Working Paper No. 505

Implementation of the National Rural Employment Guarantee Act in India: Spatial Dimensions and Fiscal Implications*

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July 2007

*This is a revised version of the paper prepared for the conference on "Employment Guarantee Policies: Theory and Practice" organised by Levy Economics Institute of Bard College, New York, October 13-14, 2006.

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ABSTRACT

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Since its enactment in 2005, the National Rural Employment Guarantee Act (NREGA) has been implemented in 200 districts in India. Based on state-by-state employment demand-supply data and the use of funds released under NREGA, it is found that, although it is a demand-driven scheme, there are significant interstate differences in the supply of employment. The supply falls far short of demand, particularly in low-income states, where the organizational capacity to implement the scheme is limited. It is also noted that the NREGA-induced fiscal expansion has not contributed to higher fiscal imbalances. The consolidation of other public employment programs into NREGA has actually kept the total allocation of funds by the central government at a level no higher than those reached in the fiscal years 2002–03 to 2005–06. The NREGA fund utilization ratio varies widely across states and is abysmally low in the poorer states. Since the flow of resources to individual states is based on approved plans outlining employment demand, it may turn out to be regressive for the poorer states with low organizational capacity in terms of planning and management of the schemes, especially labor demand forecasting.

Keywords: Employment Guarantee, Rural Employment Program, Budgetary Incidence

JEL Classifications: J21, J23, J31, J38

The National Rural Employment Guarantee Act (NREGA) was enacted by the Indian Parliament in 2005 to provide a minimum guaranteed wage employment of one hundred days in every fiscal year to rural households with unemployed adult members prepared to do unskilled manual work. In the past, public employment programs in India targeted at the poor were generally identified with the poverty alleviation. NREGA goes beyond poverty alleviation and recognizes employment as a legal right. The only example of guaranteed state-sponsored employment in India is the Maharashtra Employment Guarantee Scheme, which was enacted and implemented under the extraordinary circumstances of severe drought in the state during 1970 to 1973 as innovative anti-poverty intervention (Dev and Ranade 2001). Just as the NREGA provides opportunities for the rural households to assure livelihood security, it presents formidable challenges in implementation. The latest report on the completion of one year of NREGA, published by the Ministry of Rural Development, also highlighted the fact that "States are at various level of implementation of NREGA depending on when they started their preparations and their pace of preparation." Our study also highlights the differential performance of states in terms of implementation and tries to explore the reasons thereof. This paper is based on the state by state employment demand-supply data and the use of funds released under NREGA by the central government, and examines the budgetary incidence and spatial dimension of the progress of implementation of the act.

Apart from the introduction, the paper is organized in four sections. Section I discusses the salient features of the NREGA. In Section II, the history of public employment programs and the interface between employment situation, wage rate, and poverty incidence is discussed. Section III undertakes a detailed empirical analysis of the spatial dimension of implementation, problems of funding, and budgetary incidence of NREGA. Based on the findings, conclusions are drawn in Section IV.

I. THE ACT: SALIENT FEATURES

The NREGA extends to all rural areas of India, including Fifth and Sixth Schedule areas,[1] except Jammu and Kashmir. The various provisions of the NREGA are the following: (i) it provides at least one hundred days of guaranteed wage employment in every fiscal year for at least one adult member of every household prepared to do unskilled manual labor at the wage rate specified by the state government; (ii) creation of durable assets and strengthening the livelihood resource base of the rural poor shall be an important objective of the scheme. The state council shall prepare a list of permissible works, as well as a list of “preferred works”; (iii) the program may also provide, as far as possible, for the training and upgradation of the skills of unskilled laborers; (iv) wages may be paid in cash, in kind, or both, provided that at least one-fourth of the wages shall be paid in cash only; (v) employment shall be provided within a radius of five kilometers of the village where the applicant resides at the time of applying. In cases where employment is provided outside such radius, it must be provided within the block, and the laborers shall be paid 10 percent of the wage rate as extra wages to meet additional transport and living expenses; (vi) 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. The person deputed for this shall be paid the statutory minimum wage; and (vii) 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.

As specified in the act, for the purpose of funding and the implementation of NREGA, the central government will set up the National Employment Guarantee Fund. Individual state governments will set up the State Employment Guarantee Fund for matching contribution under this scheme. The funding pattern, as laid down in the act, specifies that the central government’s obligation would be to make payments of wages for unskilled manual workers under the scheme, up to three-fourths of the material costs of the scheme, including wages to

[1] The Fifth Schedule covers tribal areas in states of India, namely Andhra Pradesh, Jharkhand, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chhattisgarh, Orissa, and Rajasthan. The Fifth Schedule is a Historic Guarantee to indigenous people on the right over the land they live in. The Sixth Schedule deals with the administration of tribal areas in the State of Assam, Meghalaya, Tripura, and Mizoram.

skilled and semiskilled workers and a certain percentage of the total cost of the schemes determined by the central government. The state government shall have to bear the cost of unemployment allowance, one-fourth of the material costs, and the administrative expenses of the state council. Apart from the mandatory provision of resources required for the implementation of NREGA, its success in enhancing the “livelihood security” of rural households would critically depend on the effective implementation of the scheme.

NREGA provides for a multitier structure of authority for implementation and monitoring of the scheme with specified functions and duties for each authority. The agencies involved are Central Employment Guarantee Council, State Employment Guarantee Council, District Program Coordinator, and the Program Officer appointed by the state government and the Gram Panchayat. The responsibility of the Gram Panchayat will be the identification, execution, and supervision of projects as per the recommendations of Gram Sabhas (village assembly). For accountability and transparency purposes, the Gram Sabhas are given the power to conduct a regular social audit of individual schemes. The structure of implementation as laid down indicates that a coordinated approach of different tiers of government or vertical coordination is critical for successful implementation of the scheme. Also, the horizontal coordination across departments for program identification and execution of work through Panchayat assumes critical importance.

II. PUBLIC WORKS PROGRAM, EMPLOYMENT SITUATION, AND WAGE RATE: AN OVERVIEW

There is a growing theoretical and empirical literature on the impact of public works programs on poverty alleviation (Dreze and Sen 1989; Ravallion 1991; Besley and Coate 1992; Sen 1995). Maharashtra Employment Guarantee Scheme apart, India has a long history of public works programs, particularly in rural areas as a poverty reduction strategy. After India’s independence in 1947, there were many central government schemes for public employment, beginning with the rural manpower program in 1960. Public employment has proved to be an effective strategy for prevention of famine and poverty reduction (World Bank 1990). NREGA also focuses on the districts having high incidence of poverty (see Table 1).

However, NREGA goes beyond poverty reduction and recognizes employment as a legal right. Skeptics considered it as a populist measure while others have considered it as a landmark initiative towards poverty alleviation and empowerment of poor. It is argued that this would not only increase the income of the poor, but the asset creation through the process of employment would generate a much needed productive infrastructure for poverty alleviation on a permanent basis. It is also seen as an initiative to operationalize the concept of the right to work, enshrined in the Constitution under the Directive Principles of State Policy (Papola 2005), by guaranteeing work to those who are demanding employment.

However, if one looks at the employment scenario in the country during the 1980s and 1990s, one would observe that during the tenth Five Year Plan, the growth rate of employment has slowed down considerably.[2] The annual rate of growth of rural employment was around 0.5 percent per annum between 1993–94 and 1999–2000, as compared to 1.7 percent per annum between 1983 and 1993–94 and also the current daily status unemployment rate in rural areas increased from 5.63 percent in 1993–94 to 7.21 percent in 1999–2000. The deceleration in employment growth was further reinforced by a sharp cut back in public spending on rural employment programs (Dev 2002). In this context, the enactment of NREGA is appropriate and timely. Although, the aggregate employment figure shows a decline, national sample survey estimates of unemployment rates in 1999–2000 showed that the rate of unemployment in "usually unemployed" category in 1999–2000 was only 2 percent for the male labor force and less than 2 percent for the female labor force. 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 NREGA has to make a perceptible dent on poverty, the applicable wage rate assumes paramount importance.

Though there is a cost implication of a particular wage rate from the budgetary point of view, in order to make a significant impact on rural poverty, it should be such that it provides "livelihood security." In this context, Papola (2005) emphasised that (i) wages

[2] Hirway (2005) noted that though the average annual rate of growth of GDP was higher in the 1990s (6.7 percent) than in the 1980s (5.2 percent), the rate of growth of employment was much lower (1.07 percent) in the 1990s than in the 1980s (2.7 percent).

should be high enough to meet the daily subsistence need of the workers' households; and (ii) 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. The second proposition would hold good, theoretically, if the prescribed wage rate under NREGA is higher than the market wage rate. In Maharashtra, no clear evidence of such an impact has been recorded, although the possibility of employment guarantee schemes (EGS) having treated upward pressure on agricultural wages has been indicated (Acharya 1990; Datt 1994).

The statutory minimum wage rate for an agricultural laborer is being offered under NREGA. A state by state comparison 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. It is to be noted that the statutory wage rate data pertain to June 2001 and the market wage rate data pertain to 2004. Thus, they are not strictly comparable. However, even an annual 4 percent increase the statutory wage rate to keep the real wage constant will not make it at par with the market wage rate of 2004 in most of the states. Given this large positive differential between the market and the statutory wage rate, the demand for work under NREGA may not be as high as one would assume and the possibility of a laborer shifting from other sectors to NREGA-based employment seems remote in this context in many of the 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 1: Average Daily Wages for Casual Workers: Rural (in Rs.)

	Male	Female	Persons	St. Min. Rate
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	30.00
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

Note: Statutory minimum wage pertains to June 12, 2001.
Source: Average daily wage data from NSS 60th Round (January 2004–June 2005) Published in November 2005 and http://labourbureau.nic.in/wagetab.htm

III. PROBLEM OF IMPLEMENTATION AND FUNDING: THE SPATIAL DIMENSION

The important components involved in the implementation of the NREGA are: (i) selection of beneficiaries and the wage rate; (ii) design of system and institutions for implementation of the scheme; (iii) provisioning of resources and the pattern of funding; (iv) capacity building for effective implementation of the scheme; and (v) safeguarding against corruption with regard to the use of funds and the selection of beneficiaries.

The earlier wage employment programs (WEP) have helped in many ways in stabilizing wages and food grain prices in rural areas. However, the coverage of the scheme remained poor and more than 50 percent of the beneficiaries were not from the most economically vulnerable sections in rural areas. Other than these, 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.

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. In other words, individual state governments will have to evolve a well-coordinated approach to equate supply of employment in accordance with the demand. This becomes all the more important as there is no supply-side selection of beneficiaries. This requires in-depth understanding of region-specific labor demand and its seasonality so that a demand-based scheme of projects can be implemented at a frequency matching with the demand for work instead of supply-side provisioning. Failure to do this may result in imprudent use of funds, as inability to provide employment on demand will impose the burden of compensation, in the form of unemployment allowance, to the state government. Thus, there is a need to design a monitoring mechanism by strengthening institutional structure at the local level so that resources can be used optimally. As it is a demand-based provisioning, the flow of resources from the higher levels of government to the Panchayats needs to be ensured according to the demand. Thus, we need to evolve a clear mechanism of flow of funds as needed according to the demand rather than through the normal bureaucratic procedure. This would also require good coordination between providing work and provision of funding. The funding pattern and the conditionalities attached to the release of funds from the central government to the states are given in Box 1. The conditionalities with regard to the use of funds are stringent and the demand based provisioning may be potentially regressive. The funds will be released based on the Annual Work Plan and Budget Proposal (AWPB) by the states. As the capacity to formulate AWPB by the states is low in poorer states, actual release may fall far short of potential demand for funds.

Box 1: Funding of NREG

FINANCING PATTERN
The central government will bear the following costs:

- The entire cost of wages for unskilled manual workers.
- Seventy-five percent of the cost of material and wages for skilled and semiskilled workers.
- Administrative expenses as may be determined by the central government. These will include, inter alia, the salary and allowances of program officers, their support staff, and work site facilities.
- Administrative expenses of the Central Employment Guarantee Council.

The state government will bear the following costs:

- Twenty-five percent of the cost of material and wages for skilled and semiskilled workers.
- Unemployment allowance payable in case the state government cannot provide wage employment within 15 days of application.
- Administrative expenses of the State Employment Guarantee Council.

RELEASE OF FUNDS

- ✓ The release of funds is based on state proposals rather than on predetermined allocations.
- ✓ Under the scheme, each state will formulate and submit a State Annual Work Plan and Budget Proposal (AWPB) to the Ministry of Rural Development, which will enable the Ministry to decide and sanction the budget likely to be used by the state in that year.
- ✓ The AWPB will be based on the demand for funds received from the districts and reflected in the labor budgets approved by the district Panchayats.
- ✓ The AWPB will also report on the use of the previous funds received by the state, as well as on the key performance indicators determined under the scheme. This will enable a qualitative assessment of the proposals received from a state government to help decide the quantum of assistance likely to be released to it for a financial year. The actual release of funds to a state government will depend on its actual utilization of funds previously released.
- ✓ After utilizing 60 percent of the funds released earlier, the district program coordinator (with the recommendation of the state government) or the state government (in the event that a State Employment Guarantee Fund is established) may apply to the Ministry of Rural Development for the next installment out of the Central Employment Guarantee Fund.
- ✓ The state share of funds will be released by the state government within 15 days of the release of the central funds.

Source: NREGA Operational Guidelines, Ministry of Rural Development, Government of India

A. The Spatial Dimension

As mentioned earlier, this scheme 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. As mentioned earlier, Panchayats will be responsible for the identification, execution, and supervision of projects as per the recommendations of Gram Sabha and the Ward Sabhas, and the Gram Sabhas are given the power to conduct a regular social audit of individual schemes. A number of questions arise in this context. 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 2: 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	9.08
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
Manipur	12878	1	0.03	0.04
Jammu & 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 2, out of the two hundred districts, 119 of them fall in seven states, viz., Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh. Needless to mention, these states rank low in socioeconomic development of the country. These states are predominantly rural and 53.73 percent of the rural Indian households and 67.95 percent of the rural below poverty line (BPL) households reside in these 119 districts of seven states. This distribution pattern of districts in terms of rural BPL households reinforces the argument that NREGA 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. On the other hand, we have districts that are to be covered in the northeast region having their own special problems and are under scheduled areas. However, the number of districts to be covered in the northeast, including Sikkim, is only 16.

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

i. EG enrollment as percentage of total number of rural households.
ii. EG enrollment as a percentage of rural below poverty line (BPL) households.
iii. 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 NREG job. The third ratio will show the suppliers response to enrollment for employment guarantee. It is to be noted here that enrollment for an employment guarantee does not necessarily mean provisioning of employment. Enrollment is a prerequisite for NREG employment by issuing a job card by the Panchayat to the person demanding NREG.

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

i. EG provisioning as a percentage of rural households.
ii. EG provisioning as a percentage of rural BPL households.
iii. EG provisioning as a percentage of number of households enrolled.

Table 3: EG Enrollment and Provisioning: A State by State Comparison

States are in ascending order of per capita income	EG Enrollment as % of			EG Provisioning as % of		
	Rural Households	Rural BPL Households	Number of Applicants	Rural Households	Rural BPL Households	Number of Household Enrolled
General Category States						
Bihar	22.20	50.11	66.05	5.47	12.35	24.65
Uttar Pradesh	40.81	130.73	95.28	13.30	42.61	32.60
Orissa	57.16	119.05	79.38	0.00	0.00	0.00
Jharkhand	35.49	80.12	64.14	0.00	0.00	0.00
Madhya Pradesh	123.42	333.03	99.06	44.19	119.23	35.80
Chhattisgarh	82.41	222.37	95.05	24.88	67.14	30.19
Rajasthan	109.96	800.31	98.57	65.39	475.94	59.47
West Bengal	48.34	151.77	75.88	13.46	42.25	27.84
Andhra Pradesh	64.98	588.08	100.00	11.44	103.53	17.60
Karnataka	24.58	141.45	48.62	0.00	0.00	0.00
Tamil Nadu	49.55	241.14	98.97	3.76	18.28	7.58
Gujarat	44.02	334.25	100.00	6.64	50.44	15.09
Kerala	36.61	390.27	99.36	0.00	0.00	0.00
Punjab	16.81	264.34	92.51	0.00	0.00	0.00
Haryana	31.34	378.98	96.89	6.47	78.18	20.63
Maharashtra	29.48	124.29	26.44	2.54	10.71	8.62
Special Category States						
Assam	50.40	125.88	68.51	10.90	27.22	21.62
Manipur	110.72	276.52	29.49	0.00	0.00	0.00
Jammu & Kashmir	66.05	1663.61	85.20	0.00	0.00	0.00
Uttaranchal	92.89	297.54	67.64	9.99	32.00	10.76
Meghalaya	0.00	0.00	#DIV/0!	0.00	0.00	#DIV/0!
Arunachal Pradesh	0.00	0.00	0.00	0.00	0.00	#DIV/0!
Tripura	111.77	279.14	91.93	125.20	312.68	112.02
Sikkim	40.60	101.38	92.06	0.00	0.00	0.00
Nagaland	87.30	218.05	100.00	0.00	0.00	0.00
Mizoram	35.13	87.74	100.00	9.34	23.33	26.58
Himachal Pradesh	52.78	664.68	96.65	23.74	298.93	44.97
All States	51.19	166.85	79.15	12.06	39.32	23.57

Note: Household numbers pertain to Census 2001. Thus, in some states EG enrollment to rural household ratio is more than 100 percent.
Source (basic data): http://nrega.nic.in/

It is evident from Table 3 that EG enrollment as a percentage of rural households enrolled for NREG varies widely across states. It is also to be noted that enrollment for NREG far exceeds the number of BPL households in most states, except for Bihar and Jharkhand. In Bihar and Jharkhand, only 50 and 80 percent of the BPL households could obtain NREG enrollment. If we look at the NREG enrollment as a percentage of the number of applicants, it 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 in major states in the country, it is more than 90 percent in all the states (see Table 4). However, this is misleading, as only 79 percent of the applicants for EG were actually enrolled and this ratio is particularly low in poorer states. If we adjust the demand for EG data for this exclusion, the exclusion-adjusted demand increases and the ratio falls far below the actual provisioning to demand. As evident from Table 3, it is particularly low in Bihar, Uttar Pradesh, West Bengal, and Maharashtra. The states of Bihar and Uttar Pradesh are the poorest states in the country. 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

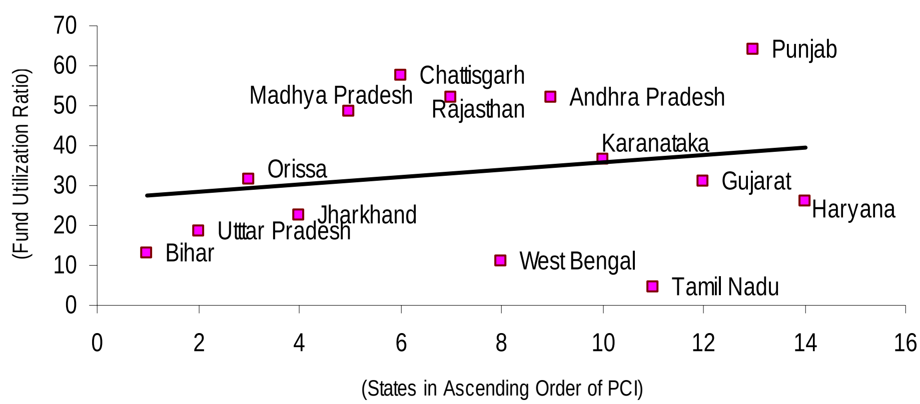
	Actual EG Provisioning to Demand Ratio	Exclusion Adjusted EG Provisioning to Demand Ratio
Bihar	0.97	0.32
Uttar Pradesh	0.86	0.18
Madhya Pradesh	0.95	0.93
Chhattisgarh	1.00	0.85
Rajasthan	0.99	0.97
West Bengal	0.87	0.44
Andhra Pradesh	1.00	1.00
Tamil Nadu	0.96	0.85
Gujarat	1.00	1.00
Himachal Pradesh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

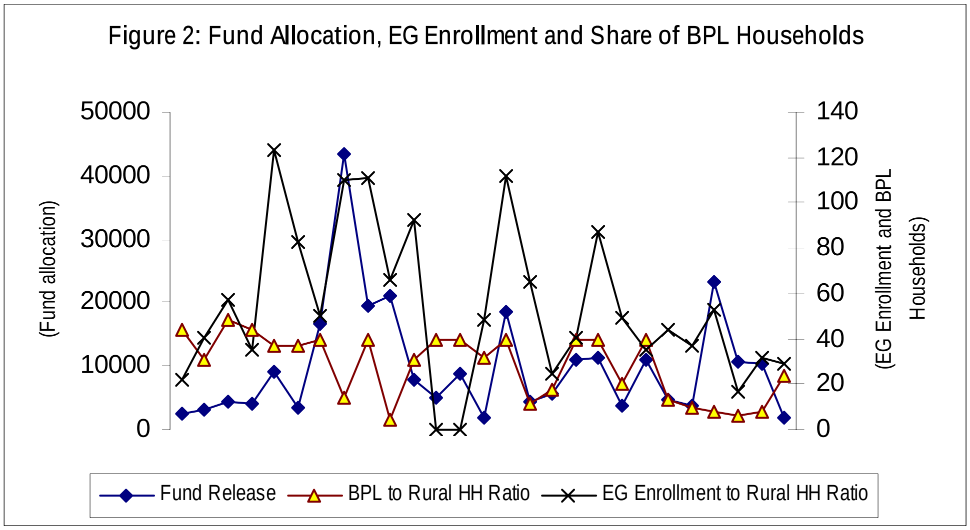
Source (basic data): http://nrega.nic.in/

It needs to be mentioned that the data provided in the latest report on NREGA, published by the Ministry of Rural Development, also indicate that the fund utilization ratio remains as low as 51 percent, even after the completion of one full year of operation of NREGA. In other words, only half the total available funds were utilized during the year. The utilization ratio is particularly low in poorer states. If we look at the fund utilization ratio, defined as the fund allocation to actual utilization, it is again low in the poorer states of country (Figure 1). The trend line plotted through the scatter shows a positive slope, implying the states with higher per capita income could manage to spend better. The structure of

NREGA funding is also given in Table 6. In order to find out whether there is any relationship of fund allocation across states with the EG enrollment and the share of rural BPL households, we have plotted them in Figure 2. It is evident from the figure that there is no clear one-to-one relationship between share of BPL households and the fund release, rather it depends on the enrollment, which is quite likely as it is a demand-driven scheme. A quick regression of the functional form specified in Equation (1) reveals that the release of funds is positively related to wage rate and enrollment, not on the per capita income of the state and the share of BPL households. This, in other words, implies that the states that are making a better assessment of demand are obtaining more of the resources. This is potentially regressive, as the states at low levels of organizational capacity in terms of planning, management, and forecasting of labor demand of the schemes would receive less resources, even when the actual demand may be far higher than what is actually realized.

Figure 1: NREG Fund Utilization Ratio: An Interstate Comparison





Equation (1):

$$L_{fund} = \alpha + \beta Lpci + \chi Bpl + \delta enrol + \phi Wage + \varphi$$

Where

$Lpci \;= \log \; per\ capita\ income$

$bpl = \log of\ the\ share\ of\ BPL\ households$

$Enrol = \log of\ enrolment$

$Wage = \log of\ wgae\ rate$

Table 5: Estimation Results

Variable	Coefficient
C	5.994209 (1.39)
LPCI	0.079074 (0.185)
BPL	0.002416 (0.211)
ENROL	0.012339 (3.150)
WAGE	0.023306 (2.721)
R-squared	0.44
S.E. of regression	0.66
Durbin-Watson stat	1.573

Table 6: Structure of Spending of NREG Funds (in percent)

	On Unskilled Wages	On Semiskilled and Skilled Wages	On Material	On Contingency
General Category States				
Bihar	62.15	4.02	32.79	1.03
Uttar Pradesh	68.10	3.66	26.11	2.13
Orissa	53.63	9.07	36.56	0.73
Jharkhand	62.56	7.65	28.78	1.02
Madhya Pradesh	63.71	5.52	30.34	0.43
Chhattisgarh	67.65	2.33	29.76	0.26
Rajasthan	80.85	2.97	15.48	0.70
West Bengal	82.00	2.69	13.11	2.19
Andhra Pradesh	80.64	0.20	0.61	18.54
Karnataka	60.45	2.90	33.84	2.80
Tamil Nadu	54.67	0.00	0.67	44.67
Gujarat	62.90	1.02	9.71	26.38
Kerala	0.00	0.00	0.00	0.00
Punjab	58.60	0.00	39.17	2.22
Haryana	70.40	0.75	15.19	13.66
Maharashtra	0.00	0.00	0.00	0.00
Special Category States				
Assam	58.45	1.13	38.10	2.31
Manipur	58.60	4.19	37.20	0.00
Jammu & Kashmir	63.96	21.11	14.07	0.86
Uttaranchal	53.46	4.53	41.29	0.72
Meghalaya	0.00	0.00	0.00	0.00
Arunachal Pradesh	0.00	0.00	0.00	0.00
Tripura	0.00	0.00	0.00	0.00
Sikkim	0.00	0.00	0.00	0.00
Nagaland	60.00	0.00	40.00	0.00
Mizoram	77.76	0.00	0.00	22.24
Himachal Pradesh	60.30	4.85	33.95	0.90
All States	67.29	4.38	25.62	2.71

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

B. Budgetary Incidence

In order to understand whether NREGA implementation is a huge fiscal strain, we examined budgetary incidence of other employment programs (self and wage employment) prior to NREGA and compared them with NREGA-based allocation. As can be seen from Table 7, though the central government mobilizes around 10 percent of GDP as revenue and size of the government measured as a percentage of GDP is around 15 percent, the direct expenditure on rural employment constituted 0.2 percent of GDP in 1996–97, which declined to 0.13 percent of GDP in 2001, particularly at a time when human deprivation increased in rural India. Although there was an increase in the direct expenditure on rural employment to 0.40 percent of GDP, it tended to decline thereafter and reached to 0.33 percent of GDP in 2006–07, even with the introduction of a NREG program in that year.

Table 7: Key Budgetary Indicators to GDP Ratio (in percent)

	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts	9.27	8.83	8.59	9.37	9.22	8.87	9.41	9.56	9.80	9.87	10.32
Revenue Expenditure	11.67	11.90	12.49	12.86	13.30	13.28	13.79	13.12	12.31	12.47	12.49
Expenditure: Ministry of Rural Development (MORD)	0.58	0.56	0.55	0.48	0.43	0.59	0.74	0.70	0.58	0.78	0.81
Rural Employment	0.24	0.23	0.21	0.19	0.13	0.20	0.40	0.37	0.23	0.33	0.33
Total Expenditure	14.76	15.31	16.05	15.39	15.58	15.95	16.25	17.08	15.94	14.40	14.43

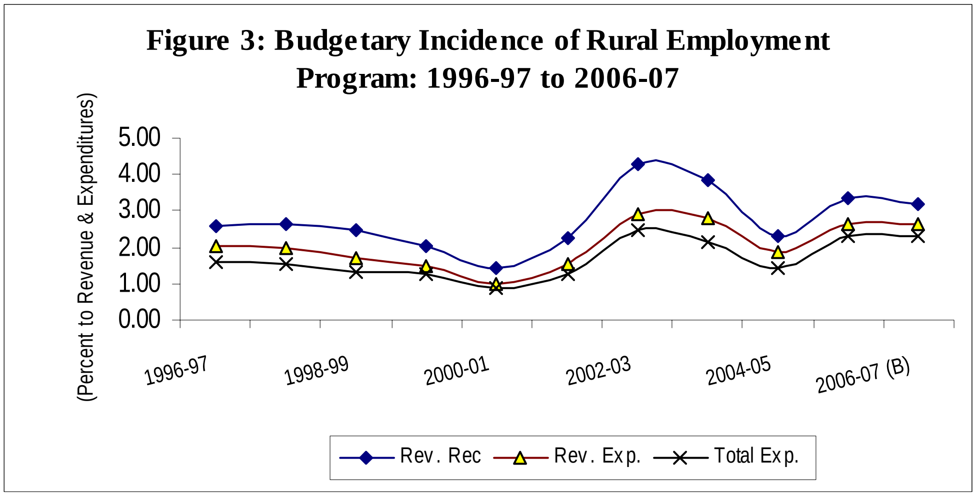
Source: Union Budget Documents (various issues)

In terms of budgetary incidence of rural employment program (REP), it is evident from Figure 3 that expenditure on REP as a percentage of revenues and expenditure of the government declined sharply in the first three years of the current decade, with a marginal increase in the years 2005–06, revised estimates (RE) and 2006–07, budget estimates (BE). Despite introduction of NREGA, no spurt in the budgetary incidence of this expenditure is worth exploring. As can be seen from Table 8, the allocation under Swaranjayanti Gram Swarozgar Yojana (SGSY) declined sharply over the years, with a corresponding increase in the share of SGRY from 23.3 to 62.1 percent between 1999–00 and 2003–04. The share of SGRY allocation declined sharply thereafter, with a corresponding increase in the allocation for the National Food for Work Program (NFFWP). The NFFWP has been stopped with the introduction of NREGA in 2005–06. A sharp decline in SGRY is evident in 2006–07, with a corresponding increase in the share of allocation under NREGA. In absolute volume, the SGRY allocation declined from Rs. 9639.99 crores in 2003–04 to Rs. 2700 crores in 2006–07 (BE). The total NREGA allocation in the year 2006–07 is Rs. 10170 crores.

Table 8: Expenditure Distribution across Various Rural Employment Programs (in percent)

	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Swaranjayanti Gram Swarozgar Yojana (SGSY)	13.1	4.2	4.5	4.3	4.6	6.5	4.2	4.5
Sampoorna Gramin Rozgar Yojana (SGRY)	23.3	15.1	32.2	56.9	62.1	33.1	35.8	11.2
National Food for Work Programme	28.2	16.4	7.5	5.7	0.0	13.1	19.0	0.0
National Rural Employment Guarantee Scheme	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.3
Other Expenditure	35.4	64.4	55.7	33.1	33.2	47.4	41.0	42.0
Total	100	100	100	100	100	100	100	100

Source: Union Budget Documents (Various Issues)



IV. CONCLUSIONS

Based on the above 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 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. The "social audit" through Gram Sabha, as mentioned in the Act, can also help to revitalize the ineffective Gram Sabhas in many of these districts. The Gram Sabha can play an active role in planning, monitoring, and supervision of projects.

To institutionalize the implementation of the NREGA, there is an urgent need for defining the clear charter of roles and responsibilities through activity mapping, capacity building of all the agencies involved in the process of implementation, and imparting training for that purpose. By strengthening the institutional structure for community participation in decision making, a holistic approach would evolve towards convergence of asset creation and management.

In many places, Panchayats do not have the necessary capacity to manage the schemes and capacity building ought to take place at Panchayat level. Devolution of responsibilities and strict accountability norms would accelerate capacity building at the levels of Panchayats and the scheme can effectively function as a demand-driven one. In assessing the demand for labor, Panchayat level preparation of labor budget, district wage list, and schedule of rates at the district Panchayat level would go a long way for effective implementation. 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.

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