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Government of India

Ministry of Finance, Department of Expenditure

167 B, North Block, New Delhi

21 August 2017

Subject: Note on Delay in Payments of MGNREGA

Reference: *Instructions from Ad. Secretary (Department of Expenditure) dated 10 August 2017*

1. **Background**

1.1. An article titled "*MGNREGA payout delays under-estimated*" was published in Business Standard on 8th August, 2017 reporting the preliminary findings of a research, based on publically available record. A random sample of 3446 Panchayat across 10 states had been drawn and 90 Lakh records have been analysed on MGNREGA payments for the financial year 2016-17. Their research has found that:

1.1.1 Despite the provision for penalty & compensation for delay in payments, only 21% of the payments were made within the stipulated period of 15 days.

1.1.2 56% of the delays, in monetary terms, occur after the generation of the FTO. This delay is not being compensated, defeating the intention behind the rule.

1.1.3 Only the delay by field functionaries in generating the FTO is calculated by the MIS and actual time lag between completion of work & payment is not being calculated.

1.1.4 Delays, after FTO is generated, are high in states such as Kerala (76%), Rajasthan (60%), West Bengal (53%), Odisha (53%) and Uttar Pradesh (54%).

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1.2. Ms. Sarayu KM (IAS: 2015: TN), Assistant Secretary in Department of Expenditure, is studying the issues associated with PFMS. She would also be analysing the implementation of recommendations of Sh. Suneel Anchipaka (IAS: 2014: AGMUT), *Formerly*, Assistant Secretary to Government of India, Department of Expenditure.

1.3. To prepare this note, I have studied the issue and have verified the data reported in the newspaper. I have interacted with various stakeholders in Ministry of Rural Development, Government of India; Department of Rural Development & Panchayati Raj in three State Governments and two Zilha Parishads.

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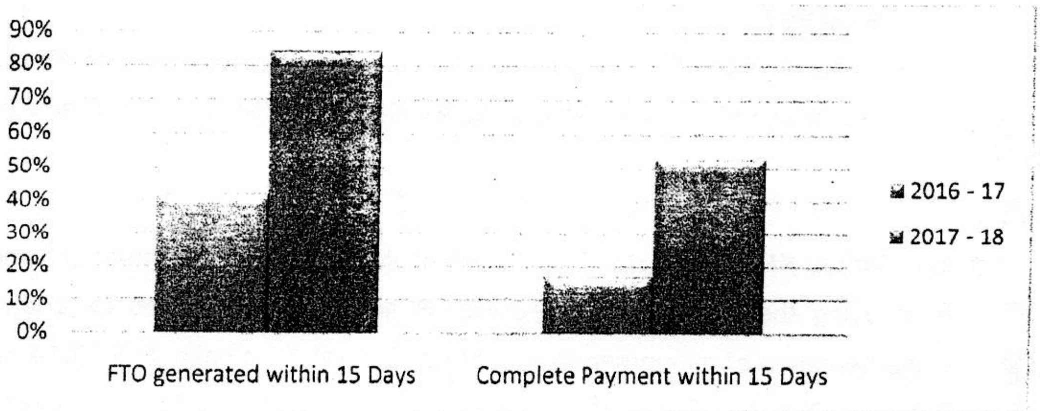
2. **Background**

2.1. A Public Interest Litigation (PIL) was filed by Advocate Prashant Bhushan in Supreme Court of India before *then* Chief Justice of India, H L Dattu and Justice Amitava Roy on 1st November 2015. One of the hearings in this case was scheduled on 9th August 2017. Several articles, such as the one attached with this note, were published in various newspapers in the first week of August to highlight the issue. The Supreme Court has been monitoring the progress that has been made over the last 20 months.

2.2. *Delay in Payments*

Departments of Rural Development & Expenditure, Government of India have under-taken steps to improve the performance of the payment systems, with regard to timely payments. As per the data submitted to the Supreme Court of India, on an all India basis, 17% of the wage payments were made within 15 days (*against 21% found in the survey as reported in the newspaper*) in the financial year 2016-17, 53% of the payments have been made within the stipulated time period in the current financial year (1st April -7th August 2017). During 2016-17, only 42% of the FTOs were generated within 15 days of closure of muster-roll; which has increased to 84% (*22.05 Lakh*), in the current financial year (1st April -7th August 2017).



2.3. *Rules for computing compensation for delays*

The newspaper article was accurate in pointing out that the current rules do not compute nor compensate the delay in payments after the generation of FTOs. Different stakeholders pointed to different reasons for making such rules:

2.3.1 It is possible to fix accountability on employees of the State Governments who may delay performing their duties under Right to Timely Services Acts of various states. In absence of a law and a legally binding memorandum of understanding with service providers such as Banks & Post Offices, similar accountability cannot be fixed on their employees.

2.3.2 In cases of delay in making large number of payments, it has been found that funds have not been available either of Centre & State shares. Proposing compensation on such delays would vastly increase the expenditure.

2.3.3 Delays have also been caused because the states have not fulfilled administrative requirements such as submission of utilisation certificates signed by the Ad. Chief Secretary / Principal Secretary to the State Government, Department of Rural Development & Panchayati Raj; submission of Audit Reports etc. Such bulk payment of compensation would vastly increase the expenditure.

2.3.4 Only 21 states have adopted the digital payments platform. In other states, 4 – 8 step payments are made via the treasury. Also, nearly 2700 (*Cooperative*) Bank Branches & Post Offices are not on the Core Banking System (CBS) platform and many others do not have an IFSC, hence no digital payments are possible to its account holders. There are also issues with internet-connectivity and availability of infrastructure for data-entry etc. Such technological problems are causing delays in payments and also in its reporting on the MGNREGA MIS.

Under Digital India's National Fibre Optic Network program, internet connectivity has been provided to all Block Development Offices & most Gram Panchayat. Hence, accountability of timely generation of FTOs could be fixed on them. Other participants in the value-chain, who may not enjoy similar infrastructure, cannot be held accountable in the same manner.

2.4. On an average day, 10 – 15 Lakh Pay Orders are issued by Under Secretary to Government of India, Department of Rural Development. These orders contain FTOs of various states & union territories as per their demand, subject to them meeting financial and administrative requirements. It was found that the delay in payments to states mentioned in the newspaper articles were mainly due to infrastructural bottlenecks, availability of funds & lack of administrative compliance.

3. Steps Taken & Proposed

3.1. Senior Officers in Department of Rural Development, Government of India have appreciated the proactive role played by officials in Department of Expenditure, Government of India in continuously working to strengthen & improve the performance of PFMS. They have assured the Supreme Court of India that the effort would continue and 100% wage payments within 15 days would be realised soon.

3.2. The Department of Rural Development would be undertaking an analysis of the performance of various participants in the value-chain by 15th September 2017 such as State Governments, Sponsor Banks & Post Offices, PFMS, NPCI etc.

3.3. There would be steps taken to re-draw the payment process by reconciling the risks and time-lines by 21st August 2017 along with Department of Financial Services, NPCI, PFMS and Banks. Internally, payment schedule would be set within 8 days.

3.4. NREGASoft would undergo three changes :

3.4.1. Option of insufficient funds would be removed for NeFMS states & Union Territories.

3.4.2. Provision for calculation of liabilities

3.4.3. Data Sync between NREGASoft & AP/TS-Soft.

3.5. 8 State Governments have set up contingency funds to make timely wage payments in case Central Share is not available. Such payments would be a committed liability for the Union Government and would be paid as soon as funds are available.

3.6. All states have been asked to complete the Aadhar Seeding of all active workers before 31st December 2017.

3.7. The Department would be holding orientation meetings with officials of the state government to issue guidelines and orient them towards timely payments. Action plan would be drawn up in this regard and it would be continuously monitored.

3.8. Rules for delay compensation *may be* changed, as well to accurately report the delay in payments.

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4. Recommendations

4.1. A soft loan subsidy scheme could be launched for cooperative banks so that they could upgrade themselves on the core-banking system and also register with NPCI. Such integration would help in monitoring their financial conditions, improve the enforcement of various initiatives against black money and improve financial inclusion.

[Department of Financial Services / Reserve Bank of India]

4.2. Private & Public Sector Companies that build core-public infrastructure such as telecom, electricity transmission etc could be allowed to use the services of workers who have demanded work under MGRNEGA, in areas with poor infrastructure. The private companies could directly or through one or more NGOs conduct IEC activities to create a demand for work. They could pay an amount in additional to the MGNREGA wages as well. The wage would be like a subsidy to corporate entities to develop infrastructure in such areas.

[Department of Rural Development / NITI Aayog]

4.3. Seeding of Aadhar, Mobile Number & Bank Account should be done compulsorily for all active Job Cards. Such seeding of data should be allowed at:

4.3.1 Centres where Aadhar is being generated should be allowed to seed the Aadhar with all other government & financial documents – MGNREGA Job Cards, Ratio Cards, PAN Card etc.

4.3.2 Common Service Centres (CSC) should enable citizens to link their Aadhar to all other government & financial documents.

[State Governments / UIDAI]

4.4. The following improvements in the payment processes could be considered:

4.4.1 Parallel Processing could be considered.

Current payment process is linear for the sake of simplicity, but becomes time consuming. For example, as soon as the attendance is received, the Under Secretary to Government of India, Department of Rural Development could ensure provisioning of funds. As soon as the measurement is completed & wage list is generated, the Under Secretary to Government of India, Department

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of Rural Development could generate an in-principal payment order, blocking the allotted fund. The Generation of FTO would push money out of the system.

4.4.2. *Reduction in Data Entry*

After creating job card (*with bar-code*) & linking it to Aadhar, there should be at max, two points of data-entry that could be scanning of barcodes and / or biometric authentication. Handheld devices (Mobile Phones) to carry out the entire process should be procured and provided. It would improve monitoring on a real time basis and render the entire administrative process to be paperless. It would reduce time normative time of payments by 3 – 5 days.

[Department of Rural Development]

4.5. States should be allowed a short – term credit limit (*1 – 7 days*) from commercial banks to over-come the problem of non-availability of funds to make wage payments. Studying the current trends in payment and parallel processing mentioned in paragraph 4.4.1, the credit limit would ensure timely payment over 95% of the wages, as there would be a recoverable penal clause, without new rules, on defaulters.

[Department of Rural Development / Department of Financial Services / RBI]

4.6. As soon as FTO is generated, a message should be sent bank of the beneficiary worker to provide a cash credit limit against the same amount. For example, if a worker is expecting to receive payment of Rs. 1200/- from the wage-list, then as soon as the FTO is generated, credit limit on his / her PM Jan Dhan Yojana (PMJDY) Bank Account should be increased by Rs. 1200/- (*at 0% interest*) to meet immediate cash requirement. The actual payment of MGNREGA Wages would exhaust this additional credit limit. At the current levels of performance, if 84% of workers would have an access to cash within 15 days under this proposal, up from 53% currently.

[Department of Rural Development / Department of Financial Services]

4.7. Reporting of payments should be improved by standardisation of codes for errors or failures in payments. A suspense account should be created to handle money of failed transactions. A separate team should be created to track errors and proactively rectify them to reduce future failures.

[Department of Rural Development / PFMS]

4.8. All accounts with Post Offices should be shifted to India Post Payments Bank. It would ensure large number of transactions to the nascent bank thereby providing it with a revenue stream. Transactions could be made digitally due to IFSC and automatic KYC (Aadhar) of all beneficiaries. It would greatly improve payment efficiency

[Department of Posts]

4.9. Memorandum of Understanding (MoU) with regard to expectation of quality & timely services should be signed with all participants in the value-chain. The MoU must have penal provisions for poor performance and incentives for various agencies to participate in the process.

[Department of Rural Development / Department of Financial Services]

4.10. Block Level Processes should also be improved though standards of operating procedures and use of technology. Training should be provided to all functionaries in carrying out technical and administrative processes in a systematic manner. Rules and procedures should be allowed to be stable for several years.

[State Governments]

5. Conclusion

There have been noticeable improvements in the payment systems of MGNREGA which is leading to demand for work. All governments recognise the importance of the scheme and have been participating well. The focus on improving the payments system should continue because it is the largest of Direct Benefits Transfer (DBT) in the country and the Act plays an important role in development of rural infrastructure & is critical to its economy

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