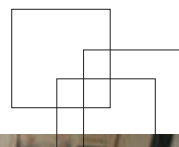




International
Labour
Office

Towards the right to work

**A GUIDEBOOK FOR DESIGNING INNOVATIVE
PUBLIC EMPLOYMENT PROGRAMMES**



**Guidance note 14-1
Innovations in payment
systems for PEPs: Efficiency,
accountability and
financial inclusion**

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Guidance note 14-1

Innovations in payment systems for PEPs: Efficiency, accountability and financial inclusion

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Guidance note 14-1

Innovations in payment systems for PEPs: Efficiency, accountability and financial inclusion



Objective

The design of payments systems is not simply a 'technical issue'. There are also social and economic dimensions that need to be considered. Without a clear focus on transparency and social accountability mechanisms to ensure that work done is appropriately paid for and that corruption and leakages are minimized, the new systems can also be exploited. Further, the large-scale PEPs¹ also have the potential to serve as a catalyst and as a platform for scaling-up service delivery and financial inclusion. This would involve identifying how the PEP payment system can potentially be designed in a progressive way.

More specifically, course participants are expected to be in a position to:

- better understand the nature of payment systems and be aware of emerging options;
- be sensitized to considering unintended effects that result from a particular design of and/or innovation in payment systems (social appropriation of technology);
- explicitly consider trade-offs in the design – e.g. ease of use for the participant vs. potential beneficial 'crowding-in' effects;
- be aware of the importance of and the potential to ensure social accountability – through the adoption of systemic tools/systems as well as through a variety of simple and more accessible social accountability processes;
- more effectively design, implement and evaluate the impact of payment systems for continuous policy innovation and accountability.

Topics (covered in the Guidance note)

¹ M. Lieuw-Kie-Song; K. Philip; M. Tsukamoto; M. Van Imschoot: *Towards the right to work: Innovations in public employment programmes (IPEP)*, ILO Employment Working Paper No. 69 (Geneva, International Labour Organization, 2011).

- The weight of history in design and the scope for contextual and forward-looking innovation.
- Objectives and common design elements of payment systems.
- Innovations in payment delivery systems, e.g. mobile phones, banking the unbanked.
- Innovations in social accountability mechanisms.
- Innovations to address common challenges, e.g. delays, capacity constraints.

Introduction

The first priority in designing a wage payment system for a PEP is to ensure that wage and transfer payments reach the intended beneficiaries / participants in a timely fashion with minimum access cost to them (i.e. convenience / travel costs and no leakages on account of corruption), and that any scaling-up of administrative capacities is designed and planned to ensure delivery at a scale and scope characteristic of a PEP.

Apart from ensuring that the design of the payment system can be tailored to local conditions while meeting these criteria, it is also important to ensure that (a) transparency, accountability and mechanisms to redress problems are in place; and (b) policy innovations to deal with any challenges can be identified and implemented so that the objectives of the programme are met.

A second priority is to identify ways in which the delivery and payment systems associated with large-scale social transfer and public employment programmes can be deployed to facilitate the financial inclusion not only of the beneficiaries but potentially also for the under-served regions in which such programmes are likely to be implemented.

The weight of history: Is the payment system appropriate for the new objectives/scale?

More often than not, in order to get a new PEP off the ground or scale up an existing PEP as quickly as possible, the choice of remuneration and the payment system adopted is the same as that of earlier programmes or as that currently in operation. This disregards the fact that the system might *not be appropriate for the substantial scale-up* and/or be responsive to the *objectives* that the new PEP intends to achieve.

For example, as pointed out in the ***Institutional Design Guidance Note***, payment of participants can take place at the project or programme level. With project level payments, project implementing agencies (e.g.



contracting firms) recruit workers and pay them directly for any work done. Project implementing agents typically manage the entire payment system themselves and may pay in cash, in kind or, increasingly, through bank accounts or through other electronic means. Programme-level payments are usually made by the same local government structure that is in charge of maintaining records of all participants. Project implementing agents typically report to the local government structure the number of days they have worked and the amount they are due for the particular pay period. Payment is then made centrally. However, such a system does not require or involve an *integrated registry for beneficiaries* (e.g. single registry) across all related projects or the need to ensure that work and payments made to participants can be synchronized and centrally tracked. However, if the aim of the new PEP is to facilitate the provision of work across multiple projects/works such a system may be in order.²

Many of the PEPs currently in operation suffer from payment delays to varying degrees and for a variety of reasons. In identifying how to minimize such delays it is important to examine any blockages, inefficiencies and design trade-offs in the 'flow of funds'. It is not enough to look at transactions at the end of the payment chain as they relate to payment to the participants.

- Payments may be delayed because of delays in the transfer of funds to the implementing agency.³
- The processes connecting remuneration and payment systems may need to be streamlined, e.g. where piece-rate or task-based remuneration is involved, delays in certifying that the work has been performed as required, may cause delays in payments to participants.⁴
- Payments through bank/post offices may be a preferred alternative with regard to separating the implementing and payment agencies so as to

² See design of EPWP which is task-based remuneration managed by contractors who are recruited on a project basis. Hence, no centralized database of beneficiaries/participants exists.

³ Slater et al (2006) found that the first two years of programme implementation were marked by frequent delays of funds released from the region to Woreda District which in turn led to delayed payments to PSNP beneficiaries. This was the case even when public works were conducted.

⁴ In the case of MGNREGA, before a payment order in the name of the worker can be sent to the branches of banks or post offices where the workers have their accounts, and payslips issued to the workers, junior engineers have to measure the work done on the basis of which the wage to be paid to the worker is fixed. This has often been the source of added delays. A number of measures have been proposed to address this ranging from increasing the number of engineers to advancing partial payment prior to the completion of the measurements to switching from piece-rate to daily-wage payments, at least in areas where the work-measurement system is not in place (Economic Times, 2010; Rediff.com, 2009). Additionally, redress has been sought under the provisions of Schedule II of NREGA, which provide for payment of compensation under the Payment of Wages Act, 1936, for any delay in paying wages (Baisakh, 2009).

reduce corruption and ensure a more efficient payment system. However, initially, bank branches in previously under-served areas may not have adequate staff to handle a multiplicity of new accounts. Also, systems may not be in place to ensure the transfer of resources from the implementing agency's account to that of the participants.⁵

- The implementing agency may try to rationalize and minimize the number of payments that need to be made when there are transaction costs and delays, and capacities are stretched with consequent delays for payments to participants.

Moving to a new design: Trade-offs, choices and potential to stimulate financial inclusion

When designing payment systems for large-scale PEPs, a number of trade-offs may need to be acknowledged, e.g. while bank- or post office-based payments may help to reduce corruption and delivery costs, in the short run this approach may be constrained by the capacities and preparedness of banks and beneficiaries to deal with this new payment system as opposed to simply receiving cash at the project site.

Further, as is increasingly being recognized, even in the longer term **a multi-modal payment system** may be needed to address gaps in the provision of coverage by financial institutions and to facilitate access on the part of participants. For example, in the case of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) beneficiaries / participants appear to prefer payments through banks except when banks are too far from them. Even in the case of a well-established programme like *Bolsa Familia* in Brazil, it is estimated that between 65% of the beneficiaries collected their benefits from lottery points in 2005.⁶ In this instance, the ease of getting payments will need to be viewed against the longer term objectives of encouraging financial inclusion and providing banking and business services to currently under-served areas and encouraging savings, and how these new types of 'branchless banking' and 'correspondent banking' models may be adapted.⁷

⁵ In addition to scaling-up capacities stimulated in part by regulatory measures (e.g. aimed at ensuring financial inclusion in under-served areas) and incentives, suggestions have also included measures to enhance accountability and provide redress, e.g. by "bringing banks and post offices under the disciplinary jurisdiction of NREGA" (Rediff.com, 2009).

⁶ World Bank. 2009. "Chapter 5. Benefit levels and delivery mechanisms, key messages", in *For protection and promotion: The design and implementation of effective safety nets* (Washington, DC). Available at: http://siteresources.worldbank.org/SAFETYNETSANDTRANSFERS/Resources/281945-122305223982/For_Protection_and_Promotion-Ch5.pdf [accessed 21 May 2011], pp. 156–174

⁷ See Diniz (2009) and Johnson (2008) for information on Brazil's correspondent banking approach and relevance to India. Also see recent intimation that the Indian Government had requested states to explore the adoption of the Business Correspondent model in areas not served by banks and post offices for the disbursement of wages under NREGA (Government of India. Ministry of Rural Development, 2010).


The potential of large scale PEPs and social assistance programmes to **facilitate financial inclusion** and to **provide a platform to help address long-standing barriers** is increasingly being recognized by innovative PEPs such as MGNREGA. For example, a recent survey⁸ revealed that only 59 per cent of the adult population in India has access to a savings account. Apart from the predictable finding that there is a strong link between annual income and ownership of bank accounts by occupation group, a lack of legal documentation appears to be a major barrier facing poor households employed in the informal sector when trying to open any kind of bank account, be it a savings, credit, or current account.⁹

In the context of MGNREGA, the Government of India has approved a job card, which is issued to all participants as a valid document under the Know Your Customer (KYC) norms for banks. This decision accords the job cards a status similar to that of other recognized identity documents, such as passports, driving licences, and/or voters' identity cards, for the purpose of opening a bank account in the country and is thus able to give the rural poor much easier access to financial services.¹⁰ Furthermore, in India, the national User Identity (UID) initiative seeks to address this issue in a more comprehensive way.



© Mahatma Gandhi National Rural Employment Guarantee Scheme

- ⁸ Max-New York Life / National Council of Applied Economic Research (NCAER): *How India earns, spends and saves – results from the India Financial Protection Survey* (New York, NY, and New Delhi, 2007).
- ⁹ Ramji (2009) poignantly points to the words of Hernando de Soto: “There are three questions that are always asked: What’s your name — identify yourself? Most people in the world cannot identify themselves, at least not legally. Second: What is your address? Most people don’t have an official address. And third: What company do you work with? Most people don’t have an official company.” (Interview with Opportunity International, 2005, cited in United Nations, 2006).
- ¹⁰ R. Tiwari “Now, NREGS cards can be used for opening bank account”, *Indian Express* (New Delhi, 2009). Available at: <http://www.indianexpress.com/news/now-nregs-cards-can-be-used-for-opening-bank-account/520065/0> [21 May 2011].



Further, the ‘no-frills’ accounts that many countries focus on (e.g. the Mzansi Bank Account Initiative In South Africa¹¹ and Reserve Bank of India’s no-frills account initiative), often in connection with making payments for PEPs and social transfers through the banking system may need to be adapted further to facilitate savings and securing affordable microfinance/credit to reduce vulnerability.¹²

In Ethiopia, given the often expressed preference for food as opposed to cash in the face of rising food prices and/or distance from the market, the Productive Safety Net Programme (PSNP) design needs to balance the provision of payments in cash and in kind, and to explore how the ratio of these payments can be adjusted to the impact of food price inflation and changing needs over time.¹³

Payments systems: Common design elements and issues¹⁴

An inefficient payment system can cause corruption and ‘leakages’, act as a disincentive for participation and work against some of the objectives of the programme not only on account of leakages, but also when payments are untimely. From the micro perspective, a PEP is going to succeed only if the benefits outweigh the cost of participation. While it is easy to calculate the benefit which is the wage rate in the programme, the cost has many components, which are opportunity cost of time spent in the PEP, cost of

¹¹ From 2004 to April 2009, over six million South Africans opened Mzansi bank accounts, which provide previously un-banked clients easy access to banking services countrywide. The initiative, supported by the country’s four largest banks and the Post Office, followed a recommendation by the Financial Services Charter (FSC) (Bankable Frontier Associates, 2009).

¹² Ramji (2009) points out that, “over half the respondents mentioned that their primary reason for not opening an account was that their incomes were too low for savings. Of the 556 respondents who gave this reason, only 4 per cent said they do not save on a regular basis. In other words, 96 per cent of those who felt their income was too low to warrant bank savings still reported saving on a regular basis”, suggesting that an information campaign is also key when putting in place a new payment system since by itself, “Access does not mean usage, and as such, opening bank account without accompanying training or marketing may simply result in additional costs for the bank without any benefits to the community.”

¹³ Devereux et al (2006) point out that, “different PSNP transfer packages were delivered across the regions. Beneficiary households received either cash transfers and food transfers, or a combination of food and cash. In these ‘mixed’ cases, beneficiaries typically received cash in some months and food in other months, rather than a package of cash plus food at the same time. Approximately one in six PSNP households sampled received only cash.” Further as pointed out by Hobson (2009) there is a need to incorporate an understanding of the real impact of inflation on the poor: “Because chronically food-insecure and poor households typically purchase the majority of their food on the market – the poorer households are, the more they rely on the market – those who received cash under the PSNP lost as much as 56% of their purchasing power as a result of the food price rises during the period February–July 2008.”

¹⁴ The discussion in this section draws on the World Bank (2009) discussion and tailors it to focus on PEPs, and to highlight innovations that are being implemented in the context of the PEPs under discussion.

access to work including transportation costs, and finally, the cost of obtaining remuneration. An efficient payments system for PEPs, therefore, should pass five tests

- **Reliability and regularity.** Ensuring regular and timely payments is central for PEPs. There are a number of factors that are relevant to ensuring timeliness and regularity in payments ranging from timely fiscal transfers to the relevant implementing agency's financial account to timely certification of work performed (particularly in the case of piece-rate systems managed by the public implementing agency rather than a contractor) to the design of payment systems. However, the focus here is on the design of the payment system. For workers who choose to participate in PEPs, the most important contribution that the programme makes is to augment their incomes. This category of workers also often has a very high propensity to consume, that is, most of their income from wages would be used for immediate consumption, especially food and fuel. For the PEP to be a success, wages have to be calculated at the notified rate (reliability condition) and disbursed at regular intervals without significant delays (regularity condition). The payments system has to take into account these two basic aspects.
- **Adequate administrative capacity.** Measures to address administrative capacity constraints and challenges as well as to ensure redress need to be built into the design of the PEP. However, in most cases, the constraints are only recognized during the implementation phase when it becomes difficult to change the rules that govern the PEP. In general, PEPs set very ambitious targets – creation of a million jobs was the stated objective of the EPWP in South Africa and 100 days' work per household in rural India, whereas the administrative capacity constraints are not always factored into the political decision-making process that launches the PEP. The result is that the quality of implementation can be patchy – efficiently administered regions perform better than those that lack bureaucratic and institutional capacity.
- **Beneficiary cost minimization.** It is apparent from a variety of experiences with PEPs around the world that there is a trade-off between the most cost-efficient system from the administrative and beneficiary points of view. As seen above, the most important element for the beneficiaries is that they are remunerated for the days or part of the work they performed at the specified rate without significant delay and at an accessible location. From the administration side, there are significant logistical difficulties to on-site wage disbursements. The approval process is vetted at various levels to minimize mistakes in compilation, after which the money is transferred to the disbursement authorities. In recent years, a consensus has emerged to utilize the banking (and post office) network to disburse wages. While this has reduced overt corruption and avoidance of the muster rolls, access to



these financial institutions add a layer of cost to the beneficiary that may not be immediately evident.

- **Flexibility and multi-modal payment systems.** The design of PEPs does not necessarily allow for the beneficiaries to have a say in what sort of payment method they would prefer. The system is typically decided at the national level and any changes that are made after the PEP comes into force is also determined by administrative orders. For example, a PEP may start off with a cash payment method, and may change over to a system of direct payment to the beneficiary bank account as has happened in the case of the MGNREGA in India. A combination of the two, depending on the situation on the ground, is probably the most efficient solution, but this is often found in the design of the payment system. Moreover, earlier PEPs used to have an element of in-kind transfer generically known as 'Food for Work' programmes. Most of these were supplanted by a wage and cash delivery system, even though the beneficiaries themselves might have wanted to have a combination of cash and kind as is evident from the PSNP in Ethiopia.

- **Accountability and transparency.** Most PEPs are scaled up and refined versions of earlier programmes. The lessons learnt from existing PEPs relate mostly to the extent of mis-targeting, corruption and opaqueness in payment systems. One of the key innovations in terms of the design of PEPs is the incorporation of proactive disclosure, and formal social accountability and community oversight mechanisms to mitigate the issues that dogged the earlier programmes.¹⁵ Similarly, there has been an effort to make beneficiary selection, and fund flow and payment more transparent using a combination of technology and simpler information dissemination and accountability processes. In the case of MGNREGA, there is also a move, in some states, to separate the identification and enrolment functions from the payment function, which is made possible by direct bank transfer to beneficiary accounts from a higher level of administration. This, it is hoped, will improve the accountability and transparency aspects of the payment system.

The next sections explain the role of innovation and social accountability in enhancing the efficiency of PEPs' payment systems in different contexts (Table 1). Innovation and social accountability can enhance the multiple objectives of the payment system listed above. There are also significant opportunities to learn from the delivery systems associated with other forms

¹⁵ See Section 17 of MGNREGA which mandates the following: "The Gram Sabha shall conduct regular social audits of all the projects under the Scheme taken up within the Gram Panchayat and 'The Gram Panchayat shall make available all relevant documents including the muster rolls, bill, vouchers, measurement book, copies of sanction orders and other connected books of account and papers to the Gram Sabha for the purpose of conducting the social audit.'" See also MKSS Collective (2006) and Menon (2008) on the right to information and its relationship to MGNREGA. Adhikari and Bhatia (2010) suggest that social audits of MGNREGA 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.

of publicly funded social transfer programmes such as social grants (e.g. child support grants in South Africa) and conditional cash transfer programmes (CCTs) (e.g. *Bolsa Familia* in Brazil).

Table 1. Examples of the main PEP payment agencies/systems for PEPs¹⁶

Payment agency/ system	Issues and selected examples
Banks, mobile banks, automated teller machines (ATMs), branchless /correspondent banking	<p>Payment point where cash can be issued to participants against accounts in participant's names into which wages and other transfers are paid. Banks are often preferred because of their reliability, efficiency and the security of payments. However there are challenges with regard to servicing small accounts – many countries are now focusing on 'no-frill' account initiatives – and ensuring coverage in rural and currently under-served areas.</p> <p>Where banks have limited coverage, they may offer services through 'mobile banks', ATMs, other payment centres, and/or cell phone banking. Travelling/mobile banks feature bank employees travelling with the cash to be distributed (e.g. Bangladesh uses mobile pay stations when beneficiaries of the Primary Education Stipend Program live more than 5 kilometres (km). from a local bank branch.¹⁷ One of the disadvantages of this service is that it is more costly for the bank, which may then pass those costs on to either the beneficiaries or the programme. The potential for fraud and security problems during transport and at the payment site are also considerations. Automated teller machines offer all the advantages of direct payment at low operating costs but may pose challenges depending upon the profiles of the participants.</p> <p>Branchless banking provides a new way to deliver money and other financial services to people without bank accounts through post offices and retail outlets/agents.</p>

¹⁶ Compiled by authors based on World Bank (2009) with additional inputs from Maikel Lieuw-Kie-Song.

¹⁷ S. Ahmed: *Delivery mechanisms of cash transfer programs to the poor in Bangladesh*, Social Protection Discussion Paper 0520 (Washington, DC, World Bank, 2005).



Payment agency/ system	Issues and selected examples
	<p>Branchless banks use information and communication technologies, such as debit, prepaid and smart cards, and cell phones, to transmit information between the agent and the customer or the bank. Branchless banking can be operated as an extension of the banking network as in Brazil.</p> <p>Mahatma Gandhi National Rural Employment Guarantee Act, India</p> <p>Participant's job cards may be used to open accounts and MGNREGA mandates payments through banks or post office accounts. While payments through banks have helped to reduce corruption, many issues still remain to be resolved, including poor record-keeping and banking practices as far as accountability to participants is concerned as well as the inability of many banks to cope with mass payments of MGNREGA wages.¹⁸ Further, not all districts are well served by banks and post offices, so that recently, India is also exploring the use of correspondent banks to service NREGA in under-served areas¹⁹.</p> <p>Cash for Works Temporary Project (CfWTEP), Liberia</p> <p>Under CfWTEP, local banks were contracted to make payments to all programme participants. Participants and implementers considered this a highly successful part of the programme. All participants were issued a programme identification (ID) card with which they were able to collect their payments (but not open accounts). When possible, participants collected their pay at local bank branches; however, for more remote areas, the bank sent representatives to participating communities once a month to make payments. Results from the quantitative survey show that for 94 per cent of participants this was their first ever interaction with a bank.</p> <p>EPWP, South Africa</p> <p>The Zibambele programme in South Africa makes payments using the same national payment system that pays government employees (national and provincial). The information on beneficiaries is entered into the system, bank accounts are opened and, for the most part, beneficiaries are paid monthly with very few problems. This system does not apply for project-based work. In many instances, proof of identity and address is a problem.</p>

¹⁸ A. Adhikari and K. Bhatia: *NREGA wage payments: Can we bank on the banks?* 2010. Available at: <http://www.indiaenvironmentportal.org.in/files/NREGA%20Wage%20Payments.pdf> [21 May 2011].

¹⁹ For Brazil, see Diniz (2009); and for recent policy developments in India, see UIDAI (2010).

Payment agency/ system	Issues and selected examples
Post offices	Payments are mandated by MGNREGA through banks or post office accounts. In many places, they have a wider network than banks and may be used to delivering transfers, e.g. old-age pensions (e.g. India, Lesotho). However, the problems that post offices would face on account of a sudden expansion in scale and number of transactions could be even more extreme than banks in rural areas particularly on account of low capacity and minimal staffing. A scaling up strategy may need to be considered.
Private retail stores	Debit cards may be used to enable participants to withdraw funds against payments. They may also serve as banking correspondent agents.
Designated payment centres	Payment at worksites (e.g. in 2004, public works organized in the context of the tsunami delivered cash to participants to the worksites).
Smart cards, debit cards, mobile phone payments	Debit cards can be used to withdraw cash from points of service as explained above. Money is transferred through mobile phones in the form of talk-time or mobile money. Mobile phones may also be used to notify customers about cash transfers and provide users with simplified access to banking services (e.g. see the design of UID-enabled micro-payments in India).
Biometric id-enabled micro-payments	Access to the banking network through multiple channels using standardized biometric identification machines with or without smart cards. ²⁰

²⁰ See the Unique Identification Authority of India (2010) for the approach to and design of UID-enabled micro-payments in India, which points out that while advancements in technology such as ATMs, and mobile phones in particular, present an enormous opportunity in spreading financial services across India, “with the poor, however, banks face a fundamental challenge that limits the success of technology and banking innovations. The lack of clear identity documentation for the poor creates difficulties in establishing their identity to banks. This has also limited the extent to which online and mobile banking can be leveraged to reach these communities.”

Innovations and unintended consequences

Recent PEPs have learnt lessons from the past experiences – both good and bad. The most important lesson has been that cash payment in a non-transparent manner can be the worst possible combination for the workers. It leads to inclusion of ‘ghost’ workers, lower remuneration, delayed payment, and conflict between workers, administration and contractors. As a result, programme implementation suffers significantly, and the benefits of the PEP are not equitably distributed. Recent trends and innovations are listed below.

- **Payment through institutions, particularly banks and post offices.** One early and major shift has been towards payment through banks and/or post offices. As pointed out earlier, opening such accounts was also made easier because the government approved the distribution of job cards to participants as a valid document under the Know Your Customer (KYC) norms for banks. While, in the case of MGNREGA in India, these have helped to reduce corruption, the shift to making payments through banks has eroded some hard won safeguards, for example, in the early days of MGNREGA, when payments had to be paid out in cash, muster rolls had to be read aloud and wages had to be paid in public. However, as Adhikari and Bhatia (2010) and Drèze and Khera (2008) point out, muster rolls no longer need to be signed by workers at the time of wage payment since wages are paid directly through banks. As a result, in a number of cases, muster rolls have been reduced to a blank attendance sheet, without any payment details. Box 1 provides an example of how a technological solution and social accountability can reinforce each other.

At another level, given gaps in coverage and delivery by traditional financial institutions, in the new PEP ecosystem, various innovative deployments of technology are being explored to facilitate payments some of which are outlined below and in Table 2.

- **Banking correspondents and ATMs:** Payments through correspondents is attracting interest. In Brazil, the state-owned *Caixa Econômica Federal* offers a simplified current account that can be opened at any branch or correspondent using only an identification card, tax file number and proof of residence or an address declaration. Account holders have access to Caixa’s entire branch and correspondent network.²¹ Caixa has created a network of banking correspondents that covers all 5,500 municipalities in Brazil. It includes lottery houses, supermarkets, drugstores and gas stations. It is estimated that between 65–80 per cent of the beneficiaries of the *Bolsa Família* programme receive their transfers through such correspondents.

²¹ Ivatury (2006) cited in World Bank (2009).

Box 1. Merging bank payments with social accountability in Andhra Pradesh

The southern Indian state of Andhra Pradesh with a population of nearly 50 million has been at the forefront of the implementation of the MGNREGA from its very inception in 2006. Andhra Pradesh was also a pioneer in mandating MGNREGA payments through bank and post office accounts. There was a concern that the transparency of the payment process would be compromised if wages were transferred directly to the workers without others knowing the identity of the beneficiary. However, everyone agreed that, on the whole, the bank transfer model would be better than cash disbursement in eliminating corruption in wage payments. The solution that has been implemented in Andhra Pradesh is close to ideal. First of all, the implementing and payment agencies were separated – in the three-tier structure of the local government in India, implementation is the domain of the lowest tier (village), while the payment is made by the middle tier (block or *taluka*), both being monitored by the highest tier of rural local government (district or *zilla*). When the muster rolls are paid by the block to the bank, a computerized slip is also printed at the block office. These are sent for public distribution in the village. At the time of collective distribution, muster roll details are read out and the work is recorded in the job card. Thus, both the convenience of using bank accounts and transparency in wage payments are ensured.

Source: Adapted from Anish Vanaik (2008).

- **Mobile phone-based payments:** Linked to the use of banking correspondents. Extension of the banking network through neighbourhood stores, supermarkets and other authorized agents.
- **Biometric id-enabled micro-payments:** Access to banking network through multiple channels using standardized biometric identification machines with or without smart cards.



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Table 2. Payment systems comparison

Mode of payment	Reliability and regularity	Administrative capacity needed	Cost minimization for beneficiary	Transparency	Pros	Cons
Cash	No	High	Yes	No	Beneficiary receives wages in a public place	Cash disbursement is usually sporadic and non-transparent
Bank/post office	Yes	High	No	Yes	Financial inclusion	Distance from banking facility adds to access cost
Mobile bank branch/ATM	Depends	High	Yes	Yes	Convenience and security, can be extended to a debit card-based system	Service may not be regular and reliable
Banking correspondent	Yes	High	Yes	Depends	Ease of access	Depends on goodwill and credibility of the banking correspondent
Payment through mobile phones	Depends	Low	Depends	No	Information on debit and credits	Dependent on cell phone service provider
Biometric based micro-payments	Yes	High	Yes	Yes	Ease of access, flexibility and transparency; can be used to integrate other services such as in-kind payment	High set-up costs; depends on technology adoption by banking correspondents; either smart cards or ubiquitous connectivity needed

Innovations in social accountability mechanisms for payment

Technologically advanced the payment solution envisaged for a public employment programme cannot completely eliminate the possibility of fraud and corruption without a measure of social accountability, which has to be built into the design of the programme. The amount of resources spent on anti-poverty programmes around the world is not insignificant, but they have not been able to make a significant impact on poverty and malnutrition, in part, due to inefficiencies in implementation. Social accountability is the best way to mobilize public opinion, fix accountability and ensure a transparent mechanism for selection of and payment to the participants in accordance with the notified wage and the schedule of payment, which is built into the design of the PEP.

In India, for example, the Right to Information Act (2004) had its roots in the struggle to make PEP muster rolls public in order to prevent the inclusion of fake beneficiaries. It was later extended to the point of disbursement of wages for work performed, which had to be carried out in open assembly in front of the officials and contractors responsible for payment. Over time, this method of identification and disbursement culminated in a national movement to ensure better scrutiny of government decisions and its financial performance with regards to social expenditure schemes^{22,23}

With MGNREGA, the way in which the Right to Information has been merged with the Right to Employment has significantly enhanced social accountability.²⁴ The institution of social audits has provided a space where the officials and elected village representatives responsible for implementation have to listen to and address grievances in a public forum.

Apart from direct benefits of programme performance and efficiency, there are indirect benefits of participation that cannot be easily quantified.²⁵ In India, participatory, community driven and monitored PEPs have been reflected in the paradigm shift where the poor are not looked upon as objects of handouts but as a demander of basic rights, including the right to

²² Mazdoor Kisan Shakti Sangathan (MKSS) Collective. 2006. *Transparency, accountability – using the people's right to information for proper implementation of the NREGA*. Available at: <http://www.righttofoodindia.org/data/mkss06nrega-rti.doc> [21 May 2011].

²³ S.V. Menon. 2008. *Right to Information Act and NREGA: Reflections on Rajasthan*. Available at: http://mpr.a.ub.uni-muenchen.de/7351/1/MPRA_paper_7351.pdf [21 May 2011].

²⁴ For example Section 17 of NREGA specifically mandates social audits taking place in every village. See also Ministry of Rural Development, India (2007); *Strengthening right to information: Proactive disclosure under RTI- problems and perspectives*, <http://nrega.nic.in/ProactiveDisc.ppt> (accessed 23 May 2011).

²⁵ M. Adato, J. Hoddinott, L. Haddad: *Power, politics and performance: Community participation in South African Public Works Programs*, IFPRI Research Report 143 (Washington, DC, International Food Policy Research Institute, 2005).

life and livelihood, and the right to information, non-discrimination and decent work.²⁶

Over reliance on technological solutions to fill loopholes in the payment system may ultimately dis-empower the communities. The shift to a bank account model of payment without putting in place new safeguards will result in the names of the beneficiaries and the amount of wages no longer being made public. This opens the possibility of omission (as well as commission) on the part of the implementing agency and, coupled with the fact that most of the beneficiaries are first generation bank account holders, it may be difficult to ensure social accountability in this otherwise enabling scenario.

Finally, given the delays in payment that are characteristic of many PEPs, particularly during the scaling-up phase, an advance in payment needs to be considered. Adhikari and Bhatia (2010) point out that, in some districts of Andhra Pradesh in India, “A payment of Rs 60 (out of a minimum wage of Rs 80 per day) is credited to labourers’ accounts immediately after the end of the week and the rest is credited later according to the work measurements, thus ensuring that labourers do not have to turn to contractors or moneylenders for their immediate needs.”²⁷



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²⁶ For the strengths as well as some of the paradoxes involved in India’s rights-based framework to NREGA, see Sharma (2010).

²⁷ Admitting that the Government of India, “has been unable to address the problem of delayed wage payment”, Rural Development Minister, CP Joshi, told the Financial Express that part advance payment of wage to workers “would keep the interest of workers in the scheme intact” (Das, 2010).












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Checklist

INNOVATIONS IN PAYMENT SYSTEMS FOR PEPs	
Respond to the following questions	<input checked="" type="checkbox"/>
Have proper and transparent accounting, payment and management information systems been implemented to ensure the efficient and timely payments of wages with a minimal cost of access to beneficiaries?	
Has a local oversight body been created where workers' and employers' representatives, and communities have a voice?	
Are there mechanisms in place to redress potential problems?	
Have the unintended effects that may result from a particular design of and/or innovation in payment systems been considered?	
Have the trade-offs in the design of the payment system been considered? (e.g. ease of use for the participant vs. potential beneficial 'crowding-in' effects)?	
In the design of the payment system has social accountability been considered – through the adoption of systemic tools/systems as well as through a variety of simple and more accessible social accountability processes?	
Is there a single integrated central registry of beneficiaries across all related projects to ensure that work and payments made to participants can be synchronized and centrally tracked, or is there a need to create one?	
Are there measures to address administrative capacity constraints and challenges as well as to ensure redress needs built in the design of the PEP?	

Notes



