

# Analysis of Payment Delays and Delay Compensation in NREGA Findings across Ten States for Financial Year 2017-18

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# 1. Introduction

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) guarantees 100 days of work in a year for every rural household that demands work. In the current financial year, over 152 crore person days of work has been generated through the MGNREGA programme.<sup>1</sup> The Act mandates that the worker should receive wages within 15 days of completion of the work week, failing which a delay compensation is to be paid per day of delay. This paper is a continuation of the analysis presented in “Analysis of Payment Delays and Delay Compensation in NREGA: Findings across Ten States for Financial Year 2016-17”.(Rajendran Narayanan, Sakina Dhorajiwala, and Rajesh Golani 2017) The paper we brought to highlighted that the government’s definition of what constitutes ‘delay’ in payment of wages is flawed. The method in which the government is currently calculating delay completely absolves the central government and payment agencies for any delays in labour wage disbursement caused by them. In this article, we further elaborate extent of delays in MGNREGA wage payments for the first two quarters of FY 17-18, the under accounting of compensation for the delays and its repercussions. Contrary to the government claims of 85% wage payments on time (within 15 days of completion of work week), our large sample analysis indicates that only 32% of the wage payments have been made on time.

## 1.1 Repercussions of Delays in Wage Payments

The Department of Expenditure (Ministry of Finance) took cognizance of our research in August 2017. They issued an office memorandum which acknowledged that the delays are calculated only until the Funds Transfer Order (FTO) is generated at the block/panchayat level. The document indicated that the principal reasons for such delays were “infrastructural bottlenecks, (the lack of) availability of funds and lack of administrative compliance. (Department of Expenditure, Ministry of Finance 2017)”

Ironically, in the very next month the central government blocked funds for 19 states since many of them had not submitted audited reports to the Centre. The issue persisted and wages were delayed for several weeks before the payments finally began to trickle in. In this tussle between the Centre and States, it is the workers who continue to suffer. Not only was there a massive delay in payments, the government’s misrepresentation of the ‘delay’, meant that the workers cannot even be compensated for the full extent of delays.

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1 Obtained from MGNREGA ‘At a Glance Report’ accessed on 29 November, 2017.

In the Financial year FY 16-17, we found in our sample that merely 21 percent wages were paid in the stipulated 15 day period. This year some wage payments are pending for over 200 days. In such a scenario, it is not only the worker (whose wage is delayed) who is impacted but also other workers in the village who lose faith in the programme. In certain villages, where there are cases of large delays, workers are dissuaded to demand work through MGNREGA. It is the government's responsibility to streamline wage payments and to ensure timely payment of wages. Contrary to this, the Centre takes no responsibility for any delays and pays no part of the compensation. We discuss the cases of pending wage payments in the subsequent sections of this paper.

## **1.2 Problem with Payment Infrastructure**

In an attempt to improve the payments process, the government migrated to the National electronic Fund Management System (Ne-FMS) in April 2016. Six of the 10 states that we sample in our study, migrated to the Ne-FMS system in April and the remaining in October 2016. In principle, the Ne-FMS system is supposed to hasten the wage payments and reduce the number of days taken for wages to be credited in the workers' accounts. This would be a welcome step if it would indeed achieve this feat. However, as mentioned earlier, this year only 32 percent of payments have been credited in 15 days. Prior to the Ne-FMS system the State governments would use a contingency/ revolving fund to make the payments until the Centre sanctioned the funds. The payments system is completely centralised and the State governments cannot pay the workers even if they intend to. The Central Government has absolved itself from all responsibility for delays in wage payments. The recommendations in the aforementioned memorandum (Department of Expenditure, Ministry of Finance 2017) show that it intends to pin all responsibility to the States and payment agencies.

The payments infrastructure requires seamless coordination between the Centre, states, Payment Agencies, and the administrative bodies. There should also be clearly defined responsibilities for each one of them. Not only has the government violated the law but also the rights of the workers.

## **2. Wage Payment Process**

For the purpose of simplicity we have divided the payment system in two stages. You can find more clarity on the payments in the (Department of Expenditure, Ministry of Finance 2017)” (Table 1) .

## **STEP 1**

Under the National electronic fund management system (Ne-FMS) on completion of the work week a Fund Transfer Order (FTO) is generated at the block/ panchayat.

## **STEP 2**

Subsequently, the Centre approves the FTO digitally and the payment is processed electronically. After passing through a notional State government bank account the wage is directly transferred to the individual worker's bank or postal account.

## **2.1 Definition of Delay**

According to the existing method, the government doesn't acknowledge the delay after the FTO is generated at the block/panchayat, i.e., only until Step 1. Any delays in wage payments that occur in the steps thereafter are unaccounted. Thus, the additional days taken for the wages to be credited to the workers accounts after the FTO is generated are not counted and hence not even compensated.

Current method of calculation;

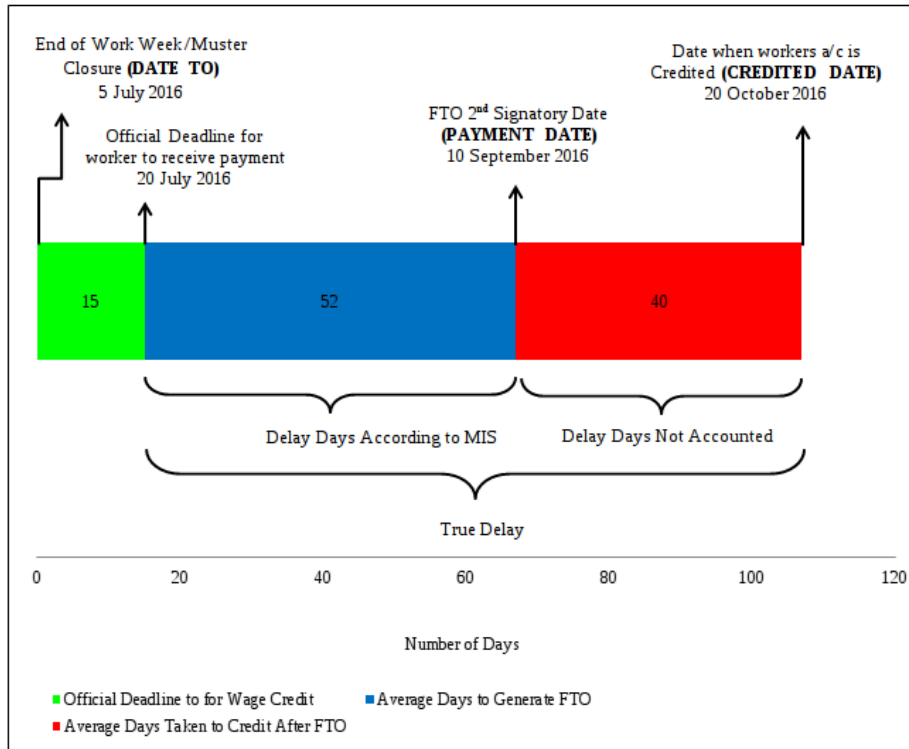
Number of Delay Days = FTO Generation Date - (Muster closure date + 15 days)<sup>2</sup>

This process leads to a gross underestimation of the true delay that occurs before the worker gets the money in her account. We analysed data on every MGNREGA wage payment transaction obtained from the MGNREGA Management Information System (MIS) for 3446 gram panchayats for FY 2016-17 and 3603 gram panchayats in FY 2017-18. Across the two financial years (FY 17 & Q1-Q2 of FY 18) we estimate over Rs. 260 million of compensation is not being calculated for our sampled panchayats due to the flawed definition of 'delay'

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2 For more details on the calculation of delays, see (Rajendran Narayanan, Sakina Dhorajiwala, and Rajesh Golani 2017)

Figure 2.1 – Calculation of Delays



### 3. Methodology

We have conducted the analysis of the financial year 2017-18 in the same manner as the previous financial year. We retained the same ten states as the previous study and randomly selected 10 gram panchayats from each district in those 10 states. The state-wise sample is given in Table 3.1.

Table 3.1 – State-wise Gram Panchayat Sample

State	Gram Panchayats	State	Gram Panchayats
UP	726	BH	410
CG	296	KT	352
MP	569	KL	144
JH	229	OD	328
RJ	321	WB	228

We mapped each transaction in our sample to the corresponding transactions in the Delay Compensation Report (R14.1) (available in the MGNREGA MIS). We got the corresponding delay compensation payable for each of those transactions according to the MIS. There are several transactions that don't get reflected in the Delay Compensation Report. This could be due to one of two reasons. First, either those payments were credited to the workers' accounts before the 15 day period or happened. Second, their FTO may have been generated within the stipulated 15 day period but crediting to the accounts exceeded that limit. For every transaction of the sampled panchayats, we calculated the amount of compensation that is not accounted for, by using the 'credited date' from the muster because that is the date unto which the 'true delay' ought to be considered. More detailed notes on the method of sampling and analysis can be referred from earlier paper.

*Table 3.2 Sample Details*

<b>Sample</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Number of Gram Panchayats Sampled	3446	3603
Number of States Covered	10	10
Number of Transactions Analysed	9.2 million	4.5 million

*Note: The number of panchayats sampled are representative of the size of the states. However, the number of transactions for West Bengal are higher in our sample owing to large panchayat sizes. We have used state level Employment Generation data to compute the weighted averages for the overall average calculations to ensure robustness of estimates.*

## **4. Findings**

For the sake of granularity and clarity, to show the full extent of unaccounted compensation, we have presented the findings in five sections;

### **1. Broad Statistics**

The government has made repeated claims that the about 85 percent payments in the current financial year have been made on time. In our sample we found that in the current financial year merely 32 percent of the payments were credited within 15 days of muster closure. This implies that both STEP 1 and STEP 2 was completed in less than 15 days . The broad statistics show the percentage of transactions for which payments happened on time, percentage of transactions for

which partial delays are captured and the percentage of transactions for which no delays are captured at all.

## 2. Overall Payments Summary

The subsequent section gives a state-wise breakup of the extent of compensation that isn't being captured at all for the entire financial year 2016-17 and the first two quarters of the financial year 2017-18.

## 3. No Delays are Captured

This section shows statistics for all those transactions for which STEP 1 was completed in 15 days but STEP 2 occurred beyond the 15 days post muster closure. In such cases no compensation is being calculated at all since the delay is accounted for only until STEP 1.

## 4. Partial Delays are Captured

This section shows that STEP 1 was not completed in 15 days, which means the FTO took more than 15 days to be generated. In this case, only a partial compensation is calculated until the FTO is finally generated beyond the 15th day (of muster closure).

## 5. Rejected Payments

These are wage payments for which the FTO is rejected for technical reasons. For such payments the FTO has to be generated once again for the wage to be paid. Delays in such cases are likely to be much longer.

## 4.1 Broad Statistics

Table 4.1.1 shows that in the previous financial year merely 21 percent wages were credited within 15 days as stipulated by the law. In the first two quarters of this financial year, it was 32 percent. However, the percentage wages where the state governments generate the FTOs within 15 days, and the crediting happens after 15 days is 45.

*Table 4.1.1 – Broad Statistics*

<b>Scenarios/Cases</b>	<b>FY 18</b>
Percentage of Transactions for which payment is Credited Within 15 Days	32
Percentage of Transactions for which No Delay Compensation is Captured	45
Percentage of Transactions for which only Partial Delay Compensation is Captured	23

Table 4.1.2 – State-wise Broad Statistics

Broad Statistics States	Percentage of Payments Made on Time	Percentage of Payments for which No Delay Compensation is Calculated	Percentage of Payments for which Partial Delay Compensation is Calculated
UP	20	30	50
CG	28	64	9
MP	63	17	19
JH	68	25	7
RJ	36	56	8
BH	20	26	54
KT	31	44	24
KL	33	62	5
OD	19	56	25
WB	17	64	19
<b>Overall</b>	<b>32</b>	<b>45</b>	<b>23</b>

## 4.2 Overall Payments Summary

The MIS calculates the delays unto the date when the FTO is generated. We have calculated the delay until the date unto which the wage is credited in the respective worker’s account. The compensation amount truly due is thus the sum of the compensation calculated until FTO generation date and the compensation for the days until when the worker’s account is credited.<sup>3</sup>

The percentage of compensation that is unaccounted across the ten states is shown in Table 4.2.1. In the first two quarters of this financial year, a whopping 86 percent of the delay compensation amount is not even calculated, let alone be paid. This amount increased from 57 percent from the last financial year. Chhattisgarh, Kerala and West Bengal had over 90 percent of the delay compensation amounts going unaccounted this year. Barring Bihar and MP, most states had close to 80 percent of delay compensation amounts not being captured.

Figure 4.2 – Percentage of Unaccounted Compensation

<sup>3</sup> It is important to note that although the credited date is the date on which the wage payment is reflected in the worker’s account, it takes days at end for her to access the money due to weak banking and disbursement infrastructure. Thus the delays are not even captured in its entirety even by considering the ‘credited date’.



Percent of Unaccounted Compensation

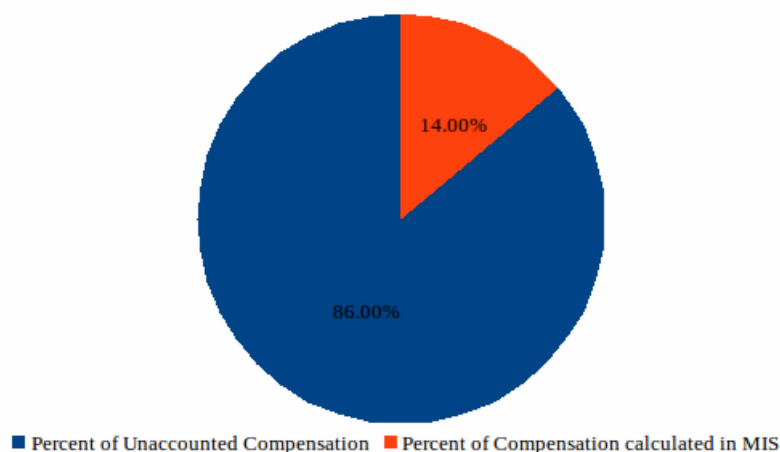


Table 4.2.1 – State-wise Unaccounted Compensation

States	Delay Compensation Calculated in the MIS	Delay Compensation Not Calculated in the MIS (in Rs)	Total Compensation Truly Due (in Rs)	% of True Delay Compensation Not Calculated	% of Unaccounted Compensation in FY 17 (q1 & q2)
UP	7,59,674	32,86,032	40,45,706	81	71
CG	2,51,947	29,40,104	31,92,051	92	26
MP	5,79,517	8,55,195	14,34,712	60	75
JH	1,36,026	8,57,912	9,93,938	86	51
RJ	6,08,411	30,78,106	36,86,517	83	82
BH	29,00,271	33,08,440	62,08,711	53	17
KT	12,93,535	58,99,298	71,92,833	82	30
KL	1,38,373	61,79,941	63,18,314	98	87
OD	11,01,796	38,60,618	49,62,414	78	49
WB	25,38,610	3,46,74,719	3,72,13,329	93	21
<b>Overall</b>	<b>1,03,08,160</b>	<b>6,49,40,365</b>	<b>7,52,48,525</b>	<b>86</b>	<b>38</b>

### 4.3 No Compensation is Captured

This scenario corresponds to the situations when the state governments do generate the FTOs within 15 days but the Centre takes more than 15 days to transfer wages to the workers' accounts (Step 2).

Since this duration is not being treated as ‘delay’, no delay compensation is being captured for transactions in this category. Table 4.3.1 gives the state-wise scenario when no delay compensation is being captured. For example, in West Bengal as can be seen in Table 4.3.1, in over 7.3 lakh transactions, the FTOs were generated within 15 days but in 79% of those transactions, the Centre took longer than 15 days to credit wages to the workers’ accounts. What’s worse is that, on an average, it has taken 53 days to credit to the workers’ accounts after FTO generation. Nobody is being held accountable for this delay. By considering a weighted average of employment generated in these 10 states, we observe that (Table 4.3.1) it is taking 25 days to credit wage payments when the FTO is generated on time.

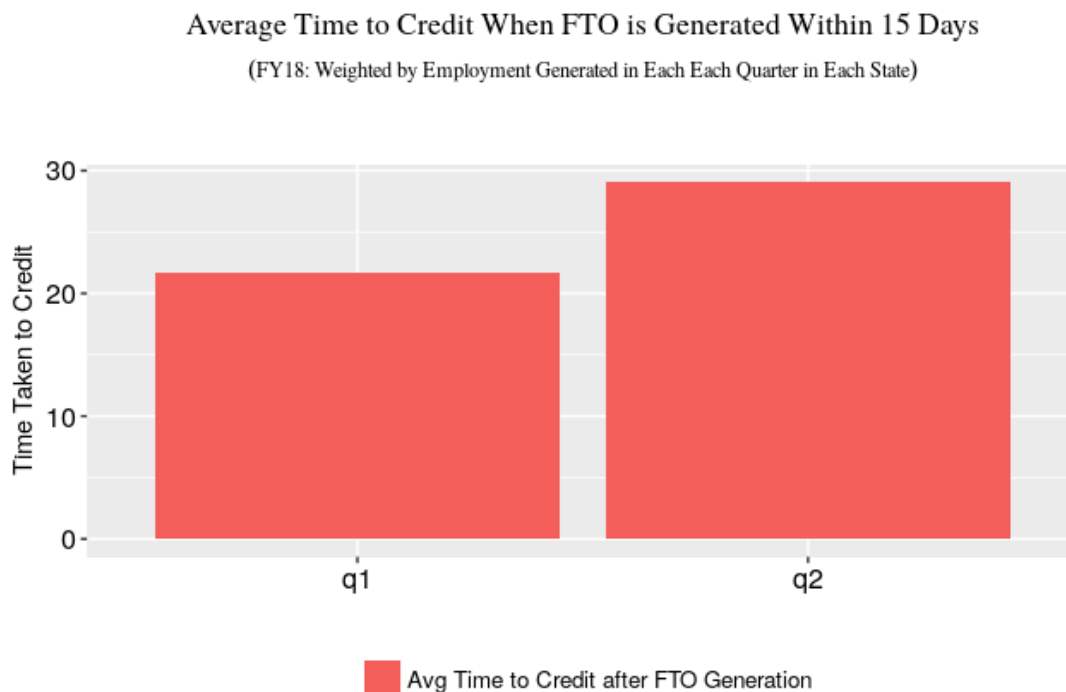
*Table 4.3.1 – State-wise average delay when FTO is generated within 15 days*

States	Number of Transactions for which FTO is Generated Within 15 days	# Transactions for which FTO is generated Within 15 days but Crediting to Workers’ Accounts Exceeds 15 days	Percentage of Transactions for which Delays are not Calculated	Average Days Taken to Credit into Accounts when FTO is generated Within 15 days	Delay Compensation not Calculated (in Rs)
UP	64,470	38,133	59	24	5,55,069
CG	2,49,817	1,73,058	69	32	24,93,858
MP	3,75,955	75,996	20	10	3,56,316
JH	3,13,996	81,423	26	16	6,58,949
RJ	4,49,809	2,71,726	60	11	24,18,020
BH	1,33,223	73,318	55	14	9,52,823
KT	2,95,264	1,70,462	58	17	27,06,125
KL	4,96,675	3,21,981	65	31	54,73,559
OD	3,25,884	2,40,543	74	25	25,69,123
WB	7,35,259	5,80,564	79	53	2,58,66,079
<b>Overall</b>	<b>34,40,352</b>	<b>20,27,204</b>	<b>59</b>	<b>25</b>	<b>4,40,49,921</b>

As the year goes by, the delays in wage payments get exacerbated. Figure 4.3.2 shows an increase from 21 to 30 days on an average to credit when FTO was generated within 15 days across the two

quarters of current financial year. The central government takes no responsibility for the delay on its part.

Figure 4.3.2 – Average time to Credit when FTO is generated within 15 days



## 4.4 Partial Compensation is Captured

When the FTO generation exceeds 15 days, some compensation is calculated from the 16th day until the FTO is generated. Though, the compensation for delays in STEP 2 is not accounted. We have divided this further into 2 categories;

- 1) Pending Payments when FTOs have been generated (as on 27th November 2017)
- 2) Credited Wages

### 4.4.1 Pending Payments

The provision of the compensation clause has not deterred the government to reduce massive delay in payments. In the first two quarters of FY 18 alone, wage payments of more than 1.14 lakh transactions are still pending. On an average, across the 10 states, wages are pending for 94 days after the FTO was generated these transactions. In our sample, it takes on an average 51 days for states to generate the FTO in the first place. While the Centre is not held accountable for this delay,

the states have to pay a meagre amount to compensate per day of delay. The lack of accountability leads to loss of faith in the workers who depend on the NREGA wages for their incomes, especially in the lean months when agricultural activity reduces.

Figure 4.4.1- Pending when FTO generation exceeds 15 days

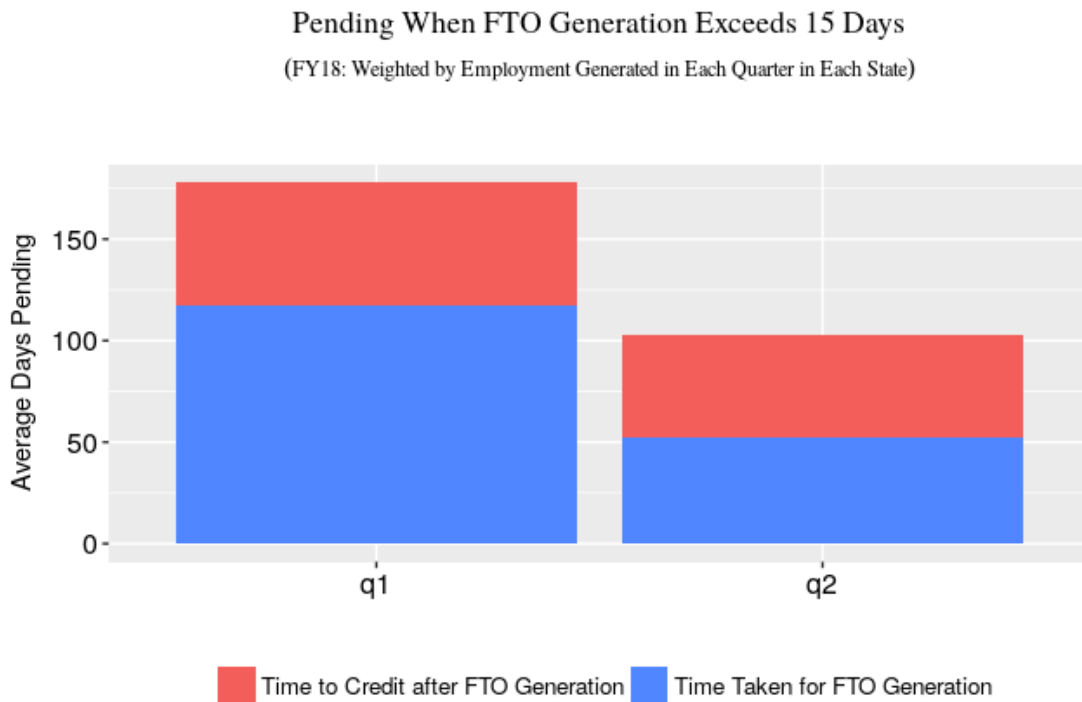
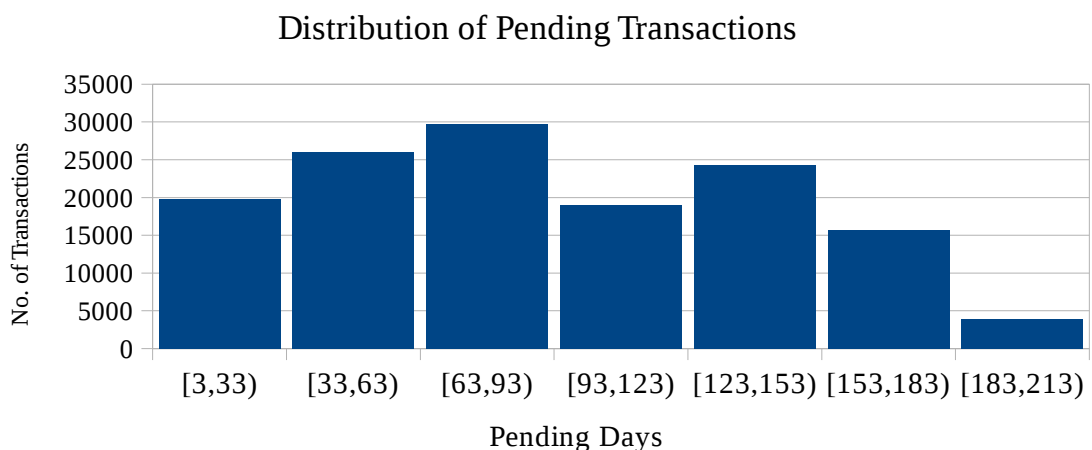


Table 2 in the Appendix gives data on pending payments in the current financial year. For the purpose of calculation of the delay compensation amount we assume these payments to be 'credited' on 27th November, 2017. Considering the lowest estimates, 67 percent of the compensation is not being calculated at all. This number is bound to increase since payments will be credited across the next few months. Figure 4.4.1 shows the distribution of transactions pending across days. About 30 thousand transactions are pending between 63 to 93 days.

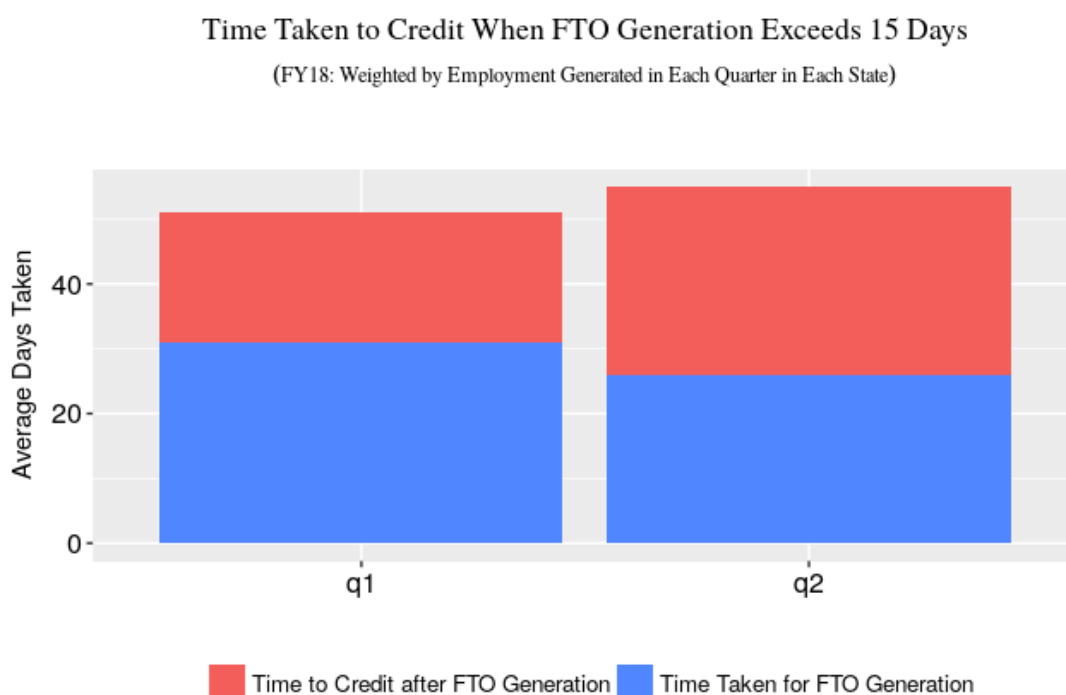
Figure 4.4.1- Distribution of Pending Transactions for FY 18



## 4.4.2 Credited Wages

When FTO generation exceeds 15 days, some compensation is calculated until the FTO generation date. As pointed out earlier, this is reflected in the Delay Compensation Report. On an average, for the sampled panchayats it takes 31 days to generate the FTO. Thereafter, it takes another 21 days on an average for the wages to be credited. Overall, 59 percent of compensation is not accounted for when wages paid this year. Table 5 in the appendix gives the state-wise data on credited payments. From Table 5, it appears that the time taken for the Centre to release funds to MP is just 1 day while it is a staggering 51 days for West Bengal. Figure 4.4.2 shows the quarterwise increase in the time taken to generate the FTO and Credit wages.

Figure 4.4.2 – Time taken to generate the FTO and Credit wages



## 4.5 Rejected Payments

These are cases of failed transfers to the workers' account. Payments get rejected primarily due to technical reasons such as incorrect account numbers in the system, mismatch of names in the account and the Aadhaar etc. For such payments, a fund transfer order has to be regenerated, which could take upto several days. It is unclear how the compensation is calculated for rejected payments. In most such cases worker's are unaware about the reason for rejections of wage payments. In

merely 2 quarters of this financial year, over 80 million rupees worth of wages payments were rejected. Table 4.5.1 gives an overall summary of rejected payments for the financial year 2017-18.

*Table 4.5.1 – Rejected Payments Summary*

<b>Rejected Wage Payments Summary</b>	<b>Across 10 States FY18</b>
Number of Rejected Transactions accounted in the Delay Compensation report	2925
Number of Rejected Transactions not in the Delay Compensation Report	61758
Number of Job Cards Rejected in the Delay Compensation Report	1851
Number of Job Cards Rejected Not in the Delay Compensation Report	31257
Total Amount of Payments Rejected (in Rs)	83154581
Amount of Rejected Payments Calculated for Compensation in the MIS (in Rs)	130844
Amount of Rejected Payments Not Calculated for Compensation (in Rs)	2016099

## **Conclusion**

The provision of the compensation clause in the NREG Act, should ideally disincentivize payment delays. As things stand, the large delays are dissuading workers from taking up NREGA work. And the meagre amount of delay compensation is not providing any buffer to the labourers. It is crucial that clear rules are drawn out and each stakeholder is accountable for delays on their part. It is the central government's responsibility to ensure that wages are credited on time. In absence of clear provisions, the Centre must compensate the labourers. While the baton of responsibility is being passed on, millions of wages are pending and millions of workers are bearing the brunt of the delays.

# Appendix

Table 1 - MGNREGA Wage Payment Steps

No.	Activity	Description	Responsibility
1.	Muster Roll is closed	Muster roll is a document, which record the attendance of workers at the worksite.	State government
2.	Data entry of muster roll + measurement book	The details of the attendance and the measurement of the work done are entered into the Management Information System.	State government
3.	Generation of wagelist	After these two items are recorded, the wages payable to the worker is calculated and an electronic Fund Transfer Order (FTO) is generated.	State government
4.	1st signature on Fund Transfer Order	This is approved electronically by a designated authority. It requires two electronic signatures. Among these the first signatory is responsible for generating the FTO and this is the “maker” portion.	State government
5.	2nd signature on fund transfer order	After the first signature, it is electronically sent to the second signatory. The second signatory is called the 'checker', who verifies the order. This then gets pushed as an e-pay order (FTO) onto the MNREGA server.	State government
6.	Sent to Public Fund Management System (run by Ministry of Finance)	These files are then pulled from the MGNREGA server to the Public Fund Management System (PFMS) server. The following steps happen at that level: <ul style="list-style-type: none"> <li>• Public Fund Management System will send these files to the accredited bank</li> <li>• The accredited bank will send the files to the sponsor bank</li> <li>• Sponsor Bank will process the files using National Payments Corporation of India</li> <li>• PFMS shares responses with NREGASoft</li> </ul>	Central government/ payment agency
7.	Sent to State Employment	The PFMS window notionally sends it to the State Employment Guarantee Fund. This bank account under	Central government/

	Guarantee Fund – Ne-FMS	the Ne-FMS is solely for wage payments.	payment agency
8.	Sent to Post Office/Bank	After notionally passing through the State Employment Guarantee Fund it is then sent to the Post Office/Bank.	Central government/ payment agency
9.	Deposited in workers account	The Sponsor Bank deposits the money into the worker's account.	Central government/ payment agency

*Table 2 – Pending Payments when FTO is generated exceeds 15 days*

States	Number of Pending transactions	Average Days to FTO 2nd Signature	Average Days Pending After FTO 2nd Signature	Delay Compensatio n Calculated in the MIS (in Rs)	Delay Compensatio n Not Calculated in the MIS (in Rs)	Total Delay Compensatio n Truly Payable (in Rs)
UP	29,833	33	111	3,54,662	22,08,804	25,63,466
CG	1860	86	84	58,966	74,297	1,33,263
MP	6086	49	107	98,394	3,11,679	4,10,073
JH	226	51	121	3807	13,445	17,252
RJ	860	68	102	28,111	62,697	90,808
BH	6201	70	64	3,02,077	3,60,058	6,62,135
KT	30,330	34	66	5,75,307	19,64,549	25,39,856
KL	9761	25	65	56,373	3,98,875	4,55,248
OD	3451	46	135	50,846	2,46,518	2,97,364
WB	25,683	39	70	5,56,240	16,62,651	22,18,891
<b>Overall</b>	<b>1,14,291</b>	<b>51</b>	<b>94</b>	<b>20,84,783</b>	<b>63,26,891</b>	<b>93,88,356</b>



Table 3- Credited Payments when FTO generation exceeds 15 days

States	Number of transactions	Average Days to FTO 2nd Signature	Average Days Taken to Credit After FTO 2nd Signature	Delay Compensation Calculated in the MIS (in Rs)	Total Unaccounted Delay Compensation (in Rs)	Total Delay Compensation Truly Payable (in Rs)
UP	37,153	31	19	3,97,330	4,53,988	8,51,318
CG	21,745	35	27	1,89,707	2,66,198	4,55,905
MP	86,496	27	1	4,78,484	46,022	5,24,506
JH	24,284	26	9	1,32,066	1,12,414	2,44,480
RJ	39,555	35	10	5,79,994	3,19,242	8,99,236
BH	1,54,112	35	14	25,55,099	17,61,064	43,16,163
KT	64,545	26	16	6,73,595	9,87,867	16,61,462
KL	16,225	24	31	81,059	2,97,747	3,78,806
OD	1,06,577	34	16	10,50,191	9,01,867	19,52,058
WB	1,49,673	30	51	19,56,569	64,68,938	84,25,507
<b>Overall</b>	<b>7,00,365</b>	<b>31</b>	<b>21</b>	<b>80,94,094</b>	<b>1,16,15,347</b>	<b>1,97,09,441</b>

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