Enhancing Local Public Service Delivery through Financial Reform of India's Employment Guarantee

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Location: Bihar, India

Sample: 195 blocks across 12 districts in Bihar

Timeline:
2012 to 2013

Partners:
Bihar Department of Rural Development
International Growth Center (IGC)
International Initiative for Impact Evaluation (3ie)

Social programs in developing countries are often plagued by corruption, especially within the flow of funds from the central government to beneficiaries. For the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in India, the central government disburses funds to local governments based on projected spending. In Bihar, researchers tested the effect of an information technology reform that linked the flow of funds to actual expenditures and reduced the number of officials involved in the process. The reform reduced program expenditures by 24 percent without a concurrent decrease in MGNREGS employment or wages received, suggesting that increased transparency reduced leakage. The reform did not have an impact on either employment or wages for beneficiaries.

Policy Issue: Corruption often limits the effectiveness of social programs in developing countries. Perversely, government-instituted accountability structures can reduce transparency and efficiency; for instance, adding multiple layers of approval to the flow of funds can create more opportunities for leakage and worsen implementation bottlenecks. In India, funds for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) are disbursed to local governments based on projected spending amounts, which bureaucrats at the block, district, and state levels must approve. Disbursements are justified ex-post, rather than on the basis of actual expenditure. This system creates opportunities for corruption and adversely affects the quality of audits, as local officials can delay justifying expenses until it is convenient for them, resulting in a long gap between the receipt of funds and the documentation of their use. Multiple layers of approval can result in delays that leave some local governments without necessary funds, while the advance payment system can also result in funds sitting idle in other local government accounts. Can the adoption of information technology, or e-governance, that enables an immediate link between fund transfer and actual program expenditures help decrease corruption and improve effectiveness of social programs?

Context of the Evaluation: MGNREGS is the largest social protection program in the world, reaching almost 50 million households in 2013. MGNREGS guarantees households 100 days of work per year, typically in unskilled manual labor on infrastructure projects. However, MGNREGS has been plagued by widespread corruption; a recent study estimated that, nationwide, at least 20 percent of official MGNREGS employment is not accounted for in household surveys. Furthermore, demand for employment is often greater than supply: In Bihar, an estimated 77 percent of households wanted but could not find MGNREGS work in 2009-2010.

In order to receive funds, village-level officials submit requests based on anticipated needs. Money is disbursed in uneven amounts, so some localities run out of funds to pay workers while others have large unspent or "parked" funds. The Bihar government introduced e-governance reforms to improve the fund flow of MGNREGS in 2010-2011 and introduced further reforms in 2012-2013.

Details of the Intervention: Researchers conducted a randomized evaluation to measure the impact of e-governance reform of the MGNREGS cash flow on corruption and overall program performance. The evaluation, conducted between September 2012 and March 2013, spanned twelve districts in Bihar, covering a rural population of 33 million. In each district, 69 blocks (encompassing 1,033 villages) were randomly selected to implement the new fund flow system and the remaining 126 comparison blocks (encompassing 2034 villages) kept the status quo.

The e-governance reform enhanced transparency by linking the flow of funds to actual expenditures and reducing the number of officials involved in the process. Specifically, the reform required village-level officials to input the names of beneficiaries who had worked in the scheme and were owed wages into an online database. Submitting this information automatically released funds into the village bank account. These changes were intended to reduce opportunities for leakages, eliminate "parked funds" at the village level , and enable more effective audits. However, the reform also increased the administrative burden of village-level officials, who had to travel to block offices to input data, and on banks, which had to process more payments to village bank accounts.

Results and Policy Lessons: The financial reform reduced corruption and program costs but did not increase the amount of work offered through the program. The reform led to delayed payments to workers during initial implementation stages and was unpopular among district-level officials, causing state-level officials to temporarily discontinue it at the end of the fiscal year.

Program spending: The reform reduced government spending on MGNREGS by 17 percent in treatment villages, a reduction of Rs. 225,900 (USD 3,855) from Rs. 1,366,000 (USD 23,311) in comparison villages.

Parked funds: The electronic transfer system reduced the amount of parked funds held in treatment village accounts, reducing the financial costs of implementing MGNREGS. Average bank balances for treatment villages were 30 percent lower than comparison villages. Overall, the combination of lower spending and a decline in idle funds reduced program expenditures by 24 percent in treatment villages, which translates into a cost saving of roughly 6 million USD.

Employment through MGNREGS: Through surveys of beneficiary households, researchers found that there was no effect on household participation in MGNREGS or wages earned through the program.

Leakages: The reduction in MGNREGS spending in treatment villages reflected a reduction in leakages, as there was no corresponding reduction in public employment provision or public infrastructure built under the program. Researchers found evidence that personal wealth of presumably corrupt MGNREGS functionaries declined by 19 percent due to the intervention. They also found evidence that the number of "ghost" workers (people who are reported to be paid but are non-existent or have never worked) fell by 2.7 percent due to the intervention.

Timing of payments: Delays in payments to beneficiaries increased, especially in the first three months of the reform. Workers in treatment villages waited on average 124 days for their payments, compared to 71 days in comparison villages during the first three months of the program. During the second three-month period, workers in treatment villages waited on average 77 days for their payments, compared to 51 days in the comparison villages. The data entry requirements for village officials and initial strains on banks to process more payments may have caused these delays. Thus, while the program objective was to speed up payments, it seems to have had the opposite effect, at least in the short-run.

Unhappy district officials effectively lobbied the state government to end the reforms in April 2013. However, the final results of the evaluation, which indicated that the reform reduced corruption and program costs, gained traction at the central government level following dissemination efforts by the researchers and J-PAL South Asia. Motivated by the evaluation, in August 2015 India's Union Cabinet approved a national reform of MGNREGS funds flow. The reform allowed beneficiary payments across all Indian states to flow through a newly-established National Electronic Fund Management System (Ne-FMS)—streamlining fund-flow further by transferring money directly from the central government to the beneficiary's bank account.

In addition, the results have influenced the broader discourse on fund flow in government spending. For example, in June 2016, India's Ministry of Finance issued orders to extend the use of expenditure-based release of funds to all centrally-funded government programs. For more details, see the evidence to policy case study.

Related Papers Citations: *Abhijit Banerjee, Esther Duflo, Clement Imbert, Santhosh Mathew, and Rohini Pande. "E-Governance, Accountability, and Leakage in Public Programs: Experimental Evidence from a Financial Reform Management Reform in India." Working Paper, August 2017.*

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