Bank (Lohgarh and Bashara Uperhar branches)
Ranchi	Angara	Jharkhand Grameen Bank Post office (Jonha and Tati Silway branches)
Ranchi	Mander	Ranchi-Khunti Central Cooperative Bank United Bank of India

verification process involved interviewing as many as possible of the 20 workers selected in each gram panchayat, followed by a public verification of all the entries in the payment order. Awareness generation around the system of bank payments was carried out simultaneously.

### 1.4 Socio-economic Background

We interviewed a total of 259 workers, of which 201 (78%) were men and 58 (22%) were women. This male-dominated sample reflects the fact that the payment orders we based our sample on had a high proportion of males. That, in turn, is partly due to the relatively low participation of women in NREGA in the sample districts. Another reason, however, is that the NREGA workers listed on the payment orders are those who have a bank (or post office) account. We often found that women workers did not have an account in their name and received their wages through their husbands' accounts. To that extent, there is an under-representation of women workers in our sample.

As one might expect, education levels among NREGA workers were relatively low. Almost half (45%) of the sample workers were illiterate, with only 21% having completed class 10. In Allahabad district, caste divisions were palpable with spatial segregation also clearly visible. Members of the upper castes were economically better off,

with the sarpanch and panchayat secretary also belonging to this group. The blocks surveyed in Ranchi district had a predominantly tribal population.

## 2 Banking in Survey Districts

In both survey districts (Allahabad and Ranchi), accounts have been opened in a variety of banks such as grameen banks, cooperative banks, nationalised banks and in some cases even in post offices (Table 1). Most (87%) of our survey respondents were bank account holders, while 13% (all in Angara block) had their accounts in a post office. In Allahabad there has been a recent trend towards shifting accounts of NREGA workers from post offices to banks due to a charge levied by post offices for transfer of NREGA funds.<sup>7</sup>

### 2.1 Opening of Accounts

In the survey districts, the accounts were being opened proactively by gram panchayat and bank officials, but in a haphazard way resulting in many workers being left out.

The common practice is for gram panchayat officials or contractors to take groups of NREGA workers to the bank to get

their accounts opened. We found that 44% of our sample workers were accompanied by a gram panchayat official at the time of opening an account, and 16% had been accompanied by a contractor. Only 28% of the sample workers had opened their accounts on their own. Thus, close to 90% of sample workers were present at the bank at the time of opening of their accounts, and the rest were not. Many (40%) of the workers had opened their accounts over six months prior to the survey, and had developed some familiarity with banking procedures. In the worst cases, they had no knowledge that there was an account in their name. For instance, in Mandro gram panchayat of Mander block, many people were unaware that their accounts had been opened. These irregularities reflect the absence of strict norms and guidelines for the account opening process, as well as a lackadaisical attitude on the part of gram panchayat and bank officials.

### 2.2 Type of Accounts

Ideally there should be a separate account for each person listed on the job card, and in the case of joint accounts, all members

– including women – should be included. In the absence of this, women workers may be deprived of the opportunity to collect and keep their own wages. In our survey, a large majority (89%) of workers had individual bank or post office accounts, and the rest (11%) had joint accounts which included the names of female members of the household. However, this is not a confirmation that women were always properly included in the banking system (as individual or joint account holders), since anyone listed in a payment order is necessarily an account holder. As mentioned earlier, some women were paid through their husbands' account. An instance of "exclusion" of women workers was found in Bharderwa gram panchayat, Karchana block, where some women workers complained of being shooed away from the bank when they went to open their accounts. As if this was not enough, they were asked to be satisfied that accounts were being opened in the name of their husbands.

In a clear breach of the Reserve Bank of India's directive that banks should open zero balance, "no frills" accounts for NREGA workers, we found that about half of our



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sample workers had to pay for opening their accounts. In most cases this amount was reflected in the passbooks as the opening balance. In Mander block, however, there were cases where money was taken from the workers in the name of opening of their accounts but was not credited in their accounts at all.<sup>8</sup> Interestingly, most of the sample workers could not tell whether the money given to the bank at the time of opening the account was deposited in their account, or was just a bribe. It was only after looking at their passbooks or account statements that the survey teams were able to make the distinction.

### 2.3 Pattern of Withdrawal

One of the widely-cited benefits of the bank payments system is that wages directly reach the hands of the NREGA workers. The pattern of withdrawal is a preliminary indicator of whether this benefit is truly being realised. In our survey we found that, at the time of withdrawal of wages, 41% of workers went unaccompanied to the bank and withdrew the money themselves while 50% went and withdrew the money with someone's help. The rest did not go – someone else went on their behalf. In extreme cases, they had no idea about the existence of a bank account in their name.

In Angara, and to a lesser extent Karchana, a relatively positive picture emerged whereby a majority of workers went to the bank (or post office) on their own. In Mander and Shankargarh, most workers went with someone else, and withdrew their wages with the help of that person (Table 2). In Shankargarh it was mostly the sarpanch who accompanied the workers, whereas in Mander the contractor or abhikarta usually

**Table 2: Medium of Withdrawal**

Reference Group		Proportion (%) of Respondents Who <sup>a</sup>			
		Withdrew in Person	Went in Person But Someone "Helped"	Someone Else Withdrew	Did Not Withdraw
Block	Angara	69	19	0	12
	Mander	28	57	5	9
	Karchana	56	44	0	0
	Shankargarh	22	74	0	5
Gender	Women	30	56	2	13
	Men	45	48	2	5
Education	Illiterate	27	67	2	5
	Literate	53	36	2	9
Age of account	Less than 6 months	35	60	1	4
	More than 6 months	50	36	3	11
All respondents		41	50	2	7

a Each row gives the percentage distribution of "medium of withdrawal" within the relevant group (with row entries adding to 100).

went with the workers at the time of withdrawal. This is a matter of concern, considering the exploitative tendencies of these middlemen. This practice also undermines the separation of implementing agencies from payment agencies. There were also cases where workers went to the bank in groups, possibly because they were unfamiliar with the banking procedures and found security in numbers. But the general pattern, when workers were accompanied, was one of continued dependence on middlemen to collect their wages.

Passbooks are essential for tracking payments and withdrawals made through the workers' accounts, and presenting them at the bank or post office at the time of transactions is usually mandatory. However, we found that the distribution of passbooks among account holders was incomplete.<sup>9</sup> Further, in many cases there was no regular updating of passbooks. A positive finding

**Table 3: Updating of Passbooks**

Block	Proportion (%) of Sample Workers Who Had Their Passbook Updated	
	Among Those Who Withdrew Wages on Their Own	Among Those Who Withdrew with Someone's Help
Angara	100	100
Mander	60	13
Karchana	58	44
Shankargarh	46	56
All blocks	77	44

in this regard was that in Angara block, everyone got their passbooks updated at the time of withdrawal of wages. In the sample as a whole, among workers who went to withdraw money on their own, 77% got their passbook updated. But when the labourers went to withdraw their wages accompanied by someone else, the passbooks were updated in only 44% of the cases (Table 3).

All our survey respondents had put a signature or a thumb impression on a withdrawal slip when they went to collect their wages. The fact that procedural safeguards such as updating of passbooks and signing of withdrawal slips were observed in a majority of cases was somewhat encouraging, at least in comparison with the

Deogarh experience. There were also positive signs of growing understanding and practice of these safeguards in the sample blocks, especially but not only in Angara.

### 2.4 System of Transfer

The flow of NREGA funds in the two sample districts is similar. In Allahabad district, the sanctioned amount comes directly into the gram panchayat account from the district headquarters. In Ranchi, the funds travel from the district to the block and then to the gram panchayat accounts.<sup>10</sup> From the gram panchayat account, the funds are then transferred to the workers' accounts (in both districts). This is done in one of three ways: payment order, account payee cheques and bearer cheques.

(i) **Payment Order:** This is the most common instrument of transfer. In this system, the sarpanch (in Allahabad district) or panchayat secretary (in Ranchi district) sends a letter to the bank or post office giving details of workers' names, account numbers and the amounts due to them. On receipt of this payment order, the bank transfers funds from the gram panchayat account to the accounts of the respective workers. This process takes only one or two days, provided that the workers' accounts are in the same bank as the gram panchayat account – a practice that should be encouraged. We found no evidence of major delays in transfer of funds in our survey.

In Angara block, once the money comes into the account managed by the panchayat secretary, he transfers it into the account of the abhikarta who then withdraws the same amount and deposits it in the bank or post office where the workers' accounts are held. This process can cause considerable delays in payment of wages, and is also a dilution of the principle of separating the payment agency from the implementing agency.

The format of the payment order leaves much to be desired. In both the survey districts, the payment order did not contain the name of the worksite, and in Allahabad district, the days worked by the labourer were also missing. In some cases the payment order was made for four to five worksites together, or clubbed for many weeks. In such cases it becomes very difficult to verify the wage payments.

Another oversight of this system is that there is no provision for an official intimation to the workers, informing them that wages have been credited to their accounts. It is left to them to learn about the payments from an informal intimation (e.g., from the sarpanch or secretary), or just “from the grapevine”.

**(ii) Account Payee Cheques:** Here the sarpanch or secretary writes account payee cheques, drawn on the gram panchayat account and payable to the workers, and distributes the cheques to them. Each worker then goes to the bank and deposits the cheque in his or her account. One advantage of this process is that the worker gets intimation of the money being credited into his or her account. We only encountered one case of payment through account payee cheques, in the Taktaiya panchayat of Karchana block, but the process was not functioning as per the norm. The account payee cheques were not distributed among workers but were given directly by the sarpanch to the bank manager. Most workers had no idea that an account payee cheque was even drawn in their name. The sarpanch informed them that the money had been deposited in their accounts and the workers withdrew after signing the withdrawal slip. In these circumstances, the system of account payee cheques boils down to a convoluted and unwieldy payment order.

**(iii) Bearer's Cheques:** In Amilo gram panchayat of Karchana block, payment of NREGA wages was made through bearer's cheques. Some workers were given the cheque in hand and went to the bank themselves to encash the money. Others received cash at home and were not aware that any bearer's cheque had been issued. There were still others in whose names bearer's cheques had been issued and encashed, but who had never worked under the NREGA and were completely unaware of the transaction. Being easy prey to corruption, bearer's cheques should not be used to pay NREGA wages.

### 3 Fate of Safeguards

“We cannot give you the account details without the presence of the account holder”. This statement of the manager of the

Jharkhand Grameen Bank in Angara block of Ranchi district illustrates how the switch to bank payments has, in some respect, undermined earlier transparency safeguards. This has happened in several ways.

#### 3.1 Transparency of Records

In order to obtain the payment orders, gram panchayat account statements and workers' accounts statements, the survey teams went through a process of “record hunting” in the selected payment agencies on the first day of the survey. Teams in all four blocks reported resistance from banks and post offices when they were asked to share NREGA-related records. Although the NREGA guidelines clearly state that all NREGA-related information is in the public domain, and call for proactive disclosure of this information at all levels, bank officials argue that they are governed by their own rules which compel them to treat the details of all account holders as private. It was only after much coaxing that the survey teams were able to get hold of some of the necessary documents. By this time it had become clear that the entry of banks into the system of wage payments had considerably complicated the social audit process. This raises some troubling questions. How can the tension between the bank rules and the transparency provisions under the NREGA be resolved? Will banks be willing to amend their norms in order to disclose the details of NREGA related accounts for public scrutiny?

#### 3.2 Neglect of Muster Rolls

After securing these records, the scrutiny of these documents brought a new issue to light. The introduction of bank payments has rendered the already neglected provisions related to the muster roll almost non-existent. The muster roll is critical to the social audit process because it contains the

attendance details and corresponding wages due to each worker at a particular worksite. Muster rolls are supposed to be available at every worksite, and read out in public before signatures are taken against the relevant wage payments, so that workers have an opportunity to verify the muster roll entries. This public verification of the muster roll curbs the possibility of entering fake names and inflated figures. However, with wages of workers being deposited directly in their accounts on the basis of a payment order, muster rolls are no longer signed at the time of payment, and their maintenance is even more casual than it used to be. Unannounced visits of the survey teams to 11 worksites revealed that muster rolls were never there. This amounts to the dismantling of one of the key transparency safeguards under the NREGA. In fact, it appeared that in some areas, muster rolls were not maintained at all – payment orders were filled directly from informal attendance registers maintained by worksite supervisors. In Karchana block (Allahabad district), when the sarpanch was asked for the muster roll, he explained that it had not been prepared because the panchayat secretary was on leave. However, the payment order was in the survey team's hands, and was supposed to be based on the muster roll.

#### 3.3 Job Cards

There is also a growing complexity in the maintenance of records, which is making it difficult, for instance, to match work attendance details with wages paid and received. In addition to the muster rolls, job cards are meant to serve as a personal record for each worker in which her/his attendance and payment details are entered. The job card, if regularly and accurately filled, can be a powerful document in the hands of each worker, enabling her to monitor her wage payments herself.

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Before the introduction of bank payments, the practice of filling job cards at the time of payments was encouraged. Although even before the introduction of bank payments, job cards were poorly maintained, this practice is in danger of being pushed further into oblivion because now wages are no longer distributed publicly at a public place where job cards can be filled simultaneously. In fact, it is not clear how job cards are supposed to be filled under the new system.

## 4 Perceptions of the Bank System

### 4.1 Workers' Preferences

A large majority (77%) of the sample workers preferred NREGA wages to be paid through banks or post offices rather than in cash. In Angara and Shankargarh blocks, 94% of sample workers stated a preference for the bank system, whereas a more mixed view was found in Karchana (85%) and Mander (49%) blocks (see Table 4). We observed that workers who had older accounts were better accustomed to using the banking system and also recognised its benefits. However, the preference for bank payments was not restricted to them, nor did it very much depend, say, on the gender or level of education of the respondents – it was fairly high across the board.

**Table 4: Workers' Preferences and Integrity of Records**

	Proportion (%) of Respondents Who Prefer Bank/PO Payments to Cash	Proportion (%) of Workers Who Confirmed That Their Bank/PO Account Records Were Correct <sup>a</sup>
By block		
Angara	87	94
Mander	78	49
Karchana	95	85
Shankargarh	86	94
By gender		
Women	89	77
Men	84	77
By education		
Illiterate	86	81
Literate	85	75
By distance from bank/PO		
Less than 5 km	84	85
More than 5 km	87	67
By age of account		
Less than 6 months	86	75
More than 6 months	85	80
All respondents	85	77

a Excluding 11% of workers who were unable to verify their bank records. If those are included, the overall proportion of sample workers who confirmed that their account records were correct comes down from 85% to 76% (see text).

In general the banking process was viewed in a positive light. There was openness to learning the procedures of this new system even among those who were illiterate and for whom this could be another disempowering hurdle. When we asked a worker why the abhikarta accompanied him to the bank, he replied “*Abhi to seekh rahein hain, agli baar khud jayenge*” (for now I am learning, later I will go on my own). In Mander block, it was heartening to witness an old and illiterate woman finding her way through the bank and completing all the procedures on her own.

One issue that concerned the workers was the distance between banks and their place of residence. Among the sample workers, 59% lived within 5 kilometres of the bank or post office and 41% had to travel over 5 kilometres. In some villages of Mander and Shankargarh blocks, the nearest bank was more than 10-15 kilometres away and the workers complained of a day's earnings being lost in travelling to the bank each time they had to collect their wages. This is also one of the reasons why many workers prefer to go to the bank with the sarpanch or the contractor – they want to make sure that they are able to withdraw money the same day and hence avoid another long trip to the bank. Not surprisingly, the preference for bank payments was relatively low among those living far away from the nearest bank or post office (Table 4).

In Allahabad district, and Mander block of Ranchi district, the bank accounts were scarcely used for the purpose of savings – most workers withdrew their entire wages as soon as they learnt that their accounts had been credited. In Angara block, however, the concept of saving had taken root. Many people who preferred bank payments stated “the possibility of saving” as one of their main reasons. For instance, in some cases workers who were paid Rs 1,080 withdrew the bulk but kept Rs 80 in the bank, creating a small saving for the future.

We also found that not all banks and post offices functioned in the same way. In Angara block, the only block where post office payments were sampled, it was found that the bank system was working better than post offices. The Jharkhand Grameen

Bank had computerised records (much better maintained than the manual log journals in the post offices), adequate staff (as opposed to the single post master operating the branch post offices), and secure arrangements for keeping large sums of money (unlike the post master at the Jonha branch office, who was scared of keeping large sums of money). We also observed the better functioning of nationalised banks in both Allahabad and Ranchi districts compared with the cooperative bank in Deogarh, which was openly flouting rules and colluding with corrupt contractors (see Section 1). The nationalised banks seem to have stricter norms, better records and more effective supervision. Overall we found that more than 89% of the sample workers who went to withdraw their NREGA wages found the banking staff “helpful”, but 38% of the illiterate workers who went unaccompanied to the bank to withdraw wages complained of some harassment by bank officials. Nevertheless, we found no evidence of bank staff accepting bribes.

### 4.2 Verification of Bank Records

An important aim of the survey was to verify the bank records with the NREGA workers. After the relevant payment order and account details were shown and explained to them, 76% of the sample workers confirmed the accuracy of the bank records, while 13% found discrepancies (the remainder, 11%, were unable to verify their bank records); see Table 4. This stands in stark contrast with the findings of the earlier social audit in Deogarh, where workers' accounts had been grossly manipulated. The Deogarh experience showed that, in a feudal and exploitative social setting, middlemen are able to “outsmart” the banking system, and incorporate it in the system of corruption. The larger survey in Allahabad and Ranchi districts presents a more positive and hopeful picture of the system of bank payments. Banking norms such as issuing and updating of passbooks, use of signed withdrawal slips, presence of the account holder at the time of withdrawal, and cooperative staff attitudes were better observed than in Deogarh. In this more favourable environment, the transition to bank payments seems to have many positive aspects. In particular, it does help to reduce the extent of

corruption – without eliminating it completely, as discussed below.

In connection with these positive findings, our experience in Angara block deserves special mention. The high levels of awareness compared to the other blocks, better maintenance of bank records, familiarity with the banking procedures and an understanding of the benefits of saving through banks are significant achievements in Angara. The field investigators felt that the Maoist influence in some gram panchayats, the leadership role played by a school-teacher in one of the sample gram panchayats, and repeated visits by different survey and social audit teams (partly due to Angara's accessibility from Ranchi) were among the possible reasons why the NREGA in general, and the bank payments system in particular, are doing relatively well there. While the reasons for effective functioning of the bank payment system in Angara need to be investigated further, this is an experience we can draw some lessons from.

## 5 Corruption: Method and Extent

In the earlier system of cash payments, it was relatively easy for the implementing agencies to embezzle wage funds, by entering inflated figures (bloated attendance or fake names) in the muster rolls and pocketing the difference. Under the new system of bank payments, fudging the muster rolls is not enough, since the inflated payments are directed to workers' accounts rather than to the pockets of the implementing agency. Thus, siphoning off wage funds requires some means of retrieving the inflated payments from the workers. This can be done in at least three ways: deception, collusion, and plain exploitation. Our survey uncovered cases of each of these three methods of embezzlement.

### 5.1 Deception

In Chatra gram panchayat, Angara block, we found a case of rank deception, similar to Deogarh. Money was being embezzled by the abhikarta (Sandip Kachhyap), in collusion with the local post master, from the accounts of the NREGA labourers without their knowledge, after inflating figures in the muster roll.

In Mander gram panchayat of Ranchi district, workers were made to sign on the withdrawal slip in the premises of the

Ranchi-Khunti Central Cooperative Bank and were then sent home. The abhikarta then withdrew their wages and paid them in cash at their homes. Most of the sample workers there claimed that they did receive the wages recorded against their name on the payment order. However, the fact remains that the withdrawal of wages without the account holder's presence is a dangerous and unlawful process, and can easily lead to embezzlement of funds.

### 5.2 Collusion

In four out of 19 gram panchayats, the survey teams found evidence of fraud associated with fake names in the payment order. In Banjhila panchayat of Mander block, most of the workers listed on the payment order belonged to the abhikarta's family. Here there is ample scope for inflating the muster roll since wages will be deposited in the accounts of family members. We have encountered this pattern in previous surveys in Jharkhand as well, where members of the abhikarta's family although listed on the muster roll, did not work for a single day and the actual work was done by workers from other panchayats for meagre amounts. In cases like these, where workers (fake or "genuine") collude with the implementing agency, the system of bank payments is not much of a protection against fraud.

In Kakram gram panchayat of Allahabad district, names of many upper caste men were included in the payment order even though the villagers said that these men had never worked on NREGA work-sites. In Akauria panchayat of the same district, almost half of the names on the payment order were fake. In Chatra panchayat in Angara block, up to 10 fake names were found on the payment order.

### 5.3 Exploitation

Even when genuine workers are listed on the muster roll and they are paid through banks, it does not guarantee that there will be no fraud. Almost every third worker in Allahabad district said that after withdrawing the wages (alone or accompanied with someone), he or she gave a share to the sarpanch – possibly but not necessarily to return "advance wages" paid earlier by the sarpanch. The ground reality is that, before

the work begins, some workers make a "deal" with the sarpanch (or contractor), whereby they get work in return for agreeing to work for less than the minimum wage. The sarpanch or contractor shows full payment of minimum wages on the muster rolls, and retrieves the difference from the workers after the money is credited to their accounts.

In Saidabad block of Allahabad district, we observed during field testing that inflated entries were made in the muster rolls with the knowledge of the labourers. After withdrawing their wages from the bank, the labourers gave the excess amount to the sarpanch. The workers complained that they had no choice but to comply, as work was scarce and they would not be employed the next time if they resisted. In Mander block of Ranchi district, half of the workers who were accompanied by the contractor at the time of withdrawal gave him part of their earnings outside the bank.

As these examples illustrate, the social context has an important bearing on the functioning of the system of bank payments. Once a labourer's wages are withdrawn from the bank account, it is her relationship with (say) the sarpanch or contractor that determines her share. In the feudal set-up of some of the areas we surveyed, the workers have no choice but to agree to the work and payment conditions set by the sarpanch or contractor. These conditions are sometimes downright exploitative, as we saw in Ganjebari gram panchayat in Deogarh where NREGA work was being carried out at an "agreed" rate of Rs 60 per day whereas the minimum wage for Jharkhand is Rs 92 per day. The workers were resigned to get paid less than their due. As one of them said, when asked why he accepted unfair payment, "*Kaun sahi daam deta hai?*" – Who will ever pay the full wage?

## 6 Recommendations

We began by presenting the rationale behind the introduction of bank payments, widely publicised by the central government. Earlier investigations in the Deogarh district of Jharkhand (and before that, in Orissa) raised serious concerns about the role and potential of the banking system in streamlining NREGA wage

payments and reducing corruption. Our survey then sought to probe these issues further. As compared to Deogarh, our findings revealed a more encouraging picture of the bank payments system, but also exposed its limited capacity in fighting corruption. Before concluding, we present some recommendations borne out by our survey experience.<sup>11</sup>

First, to facilitate efficiency in wage payments and monitoring, preference should be given to centralised banks and financial institutions with computerised records. Further, a list of all the payment agencies involved in the NREGA wage payments should be made available at the block office and to the Ministry of Rural Development.

Second, to ensure accountability within this new system, banks must be brought under the ambit of the Act's transparency provisions. The Reserve Bank of India should direct banks to follow certain minimum safeguards, such as:

- (a) Money should be withdrawn only in the presence of NREGA workers.
- (b) Passbooks should be issued to all account holders.
- (c) Passbooks should be updated when money is withdrawn.
- (d) All NREGA-related documents (including details of bank accounts of NREGA workers) maintained by the banks should be open to public scrutiny.
- (e) Bank statements of gram panchayat accounts should be proactively disclosed at the end of each financial year.

Third, to restore public scrutiny of wage payments, and reinstate the public reading of muster rolls and filling of job cards, two methods of wage disbursal can be adopted. One, account payee cheques can be handed directly to all workers in a public place. Two, direct payments to the workers' accounts (based on payment orders) can be combined with the public distribution of "wage slips" to all workers, informing them that their account has been credited and giving them the requisite details.

Fourth, social audits of NREGA works should now include verification of bank records including payment orders. Also, a model payment order should be designed and adopted by all state governments, to promote transparency and facilitate verification.

## 7 Conclusions

The survey findings are, in some ways, encouraging. We found that the direct transfer of wages into workers' bank accounts is a substantial protection against embezzlement, provided that banking norms are adhered to and that workers are able to manage their own accounts. Respondents had a fairly positive attitude towards bank payments, and an interest in learning how to use the banking system. While the rushed transition to bank payments (in 2008) created a certain amount of confusion and chaos, the prospects of effective use of banks as a payment agency for NREGA seem reasonably good.

However, the survey points to some serious issues related to the use of post offices as a payment agency, including poor record-keeping and their inability to cope with mass payments of NREGA wages (these issues require further probing, given that there were few post offices in our sample). In remote areas, large distances to the nearest bank or post office also cause much hardship to the NREGA workers.

Further, it is important to realise that that this new system of wage payments is far from foolproof. As workers familiarise themselves with the banking process, cases of embezzlement through "deception" and "exploitation" will reduce (in fact, they have already declined substantially), but the possibility of embezzlement through "collusion" remains. The risk of manipulation is particularly high in areas with a feudal and exploitative social structure, where NREGA workers are easily manipulated. This is, perhaps, the main message of the Deogarh scam, where the banking system was swiftly integrated in a powerful nexus of corrupt contractors, politicians and bureaucrats. Even in Allahabad and Ranchi districts, a similar situation emerged in specific gram panchayats.

This continued vulnerability points to the need to revive, adapt and strengthen the earlier transparency safeguards related to wage payments. Possible steps in this direction (aside from strict enforcement of the more traditional safeguards) include bringing the bank's NREGA-related documents in the public domain, proactive disclosure of the gram panchayats bank account details, and distribution of cheques

or wage slips in a public place along with reading aloud of muster rolls and maintenance of job cards.

Ultimately, the best protection against embezzlement is the empowerment of NREGA workers. As they learn to defend their rights under the NREGA, manage their own bank accounts, and even build collective organisations, the crooks are likely to find it much harder to manipulate the system.

## NOTES

- 1 See Drèze and Khera (2009). For a reader-friendly "primer" on NREGA, see Dey, Drèze and Khera (2008). For further material, see [www.righttofoodindia.org](http://www.righttofoodindia.org).
- 2 This recent switch from cash to bank payments of wages has been acclaimed by the government as the "world's largest ever financial inclusion scheme", according to Raghuvansh Prasad Singh, minister of rural development, October 2008 (see [www.commodityonline.com/news/NREGA-to-help-in-largest-financial-inclusion-ever-11409-3-1.html](http://www.commodityonline.com/news/NREGA-to-help-in-largest-financial-inclusion-ever-11409-3-1.html)).
- 3 Private contractors are banned under the NREGA but continue to survive in some areas.
- 4 The abhikarta (implementing agency) is supposed to be a committee, with the president (*adhyaksh*) and secretary (*sachiv*), constituted by the gram sabha. In practice, it tends to be a de facto entrepreneur acting in the name of the committee – often the owner of the land on which work is being done (most NREGA works in the sample blocks were executed on private land), or the puppet of a private contractor, or even just a contractor.
- 5 A "Payment Order" is a letter of instruction from the implementing agency to the payment agency (i.e. bank or post office), ordering the payment of wages into the accounts of NREGA workers. This is explained in greater detail later in the paper.
- 6 In Shankargarh block, the survey team could only cover four gram panchayats.
- 7 Personal communication, chief development officer, Allahabad district.
- 8 In Angara block, the post office was taking Rs 70 from workers, out of which Rs 50 was reflected as the opening balance in their passbooks and Rs 20 was taken as an "insurance premium".
- 9 In Bhaderwa panchayat, Karchana block, Rs 20 was taken from workers for issuance of passbooks.
- 10 Even though there are no gram panchayats in Jharkhand, there are gram panchayat accounts, managed by the panchayat secretary. Elsewhere these accounts are jointly managed by the panchayat secretary and the sarpanch.
- 11 These recommendations emerged from discussions with the survey teams during the debriefing workshop, followed by further discussions with Jean Drèze, Reetika Khera and Sunil.

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