

THEME : THE POLITICAL ECONOMY OF SOCIAL SECURITY :

A Bird's Eye View into Mahatma Gandhi National Rural Employment Guarantee Act :-

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INDIA

December, 2013

ABSTRACT¹ :

This paper aims to discuss the implementation aspect and strategies of employment guarantee scheme. Among various EGS, MGNREGA is the flagship programme implemented at a national level which achieved measurable success, though with its own set of flaws. Following sections describe in detail the political background for the requirement of EGS, goals of the scheme, modus operandi and finally a game theoretic model to design a near-perfect scheme with suggestions to eliminate the loop holes.

KEYWORDS : Employment Guarantees, Employment Targeting, Credibility, Distributional Concern.

JEL CLASSIFICATION : I38, J21, K31, O12

¹ This paper greatly acknowledges the support of Ritabrata Ghosh, for the editing. I also thank my professor Mr. Debabrata Lahiri, Pranjal Rawat and the Right to Food Campaign for help. The usual disclaimers apply.

➤ **INTRODUCTION :**

Early in 1950s, when the planning process was initiated in India, there was a general consensus on a 'commodity centered' approach. The central emphasis of development was meant to be placed on capital accumulation and also the specific context in which planning was taken up in India, accumulation had to be reconciled with legitimate means.

India now has a diminished growth rate below 6% per year. In the recent years though the living standards of the 'middle classes' have improved, the reform in the underprivileged groups has not been so exciting. According to NSS Data the poorest of poor in the country survive on barely Rs 17 per day in villages and Rs 23 a day in cities. There has been a sharp decline in the real agricultural wages also since the advent of neo-liberal policies in 1991. A quantitative assessment of the impact of various rural wage employment schemes during the last two five-year plans and the current one shows that the results in terms of employment generated have been steadily decreasing. (Sen, 2013)

Table 1: Annual Generation of Employment in Man-days (Million)

Average of eighth plan, 1992-1997=1020

Average of ninth plan, 1997-2002= 570

Employment in tenth plan, 2002-2003= 750

2003-2004= 760

Source: (Tenth Plan Documents)

The enactment of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in mid 2005 was a heady time. In retrospect, the excitement and high hopes of radical change in power relations, or of dramatic poverty reduction, have not quite materialized; nor did the doomsday predictions of financial bankruptcy or economic chaos. To some extent, this is because the implementation of the law has fallen short of its letter and spirit- but that was predictable enough. Even so, the enactment of MGNREGA was a very significant development in many ways.



Figure 1 :

And as we can very well see post the implementation of MGNREGA the employment rate has steadily increased.

In this paper, I have put forward a literature survey on MGNREGA and hereby discussing the implementation strategies of this scheme in different states. Out of the data collected from these states, a quantitative model has been devised which you will find in the final part of this dissertation.

Section 1 will discuss about the Maharashtra Employment Guarantee Scheme (EGS) introduced in the 1970's. We will examine how at different time frames and contexts the elite managed to maintain their support base and reinforce its legitimacy by supporting poverty alleviation programme – the EGS. It will also highlight the issue including gender concern and the problem of migrant workers.

Section 2 we will discuss the concept design and implementation of the MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) scheme. My study will also highlight the

significant interstate differences in the supply of employment and will try to explore the reasons thereof. The supply falls far short of demand, particularly in low-income states, where the organizational capacity to implement the scheme is limited. A detailed empirical analysis of the spatial dimension of implementation, problems of funding, and budgetary incidence of MGNREGA is discussed. The Schedule of Rates that state governments currently use to value work done by labor employed in schemes needs to be substantially revised if the promise of the NREGA is to be realized. The schedules now have an inherent pro-contractor bias, encourage the use of machinery and make it virtually impossible for laborers' to earn minimum wages. The political intention behind putting up this scheme is to restrict the number of job cards that are issued. This helps them to evade their full responsibilities and keep the work load under control. As a result, universal entitlements get confined to specific households and divisions of interests are created within the rural society. There is little difference between NREGA and earlier employment programmes such as NFFWP and SGRY. This newly introduced scheme was just a political game changer of the UPA(I) government to gather more votes. Finally I will try to explore how community monitoring and audit processes can help improve the accountability of public officials.

In the **last section** of the paper, we will study a contrast between the Public Distribution System (PDS) and Direct Cash Transfers (DCT) and try to analyze why public officials sometimes prefer PDS over DCT. I have tried to justify why cash transfers (where there is minimum leakage) should replace in-kind transfers. In India where 92% of its labor force is in the informal sector and many are self-employed, how do we measure their income and justify whether they are poor? DCT eliminates the dual marketing system (of private and government).

SECTION 1 :

➤ **MAHARASHTRA EMPLOYMENT GUARANTEE SCHEME :**

In the semi-arid regions of Maharashtra, agriculture is a highly seasonal activity. During the lean periods, large number of rural households eke out a bare subsistence through short spells of mostly unremunerative employment. Thus the Employment Guarantee Scheme (EGS) introduced in 1972 addressed this problem by providing guaranteed employment at a wage level sufficient to ensure a minimum level of subsistence. By reducing risks faced by poor households, and by constructing productive assets and infrastructure the scheme also aimed to have a longer term developmental role.

• **HIGHLIGHTS OF EGS :**

In its essential design, the Maharashtra Employment Guarantee Scheme (MEGS) was almost elegant in its simplicity. The aim of the scheme as specifically stated was “to provide gainful employment – gainful to the individual as well as to the community”. It, therefore, undertook to provide unskilled manual employment, through a programme of public works that were labor intensive as well as productive. These works included roads, percolation tanks, ‘nala’ bunding, contour bunding. It defined labor intensive works as those where the ratio of unskilled to skilled labor and material costs is 60:40. The wage rates for EGS works were worked out, keeping in mind the district schedule of rates (DSR) for the departmental works under regular plan and the minimum agricultural wages applicable to the district. The rate was so worked out that a person working diligently for seven hours a day, should earn the equivalent of the minimum agricultural wage in that area.

• **DYNAMICS OF THE POLITICAL CLOUT :**

The origins of MEGS can be traced to the early efforts of V S Page, a well known Congressman with socialist leanings and the then chairman of the Maharashtra legislative council, who initiated a small experiment of integrated rural development in 1964-65 in Sangli district. However it was the drought of the early 1970s that pushed the state government to make it a

statewide anti-poverty scheme. The droughts of three consecutive years led to acute shortage of food grain and drinking water throughout the state. Hence not only landless and small farmers, but also farmers, owning 50 and 100 acres of land migrated to towns in search of source of survival.

The drought acted as a catalyst in mobilization of the rural masses by the opposition parties. Simultaneously, the Congress Party also sympathized with the popular movement and exerted pressure on the government (Joseph, 2005). Internal dissensions within the Congress led to factional contestations, which was the backdrop for the dominant elite support for the introduction of EGS. This was also the period of political ascendance of Mrs. Indira Gandhi. In order to win over the loyalty of the Maratha caste leaders Mrs. Gandhi purportedly encouraged EGS going against entrenched Maratha elites supported by Y B Chavan. The drought situation had weakened the caste solidarity, and there emerged a rift between the Maratha leadership and the Maratha peasantry. This was leading to a formation of a new political bloc led by Socialist Party and dissident members of the Congress Party (Joseph, 2005). Thus in context of the drought and consequent political threat, a resolution making EGS a statewide programme was passed in the Congress Committee meeting of 1972.

However in the mid 1970s when the fund allotted from Centre proved insufficient and even the state government found it difficult to fund EGS from its normal budgetary provision, Congressmen decided to tax the urban population and the rural rich. Thus by 1975 a special tax was imposed on all those sectors that were able to pay, i.e., irrigated farming, organized industry, gainful professions, wealth and property holding, lending unearned income, secured employment, etc. However in practice the irrigated farm owners were never taxed. This action was in consonance with the dominant Maratha elites' economic and political interest of redistributing the funds collected from the urban areas and using it for rural reconstruction (Gent, 1988).

Scholars (Gent, 1988) and (Dev, 1996) have argued that though EGS has provided employment to the poor the benefits have been skewed to a certain degree and are accrued primarily to the elite rural gentry and therefore is no surprise that some have even portrayed it as a mechanism

for redistributing resources from the urban population of Maharashtra to the rural rich (Edwards, 1983). Also, the EGS work distribution from 1975 to 1988-89 displays a skewed regional distribution – the “Maratha elite”-dominated districts received unusually high levels of EGS resources in this period (Moore, 2006).

Did provisions that were incorporated from time to time serve elite interests? Also the wages were deliberately pegged lower than the agricultural wages. These two provisions ensured availability of cheap labor on farms thereby protecting the interests of the peasantry and especially the Maratha elite who were large landholders. Besides the provision that stated that the EGS work sites as far as possible should be situated within a five mile radius of a village, tied the laborers to the rural elite. Moreover, the EGS resolution of 1972 accorded the highest priority to agriculture and allied activities (Government Resolution of Maharashtra 1972).

From the above analysis two plausible explanations may be forwarded for the elite support. The first could be that of threat to legitimacy and the second that EGS had potentialities to serve elite interest. (Jadhav, December,2006)

- **TAKEAWAY FROM EGS :**

Though EGS had its limitations and an underlying elite politics being played to serve certain interest groups, yet it enjoyed a very widely shared commitment to its primary goal: providing a means of livelihood to the poor, and this was its greatest asset. It was an essential safety net for the poorest. Moreover, the "guaranteed employment" was "women friendly" as in later years EGS was termed a "programme for women", since it absorbed 51% of the rural female wage laborers' and hence was sensitive to their needs. This presence of a large number of female EGS workers make possible their mobilization by organizations that have leftist and feminist ideologies. Through this mobilization, not only “women-friendly” provisions – such as equal wages, provision of crèches, shelter, maternity benefits and close proximity of EGS works – get implemented, but women raise new concerns, which critique gender discrimination.

SECTION 2 :

➤ **MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME :**

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) refers to the world's largest welfare program, run by the Government of India. It was enacted by the Indian Parliament in 2005. Unlike other schemes, MGNREGA goes beyond poverty alleviation and recognizes employment as a legal right.

✓ **OBJECTIVE OF THE ACT :**

The objective of the Act is to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.

✓ **SALIENT FEATURES OF THE ACT :**

- Providing employment at the minimum wage rate specified by the government.
- Creation of durable assets and strengthening the livelihood resource base of the rural poor.
- Training and up gradation of the skills of unskilled laborers.
- Wages are to be paid according to the Minimum Wages Act 1948 for agricultural laborers in the State, unless the Centre notifies a wage rate which will not be less than Rs. 60/ per day. Equal wages will be provided to both men and women. It will be either paid in cash, or in kind, or both, provided that at least one-fourth of the wages shall be paid in cash.
- Work should ordinarily be provided within 5 km radius of the village. In case work is provided beyond 5 km, extra wages of 10% are payable to meet additional transportation and living expenses.
- At least one-third beneficiaries shall be women who have registered and requested work under the scheme.

- In case the number of children below the age of six years accompanying the women working at any site is five or more, provisions shall be made to depute one women worker to look after such children and she shall be paid the statutory minimum wage.
- A proportion of the wages, not exceeding 5 percent, may be deducted as a contribution to welfare schemes organized for the benefit of laborers employed under the program, such as health insurance, accident insurance, survivor benefits, maternity benefits, and social security schemes.
- A 60:40 wage and material ratio has to be maintained. No contractors and machinery is allowed.
- Social Audit has to be done by the Gram Sabah.
- All accounts and records relating to the Scheme should be available for public scrutiny.

✓ **MGNREGA GOALS :**

- Strong social safety net for the vulnerable groups by providing a fall-back employment source, when other employment alternatives are scarce or inadequate.
- Growth engine for sustainable development of an agricultural economy. Through the process of providing employment on works that address causes of chronic poverty such as drought, deforestation and soil erosion, the Act seeks to strengthen the natural resource base of rural livelihood and create durable assets in rural areas. If effectively implemented, MGNREGA has the potential to transform the geography of poverty.
- Empowerment of rural poor through the processes of a rights-based Law.
- New ways of doing business, as a model of governance reform anchored on the principles of transparency and grass root democracy.

Hence, it fosters conditions for inclusive growth ranging from basic wage security and recharging rural economy to a transformative empowerment process of democracy. (NREGA: Operational Guidelines, 2008)

✓ **MODUS OPERANDI OF MGNREGA :**

MGNREGA goes beyond poverty reduction and recognizes employment as a legal right. This scheme helps in not only increasing the income of the poor, but the asset creation through the process of employment generates a much needed productive infrastructure for poverty alleviation on a permanent basis. Unlike the earlier wage employment programmes that were allocation based, MGNREGA is demand driven. Resource transfer under MGNREGA is based on the demand for employment and this provides another critical incentive to States to leverage the Act To meet the employment needs of the poor.

Since the 1980s and 1990s, the growth rate of employment has decelerated considerably. Despite low unemployment rates, the incidence of income poverty in rural areas is at least four times the incidence of unemployment as per the current daily status, which implies that the number of poor far outweighs the number of poor for want of work (Kannan, 2005).

This, in other words, implies that the quality of employment is so low that the wage rate is inadequate to take care of even the limited notion of income poverty. Thus, if MGNREGA has to make a perceptible dent on poverty, the applicable wage rate assumes paramount importance. (Papola, 2005) emphasized that -

- wages should be high enough to meet the daily subsistence need of the workers' households;
- in order that the really needy avail of the guaranteed work and no diversion of labor takes place from other regular productive work, wages should not be significantly higher than the market wage rate.

For the second proposition to hold true, MGNREGA wage rate must be higher than the minimum market wage rate. In Maharashtra, where once EGS was a great success, in case of MGNREGA no clear evidence of such an impact has been recorded. The statutory minimum wage rate of an agricultural laborer is being offered under MGNREGA. A state by state comparison (from Table 2) of the average daily rural wages for casual workers and the statutory minimum wage rates in the respective states reveals that, in many of the states, the statutory minimum wage rate is much lower than the market wage rate. Hence, the demand for work under MGNREGA may not be as high as one would assume and the possibility of a laborer shifting from other sectors to MGNREGA based employment seems remote in these states. But the same may not hold good in

the context of a state like Bihar, where both the wage rates are more or less equal, and in Madhya Pradesh and Uttar Pradesh where the statutory wage rate is higher than the market wage rate.

Table 2: Average Daily Wages for Casual Workers: Rural (in Rs.)

State	Male	Female	Persons (Average daily minimum wage)	Statutory Minimum Wage
Andhra Pradesh	48.32	31.08	40.86	25.96
Assam	58.88	54.17	57.98	33.10
Bihar	44.29	37.46	42.91	41.02
Chhattisgarh	35.40	30.21	33.19	
Gujarat	49.22	36.31	45.20	46.80
Haryana	79.92	67.65	78.00	73.65
Himachal Pradesh	83.21	72.51	82.29	51.00
Jammu & Kashmir	94.79	77.64	93.58	30
Jharkhand	53.53	42.00	51.48	
Karnataka	50.61	31.27	43.67	40.55
Kerala	123.65	68.15	112.20	30.00
Madhya Pradesh	46.56	31.47	41.36	51.80
Maharashtra	51.48	35.48	44.94	8.46

Orissa	46.72	29.48	43.22	40.00
Punjab	78.37	59.57	77.07	70.85
Rajasthan	64.68	48.73	61.55	47.05
Tamil Nadu	71.35	35.52	57.78	32.00
Uttaranchal	60.88	52.69	58.65	
Uttar Pradesh	58.84	39.80	56.22	58.00
West Bengal	49.96	40.36	48.60	48.22
North Eastern States	66.22	48.97	63.27	
All India	56.53	36.15	50.70	47.53

Source: Average daily wage data from NSS 60th Round (January 2004–June 2005)

Published in November 2005 and <http://labourbureau.nic.in/wagetab.htm>

✓ **PROBLEM OF IMPLEMENTATION AND FUNDING: THE SPATIAL DIMENSION :**

The earlier wage employment programs though had helped in stabilizing prices and wages in rural areas, they ultimately did not achieve their main goal in reducing poverty; and more than 50% of the beneficiaries who got employment were not from the economically vulnerable sections in rural areas. Moreover there were issues of corruption in the form of underpayment of wages, differential wage payment to male and female workers, and proliferation of contractors in the implementation of the schemes.

But the National Rural Employment Guarantee Act was sketched out taking into consideration many such loopholes and its implementation has up to a certain extent being able to target the vulnerable rural communities. This programme is more of a demand driven scheme. It has been specified in the act that “if an applicant under this act is not provided such employment within fifteen days of his application seeking employment,” s/he shall be entitled to a daily

unemployment allowance which will be paid by the state government. This implies a built-in structure of incentive for performance and disincentive for nonperformance for the state government, as inability to provide employment would cause the state government to pay unemployment allowance for which there is no contribution from the central government. So the state governments have to evolve a well coordinated approach to equate supply of employment in accordance with demand thus, requiring an in-depth understanding of region specific labor demand.

Thus there needs to be a clear mechanism of the flow of funds from the government to the Panchayats along with an optimal allocation of resources. Hence, it would require good coordination between providing work and provision of funding.

Thus we can conclude that the important components involved in the implementation of the MGNREGA are: (i) selection of beneficiaries and the wage rate; (ii) design of system and institutions for implementation; (iii) provisioning of resources and the pattern of funding; (iv) capacity building for effective implementation; and (v) safeguarding against corruption with regard to the use of funds and the selection of beneficiaries, which if taken care of will help in success of the scheme. (Chakraborty, July,2007)

- **The Spatial Dimension :**

MGNREGA has been implemented in two hundred backward districts in the country, spread over 27 states. In these districts, Panchayats will be the principal agency through which the act will be implemented. Out of these two hundred districts, some are covered under Scheduled Area Act. Of the remaining districts, a good proportion in Andhra Pradesh, Bihar, and Jharkhand are virtually under extremist control. There are also other districts where Panchayats are simply nonexistent and, in many places, nonfunctional. There is also the problem of not having regular and dedicated functionaries for many of the Panchayats. Given these constraints, evolving a policy design and implementation strategy for NREGA becomes extremely difficult and thus, challenging.

Table 3: NREGA Districts: State Income and Poverty

States are in ascending order of per capita income	Per Capita Income (in Rs)	Number of NREGA districts	Distribution of rural Households	Distribution of rural BPL households
General Category States				
Bihar	5606	23	14.36	20.73
Uttar Pradesh	9963	3	13.26	13.49
Orissa	10164	19	7.10	11.11
Jharkhand	11139	20	6.29	9.0
Madhya Pradesh	11500	18	6.57	7.94
Chhattisgarh	12244	11	3.75	4.53
Rajasthan	12641	6	2.40	1.07
West Bengal	18494	10	13.08	13.58
Andhra Pradesh	19087	13	12.43	4.48
Karnataka	19576	5	2.38	1.35
Tamil Nadu	21740	6	3.83	2.56
Gujarat	22624	6	2.57	1.10
Kerala	22776	2	1.14	0.35
Punjab	26395	1	0.41	0.09

Haryana	26818	2	0.48	0.13
Maharashtra	26858	12	6.87	5.32
Special Category States				
Assam	12247	7	1.51	1.97
Manipal	12878	1	0.03	0.04
Jammu And Kashmir	14507	3	0.45	0.06
Uttaranchal	14947	22	0.38	0.39
Meghalaya	16803	2	0.19	0.25
Arunachal Pradesh	16946	1	0.01	0.02
Tripura	18550	1	0.11	0.14
Sikkim	20013	1	0.02	0.03
Nagaland	20746	1	0.06	0.08
Mizoram	22207	2	0.04	0.05
Himachal Pradesh	22902	2	0.28	0.07
All States	17883	200	100	100

Source (basic data): <http://nrega.nic.in/>

As can be seen from Table 3, out of the two hundred districts, 119 of them fall in seven states, viz., Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh which rank low in socio-economic development of the country. These states are predominantly rural and hence This distribution pattern of districts in terms of rural BPL households reinforces the argument that MGNREGA intends to attack the poverty stricken regions of the country. These regions are also the most backward regions in terms of rural connectivity, spread of banking, the nature of rural power structure, and the quality of governance.

In order to examine the performance of MGNREGA implementation, suitable indicators need to be developed that would reflect the demand-side or the preference for MGNREGA among rural households and also supply-side performance. The demand-side preferences are captured through the three following ratios:

- EG enrollment as percentage of total number of rural households.
- EG enrollment as a percentage of rural below poverty line (BPL) households.
- EG enrollment as a percentage of application for enrollment.

The first two ratios will reflect the preference of the households, both BPL and non- BPL, for a MGNREGA job. The third ratio will show the suppliers response to enrollment for employment guarantee.

The supply-side performance is also judged in terms of three following ratios:

- EG provisioning as a percentage of rural households.
- EG provisioning as a percentage of rural BPL households.
- EG provisioning as a percentage of number of households enrolled.

Empirical evidence shows that enrollment for MGNREGA far exceeds the number of BPL households in most states. The MGNREGA enrollment as a percentage of the number of applicants, is abysmally low in Maharashtra, followed by Karnataka, Bihar, and Jharkhand. It is also to be noted that while for Andhra Pradesh and Gujarat the supply of employment has met the demand, for most other states, enrollment falls far short of the demand. The all-state ratio is 79.15 percent. If we look at the provisioning to demand for EG ratios only 79 percent of the applicants for EG were actually enrolled and this ratio is particularly low in poorer states. From Table 4 it is evident that in Bihar, Uttar Pradesh, West Bengal, and Maharashtra it is particularly

low. The states of Bihar and Uttar Pradesh are the poorest states in the country. However, these two states together cover 45 districts of the 200 districts under NREGA implementation.

Table 4: EG Provisioning, EG Demand and Exclusion: A State by State Comparison

	Actual EG Provisioning to Demand Ratio	Exclusion Adjusted EG Provisioning to Demand Ratio
Bihar	0.97	0.32
Uttar Pradesh	0.86	0.18
Madhya Pradesh	0.95	0.93
Chhattisgarh	1.00	0.85
Rajasthan	0.99	0.97
West Bengal	0.87	0.44
Andhra Pradesh	1.00	1.00
Tamil Nadu	0.96	0.85
Gujarat	1.00	1.00
Himachal Pradesh	0.93	0.87
Haryana	1.00	0.87
Maharashtra	0.30	0.03

Source (basic data): <http://nrega.nic.in/>

Referring to the Figure 2, we see that the fund utilization ratio, defined as the fund allocation to actual utilization, it is low in the poorer states of country. The trend line plotted through the scatter shows a positive slope, implying the states with higher per capita income could manage to spend better.

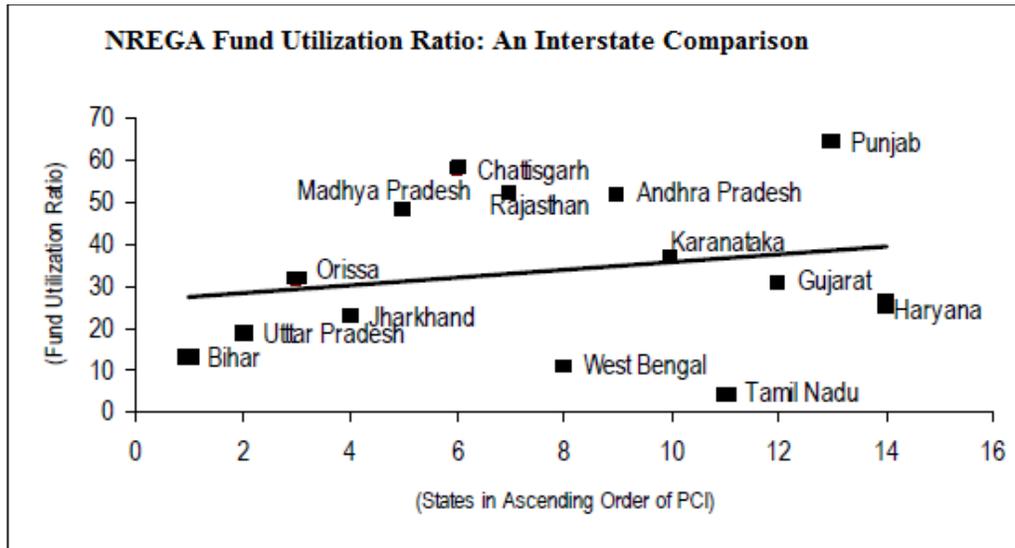


Figure 2 :

✓ **EXPLORING POSSIBLE POLITICAL INFLUENCES ON MGNREGA :-**

Considering MGNREGA's annual budget of roughly Rs 42,000 crores, the number of participating households at 3.26 crores and the power of the rural classes at the voting booth, it would be surprising if MGNREGA were not subject to some political jockeying. Works are carried out at the gram panchayat level, accountability is based at the state level, and MGNREGA funds are disbursed at the federal level. Thus, there are opportunities to "own" MGNREGA for administrators and politicians at almost every step (Kohli, 2012). But to what extent is this competition actually occurring?

I take up Tamil Nadu and Uttar Pradesh and look at two specific ways in which political leaders could manipulate MGNREGA to their own ends: (1) by diverting MGNREGA funds for personal use; and (2) by manipulating the program to gain an electoral advantage.

▪ **FIRST PERSON VIEW OF TAMIL NADU :**

MGNREGA's current structure prevents state-level leakages because funds are not disbursed to the state, but distributed directly to the district. Corruption would thus require complicity at every level of government for funds to make their way from a gram panchayat president to the Block District Officer (BDO) to the District Commissioner (DC), and finally to the CM's office. Since there are too many links in the chain it acts as a potential blocker to corruption. But to appease the State's powerful farming interests the scheme is generally adapted exclusively outside the agricultural season . Tamil Nadu has a strong history of delivering social welfare programs and a reputation for competent bureaucrats, which partially explains the state's MGNREGA successes. They have adopted a piecemeal rate that allows a shorter working day, at a lower wage giving the large female workforce more flexibility and hence incentivize greater productivity.

Tamil Nadu has taken a broader set of proactive actions that help promote effective execution at the village level - (1) Gram panchayats are mandated to implement all projects; (2) payments to workers are being made in cash each week in a transparent, public payment venue – in contrast to more opaque post office and bank payment structures in other states; and (3) robust paperwork requirements and safeguard mechanisms have been put into place at various levels, including the maintenance of muster rolls at project sites, daily submissions of muster rolls from worksites to District and Block offices by 10:00 each morning, and unannounced visits by district and block officials to worksites.

Tamil Nadu has a legacy of successful social welfare programmes because of a strong, existing local bureaucracy. Hence, this existing functional local capacity has even easily leveraged towards MGNREGA's execution. Thus when this scheme came up in 2006, Tamil Nadu already had the local infrastructure to implement this act. Srinivasan notes that, in contrast to other areas of rural India, many gram panchayat presidents in rural Tamil Nadu do not come from a traditionally dominant caste or powerful land-owning group, and thus have to be responsive to the demands of constituents from lower socioeconomic backgrounds in order to mobilize votes and maintain political power thus making the delivery of NREGA successful. Jobs cards are widely prevalent among the participants and officials are over willing to implement MGNREGA. But projects are often scheduled according to the various interests of government officials, rather

than to guarantee year-round income for the rural poor. Overall, MGNREGA has been rolled out relatively well in Tamil Nadu, its successful operation is primarily due to effective top-down administrative capacity, rather than bottom-up demand and civil engagement.

But Tamil Nadu fails to meet a core provision of MGNREGA by not paying unemployment allowances to workers.

Disputes over the quality of MGNREGA assets produced in Tamil Nadu have also arisen from time to time. In all the gram panchayats, majority of assets created are water management projects of some type, mostly on public lands. It is unclear if these are indeed the only type of projects that had been proposed in the gram sabhas and are top priorities in these areas, or if they are the only ones selected because they have been voiced as priorities from higher echelons of government. As one gram panchayat president put it, “Forty-eight lakhs on re-digging lakes could have been much better spent to improve the lives of those in my village.” They argue that their time and MGNREGA money could have created far better durable assets if used differently. Some officials at state and local levels assert that soil-based assets are indeed valuable because they are environmentally sustainable, and can adjust to changing water tables. Others complain that working on projects of such limited scope (water management) do not achieve MGNREGA’s intended goal of creating productive public works.

▪ **FIRST PERSON VIEW OF UTTAR PRADESH :**

In Uttar Pradesh, unlike Tamil Nadu MGNREGA's implementation has been relatively weaker. Uttar Pradesh's CM Mayawati – a charismatic, strong and controlling figure, whose personal wealth has been a source of media attention and investigation – has never been committed to MGNREGA's implementation success. Since this employment scheme was started off by UPA in 2005 and is centrally funded, CM Mayawati has implemented it only to an extent to minimize interference from Centre. Instead she has shown keen interest on her own poverty alleviation schemes, like urban housing programme and distributing bicycles for grade school girls. Political decisions sometimes change MGNREGA's dynamics dramatically, one such example is the minimum wage law set up in Uttar Pradesh. During CM Mulayam Singh Yadav's time from 2003-2005 the minimum wage for an NREGA worker was set at Rs 58 per day. But when CM Mayawati was elected in 2007 the minimum wage was nearly doubled to Rs 100. This decision

attributes to the fact that the landed elite made up Yadav's support base, while that of CM Mayawati comes from the landless. Thus an increase in minimum wage allowed CM Mayawati to broaden her support base among the relative poor class. Uttar Pradesh has adopted a daily rate system for paying wages.

Uttar Pradesh lacks a history of building local administrative capacity in carrying out pro-poor programs. A 2007 report on the implementation of social safety net programs in Uttar Pradesh found a tendency towards low coverage rates, uneven service delivery, and low impact on the improvement of household welfare. In Uttar Pradesh, the program continues to be largely supply rather than demand driven. During field surveys, workers could hardly produce their job cards thus proving the inefficiency of the government in implementing MGNREGA.

Unlike Tamil Nadu where with effective state intervention in the form of GOs ensures that the fundamental staffing needs are met, in Uttar Pradesh, they are both lacking in human resources and even technical infrastructure. Absence of skilled personnel diminishes the planning capacity of the panchayats where mostly the presidents do not own an office and only 2% have access to computer facilities. Staffs are not sufficiently empowered to manage the programme thus confirming that there is an association between high levels of literacy and effective implementation.

Both Uttar Pradesh and Tamil Nadu are experiencing a strain on local personnel, albeit due to vastly divergent challenges: Uttar Pradesh because of a lack of human resources and capacity, and Tamil Nadu because of labor-intensive checks and balances to reduce leakages and corruption.

There is a fundamental conflict of interest because the people who are granting work to MGNREGA applicants are the same people who manage complaints about the program.

Anecdotally, some MGNREGA workers fear that complaining may lead their gram panchayat president to exclude them from future MGNREGA work projects or other public programs.

According to MGNREGA activist and academic Jean Drèze, accountability is still a significant obstacle in the smooth functioning of the program.

Another serious and pervasive implementation issue in Uttar Pradesh is the delay in wage payments. Either wages are delayed till four months or the workers have to travel seven

kilometers to reach the nearest bank to collect their wage, thus leading to a loss of public interest and trust in MGNREGA. Moreover workers do not receive unemployment allowance.

Various technological innovations have been piloted in an attempt to eliminate wage payment delays and corruption. The Indian Institute of Technology (IIT) is currently developing a low-cost ATM machine that enables workers to easily obtain their wage payments, while Rajasthan is also working on a project to link biometric technology to provide information when work is completed.

Hence in order to effectively implement MGNREGA in Uttar Pradesh, programs should be initiated to train gram panchayat presidents and their staff in the basic skills, and equip gram panchayats with appropriate infrastructure, material resources, and technical and administrative personnel.

✓ **MGNREGA DESIGN DISCREPANCIES AT MICRO LEVEL :**

Based on the empirical analysis, it can be concluded that the existing institutional arrangement is not sufficient enough in poorer states to implement NREGA in an effective manner. There is a clear lack of state specificity and hence it often overlooks the geographical conditions and landscape and are not flexible enough to be efficiently implemented. Hence, the scheme must be designed studying the ground realities.

In MGNREGA, we see in some instances that the policy is somewhat inflexible -

- Firstly, a thorough study is to be made at the micro level on what projects under MGNREGA are to be assigned to a particular village such that it benefits the common man and not just only serve the elites' interest. For example, in districts like Kullu and Sirmour in Himachal Pradesh the kind of assets that the villages really need are protection walls which do not fall within the ambit of what is permissible work. There are well-defined boundaries when it comes to sanctioning work. In light of the recent damage caused by the rain, there is need for 'special shelves' along with protection walls. However there is concern that this may not fall within the permissible work. Work is not sanctioned in favor of plantations. There is a need for 'pudha ropan' in Himachal. There exists a ban on sanctioning 'pakka roads' that needs to be reviewed. One major problem

that hurts farmers to no avail is, pests. Animals such as monkeys damage the crop and leave nothing for the farmer. A local NGO named PPN suggests that pest protection should be made a part of 'permissible work'.

- Secondly, identical MGNREGA work in the block headquarters and a village high up in the mountain will not have identical costs. MGNREGA work in Banjar (block headquarter) costs much less than what it costs in the village of Sajwar, in Himachal Pradesh. For example, building of a protection wall in the plains needs lesser funding since the raw material and manpower are present on demand. However, once a similar project is initiated high up in the hills, there is a large amount of transport cost involved. In this case both labor and raw material is not easily found. The government is still sanctioning identical amounts of money for projects that need differential funding.
- Thirdly, local knowledge about the village/land/society is not utilized. A lot of valuable and deep insights await policy makers if they unearth this local wisdom. Several BDOs have rightly pointed out that a lot of collaboration is required between the Center, State and Local officials for successful implementation of this scheme.

✓ **GAME THEORITIC MODEL PLUGGING THE LOOPHOLES OF MGNREGA :**

In states like Jharkhand, Himachal Pradesh, etc. discrepancies have been observed in maintenance of muster rolls (a written record of the work done at a particular worksite, the number of laborers employed, the person days of employment and wages due. It is also a crucial document used to claim funds from higher authorities). Various falsified implementation strategies by the contractors like fictitious names in muster rolls, commission to the contractor for partially/not working laborers has undermined the objectives of MGNREGA itself. This illegal money laundering from a subsidized scheme like MGNREGA is actually digging a deep hole in India's economic pocket when she herself is reeling under inflation and rupee value depreciation pains.

My following model presented below attempts a systematic game theory based solution approach for restricting these scheme implementation faults.

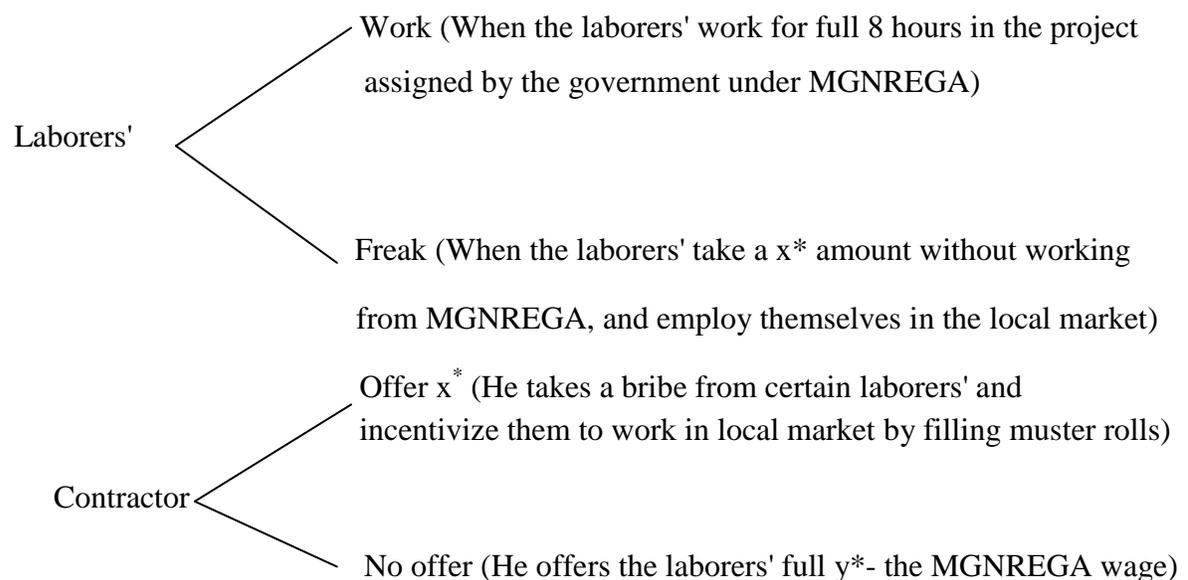
Assuming that for a project to get completed it requires 'W' units of work force and, time estimated by Govt. for that Project completion is one year. MGNREGA pays its workers a meager sum (say Rs y^*) going by the minimum wage rates prevalent in the local market.

Now if $(W-20)$ units of the workforce agrees to take home Rs y^* while working under MGNREGA scheme for full scheduled 8 hours, while the remaining 20 forms a close pact with the contractor that their attendance is maintained in the muster rolls though they don't report to work. In this situation, the contractor agrees to their deal subject to the condition that he himself gets some bribe. Let's say he offers those 20 workers ' x^* ' amount, where $(x^* < y^*)$ and he takes away $(y^* - x^*)$ amount. Since, in this game both the 20 laborers' and the contractor is benefiting thus none has an incentive to complain. Such a game is called an Antagonistic Game. So these 20 laborers' have their whole 8 labor hours free and in this time they work in the local market for contract based jobs. Now say suppose these 20 laborers' get Rs A from the local market by doing these contract based jobs.

There already existed widespread unemployment and unskilled laborers' in the rural market were not getting the minimum wage rate of y^* . Hence, the government had introduced this scheme NREGA, so that these laborers' are not left in the cold. Thus, we can easily assume that the work offered in the rural market to these unskilled laborers' do not satisfy the minimum wage law, hence $(A < y^*)$.

Formulating a game theoretic model, where the two players are- laborers' and Contractor.

Strategies followed by the players -



The payoff matrix is as follows-

		Contractor	
		Offer x^*	No Offer
Laborers'	Work	$y^*, 0$	$\underline{y}^*, \underline{0}$
	Freak	$(x^* + A), (y^* - x^*)$	$A, 0$

From the above arguments and by the mini-max and maxi-min principle we see that (Work, No Offer) is one of the Nash Equilibrium. Now given an 'A', we can always find a ' x^* ' such that $(x^* + A) > y^*$. Thus according to this condition and by the mini-max and maxi-min principle (Freak, Offer x^*) strategy is also another Nash Equilibrium. Hence, a case of multiple Nash Equilibrium exists. Hence, it follows that (W-20) laborers prefer the first strategy and 20 laborers follow the second strategy.

Now since 20 laborers always default, the work does not take off at the required pace and the project suffers a lag. Since the projects assigned to the laborers are in favor of the development of their village, the (W-20) laborers' always have an incentive to report to the auditors about these 20 laborers' defaulting, as it decreases their social welfare and brings them to a lower social utility function.

But then again there arises a question whether the auditor would report to the government about these 20 laborers defaulting or not. So will he stay clean or will he form a pact with the contractor and accept a bribe?

Constructing the payoff matrix between the contractor and the auditor -

		Auditor	
		Stay Clean	Accept Bribe
Contractor	Stay Clean	0 , 0	0 , 0
	Accept Bribe	0 , 0	$((y^* - x^*) - B) , B$

So we see that (Accept Bribe, Accept Bribe) strategy becomes the Nash Equilibrium.

Hence, I have to incentivize my scheme in such a way so that this Nash Equilibrium breaks.

Suppose the government decides to reward the auditor who points out the defaulting laborers with a monetary amount of ' r^* ' and the contractor carrying out such malpractices is penalized by deducting the same amount from his salary. So the game matrix becomes -

		Auditor	
		Stay Clean	Accept Bribe
Contractor	Stay Clean	<u>0</u> , <u>0</u>	0 , 0
	Accept Bribe	$-r^* , r^*$	$((y^* - x^*) - B) , B$

Now if ($r^* > B$), then the previous Nash Equilibrium breaks, and the new Nash Equilibrium strategy becomes (Stay Clean, Stay Clean). Hence, it follows that in my first game between the laborers' and the contractor the Nash Equilibrium becomes (Work, No Offer).

In this way the government can ensure that all unskilled rural workers get employed under MGNREGA and no laborer has an incentive to freak. Moreover, this model ensures that the contractor remains clean and refrains from filling up muster rolls, also it incentivizes the auditor to report the true findings, thus bringing transparency to the system.

Extending this model, say the government after the first round of audit, reward the laborers working under MGNREGA by increasing their nominal wage rate exponentially. So those (W-20) laborers receive this hike in their wage and the rest 20 laborers are sacked out from the project. In the long run, these 20 laborers either again become unemployed or can get a maximum of Rs A from the local market by working in contract based jobs and clearly as stated above ($A < y^*$). Moreover, jobs in the local market are very much temporary so, there is no chance to witness an increase in wages thus stagnating the local market wages at Rs A only. Thus, considering the long run perspective, with such a policy laborers will have an incentive to deliver under MGNREGA only.

Graphically the above argument can be represented as,

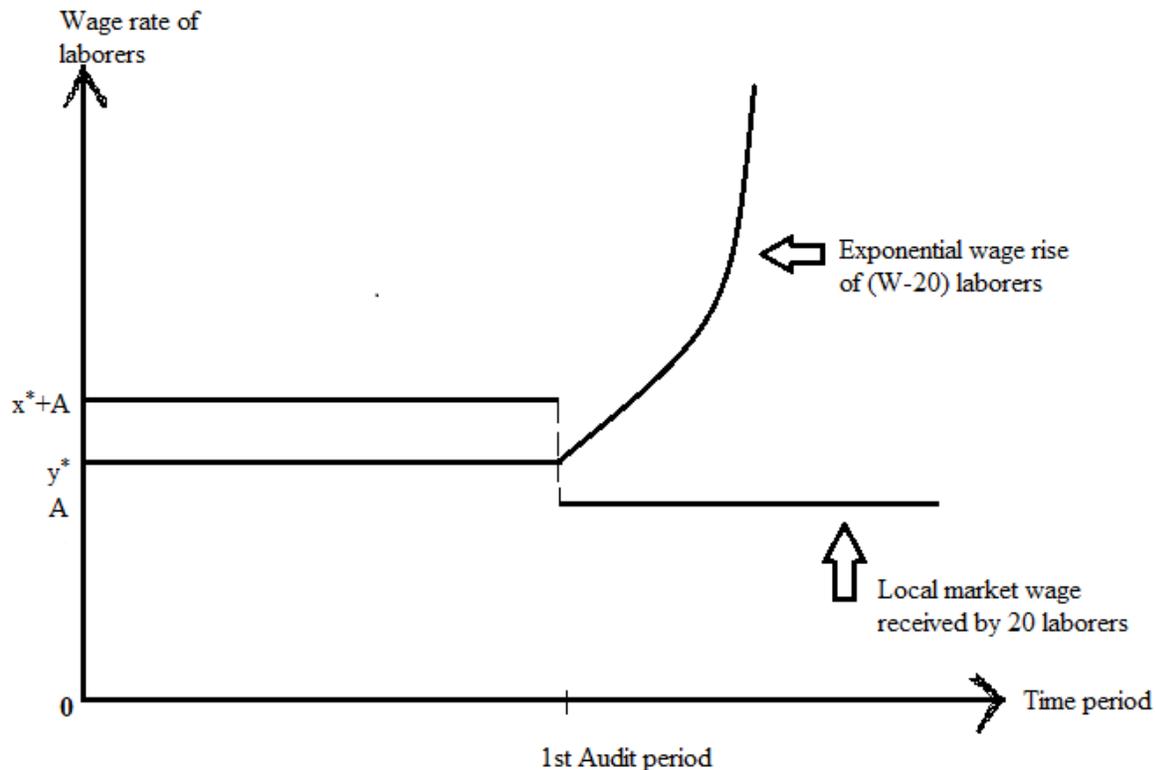


Figure 3 :

**STANDARDIZATION OF SORS FOR FULL PROOF IMPLEMENTATION OF
MGNREGA :**

In order to make National Rural Employment Guarantee Scheme (MGNREGA) successful, one of the key aspects within its architecture needs immediate reform, i.e., the Schedule of Rates (SoRs) which are set up to find an equivalence between the physical quantum of work performed by the workers and the financial payments to be made for this work. This equivalence is arrived at on the basis of the estimated quantum of work an average worker can perform in different strata. The SoRs are meant to tell us the amount of work that an average worker, under average working conditions is supposed to do in a normal eight hour working day (with a one hour break), if he is to earn the daily minimum wage. The SoRs assume that the average productivity of an average worker will be uniform throughout the state or any other administrative unit.

The SORS that state governments currently use to value work done by labor employed in MGNREGA needs to be substantially revised. The schedules now have an inherent pro-contractor bias, encourage the use of machinery and make it virtually impossible for laborers to earn minimum wages.

- **VARIATIONS :**

- 1. Variations in geological strata :**

The notions of “average” underlying the SoRs (average rate for whole state and that of an average worker) are endemically unjust. The amount of work performed by a hypothetical average worker acts as the implicit productivity norm for all workers to adhere to in order to earn the minimum wage.

The rates across strata in Madhya Pradesh -

Table 5: Rates for Excavation in Different Types of Soil in Madhya Pradesh :

Excavation and Earthwork	Rs/Cum
Soft Soil	17.90
Hard Soil	23.20
Hard Mooram (HM)	30.70
Disintegrated Rock (DR)	77.10
Hard rock requiring blasting	98.40
Hard rock requiring where blasting is prohibited	162.90

There is a massive jump from the rate of HM to DR, and since DR rates are not allowed in watershed works, so only HM rates are used and these tend to underpay the workers. So the way out is to devise some intermediate wages between HM and DR.

2. Variations in Climate :

The "average rates" prescribed have no reference of climatic conditions. In areas where it is characterized by hot humid summers or coastal areas with high humid regions, the SoRs are not set accordingly. So workers do not get their due wages. If the daily mean temperature of an area is higher than the state average, then a percentage should be added to the existing rate. Also in such months the average working days should be reduced to six hours without any reduction in the minimum wage rate, which means that we downscale the output norms for these areas.

3. Variations within workforce :-

The underlying notion of the SoRs is that workforce is healthy and capable of hard work. Hence the daily productivity of a poor, malnourished and physically challenged worker will always be lower than the destined "average". When SoRs will be implemented, such persons will be weeded out. Moreover, the notion of an average worker does not allow for gender and age differences in productivity. Thus, such persons will not get a just treatment. Studies show that the Sahariyas in MP and Rajasthan have for a variety of historical factors inherited a weaker physical constitution.

Thus due to the various variations listed above the actual work output is less than the productivity of an average worker and hence very frequently laborers do not receive the minimum wage. Alternatively, the contractor can make the workers work more by extending the working day so that the average productivity norm is achieved with no compensation being paid. Sometimes children are paid as "low paid" workers with not even the minimum wage being paid to them, thus in most cases leading to child exploitation.

The task rates in the SoRs are derived from the statutory minimum wage of the region. Minimum wages undergo revision every year depending on inflation and the movement of cost of living indices. The SoRs, on the other hand, are revised only periodically, once in three to five years. Inflation is, therefore, not taken into account. So a standard indexing procedure needs to be followed by which rates must customarily be raised in line with the rise in statutory minimum wages.

Though MGNREGA provides provisions such as insurance to workers against accidents or disability or death while on duty, provision of medical aid, drinking water, care for their children; the SoRs do not include these criteria. These are sometimes referred as "hidden costs" since SoRs do not accommodate such payments.

The SoRs comprise of rates paid to contractors for work undertaken. SoR rates are structured in such a way that provide a powerful incentive to replace labor with machines. Since the productivity of machines is higher than that of labor, the required quantity will be achieved faster

and at a cost by employing machines. Once machines are banned, with the existing rates it will be impossible to meet the costs of employing labor that is paid minimum wages. Hence, this is an important ground for revising all labor rates upwards. So we see that the SoRs are fundamentally anti-labor. If the SoRs, in their current status, are used to value work done under MGNREGA, it would inevitably lead to violation of minimum wage laws, use of contractors and use of machines. Hence, the SoRs need to be fundamentally modified to take care of these aspects. Thus, in order to increase transparency and reduce inequality, instead of Schedule of Rates, each district should have their own District Schedule of Rates (DSoR) and that should be prepared and revised very frequently by the state planning body comprising of, say the Gram and Zillah panchayat representatives, local NGOs, independent professionals and government officials and engineers.

Moreover, for the effective implementation of MGNREGA, there is an urgent need for both vertical and horizontal coordination across levels of governments within the states. Some of the things that rural local bodies, especially the village Panchayats, can engage in for effective implementation of this act are: (i) demand based budgeting; (ii) advance planning to offer work on demand; and (iii) holistic and intersectoral planning of projects for work to avoid duplication. Keeping the spatial dimension of the implementation in mind, the importance of the smooth flow of funds for implementation of projects in accordance with the demand, capacity building at village level, right to information to enable social audit effectively and accountability of functionaries, and an effective grievance redressal mechanism assumes critical importance.

(P S Vijay Shankar, 2006)

SECTION 3 :

➤ **'INDIA SHINING' RIDING THE 'DIRECT CASH TRANSFER' ROCKET :**

Recent studies by the Planning Commission have shown that the Public Distribution System has become so inefficient that 58% of the subsidized grains do not reach the targeted group and almost a third of it is siphoned off the supply chain. According to the Finance Ministry the inefficiencies of the PDS ensure that

the Government is forced to spend Rs.3.65 for transferring of Rs. 1 to the poor. The idea behind the Direct Cash Transfer is to cut down wastage, duplication and leakages and also to enhance efficiency.

So is the cash transfer scheme a superior alternative to PDS in MGNREGA?

- First and foremost, transfers will virtually eliminate the leakages. The precise volume of leakages under the MGNREGA is not known but even the proponents of the scheme do not deny that they are significant. A study by Sharma (2009), jointly sponsored by the National Council on Applied Economic Research and the Public-Interest Foundation, observed that leakages in Jharkhand, Orissa, and Uttar Pradesh went up to “one-third to half of the stipulated wages,” adding that since the leakages are disguised through the addition of fictitious names to the muster rolls, employment generation is also overstated. Moreover, funds flow disproportionately to poorer rather than richer households, and there is strong evidence that the funds reach vulnerable individuals. (Jagdish Bhagwati, 2013)
- Direct Cash transfer is aimed at financial inclusion. Public Distribution System provides rationing of inferior quality with least variation of available commodities. For a diversified country like India, food habits vary region-wise which rationing system fails to meet. Moreover, India being a Aadhar linked nation wages gets directly credited to the laborers' bank accounts without any chance of leakage to the intermediaries. Even nationalized banks have set up a well balanced urban-rural branch network where every villager from the remotest of villages get access to wages credited through DCT into his/her bank account.

- Though money credited through DCT can be misused for liquor and other luxury goods by the male representative of the family, high women participation in MGNREGA is actually causing a reverse effect. Women laborers utilize their wages judiciously, credited into their bank account by the scheme.
- Direct Cash Transfer eliminates the dual marketing strategy of private and government.
- Though Reserve Bank of India does not favor DCT on the line of argument that it will create a sudden demand shock which the supply constraint will not be able to meet, thus creating an inflationary rise in prices- which can be avoided by indexing transfers to the price level.
- People know best what is good for them, so there is no need to 'patronize' them by giving them specific commodities instead of cash.
- Moreover, in PDS even with small leakages it is an expensive system, with large transaction costs associated with the procurement, transportation and storage of grain- all of which can be ignored with a system of cash transfers.

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