

# Project Briefing

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## Key points

- By providing the right to employment, the Indian National Rural Employment Guarantee Act (NREGA) is breaking new ground
- The NREGA is cumbersome and corruption-prone. However, it is popular with the poor, though they rarely recognise their 'right' to work
- In addition to providing local employment, the NREGA must train workers for 'modern' jobs in rapidly growing sectors to provide economic growth

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# The Indian National Rural Employment Guarantee Act: Will it reduce poverty and boost the economy?

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**P**ublic works programmes have received much attention as a means of poverty reduction. They offer local work to those who need it – often seasonally, when little work is available in agriculture – and can potentially create productive assets from which the poor can benefit. They can also be 'self-targeting', if wage rates are set at an appropriate level, i.e. they attract only those willing to work at basic wage rates. However, they require close local supervision, and the assets created may be captured by elites, poorly constructed, or simply not useful to the poor.

This paper reviews early experience with a major new public works programme in India, the National Rural Employment Guarantee Act (NREGA) passed by the Indian parliament in September 2005. The act built on a previous initiative in one Indian state – the Maharashtra Rural Employment Guarantee Programme<sup>1</sup> – to ensure that a minimum amount of paid work would be available to those in rural areas who need it. As an act of parliament, it confers statutory rights – unlike a project, which could be prone to short-term changes. In specified districts (now more than half of the districts in the country), NREGA offers up to 100 days of employment per rural household per year on public works, at the prevailing minimum unskilled wage rate. The aim of the act is to boost the rural economy and enhance overall economic growth.

## Affordability and sustainability

The NREGA is one of the largest single rights-



**Rural Indian households are being offered up to 100 days of employment per year on public works**

based social protection initiatives in the world. The national budget for the financial year 2006-2007 was Rs 11,300 crores (about US\$2.5bn and almost 0.3% of GDP). Once fully operational – by which time it will cover 40 million households living below the poverty line – it is estimated that the scheme will cost about four times this amount. Jean Dreze and others have suggested that funds of this magnitude could be mobilised from better tax administration and reforms.

Critics argue that the government has so far done little to impose taxes on prosperous sections of society and has missed many opportunities to extract funds for such programmes.

The fact that the tax-GDP ratio has been declining illustrates the government's inability to make better use of the tax system.

The affordability of NREGA has been an issue of wide debate in India, and opponents have warned that the programme will contribute to a fiscal crisis. Estimates of how costly the programme will end up being vary between 1% and 5% of GDP. It has been argued that the programme is too open-ended — i.e. it entitles anyone to obtain employment, which could also lead to escalating costs (Patnaik, 2006).

Another 130 districts were added in 2007–2008, bringing the total number to 330 — approximately two-thirds of all India's districts. The Ministry of Finance, which has been concerned over the potential cost of the programme since its inception, has insisted that the low current absorption of funds means that the additional districts can be accommodated with a marginal increase in the budget, attracting criticism from Dreze and others who maintain that the Government is not living up to its stated principles of 'inclusive growth'.

## Acceptability and criticisms

When the act was passed, there was a fairly strong consensus that this was an initiative that would have the potential to transform rural India. The national coalition government described NREGA as revolutionary, and maintained that it would impact on poverty in a major way by building infrastructure and enhancing growth in rural areas. The National Advisory Council, which prepared the draft bill, was also convinced that the act would cause a major decline in rural poverty. Many development professionals and writers on rural development and decentralisation referred to the act as a 'historic piece of legislation'. A large part of civil society, including the Right to Food Campaign, welcomed NREGA because the rights-based platform of the programme could make a difference to rural livelihood security by guaranteeing 100 days of employment. NREGA was also internationally recognised as an outstanding initiative seeking to safeguard the right to work,

which forms a part of the Indian Constitution.

However, as the programme has unfolded, certain questions are being raised. Many, including some of those involved in drafting the bill, now recognise that much still needs to be done to support the rights of the poor, and to defend them against corrupt officials. The financing of the scheme continues to be an issue of debate. Criticism is also mounting from civil society: many argue that the poor implementation of NREGA makes beneficiaries believe that it is no better than other government schemes that have had little impact on poverty. Although NREGA is a flagship project of the governing coalition, there is much political rivalry over the scheme. Ironically, the act has been far more successful in, for example, Rajasthan (a state ruled by the opposition party, the BJP) than in some of the states ruled by national coalition members (see Box 1). Dreze believes that this kind of competition is healthy, and may ultimately serve to enhance the overall success of the programme.

## Complementarities and sequencing

Kannan has stressed that the potential of NREGA could be more fully realised if human development had been more fully prioritised, including, for instance, improved childcare facilities, which would help mothers to work under the scheme. Furthermore, NREGA limits employment to manual labour and does not include work or training (for example, in setting up local businesses) that could have a long-term impact on improving livelihoods. The President himself suggested to the Prime Minister's office that the scheme could be expanded to generate non-farm employment, such as plumbing and telecom service operations. The guidelines suggest state governments develop new activities in consultation with the central government, but there is no evidence suggesting that this is taking place.

From a poverty-reduction point of view, one of the most fundamental criticisms of NREGA is that the types of activities for which work can be funded

### Box 1: Rajasthan: When NREGA works well

Dungarpur district in Rajasthan is a good example of how NREGA should be implemented. A comprehensive social audit in the district in 2006 found that awareness of the act was high in all villages. Also, in contrast to the findings of social audits in other states, in Dungarpur district most of the rural households had job cards and about half of the population had by then gained employment under the scheme. Moreover, corruption had been minimised by the availability of registers of workers at worksites and easy access to records by the public. Contractors had been prevented from taking the lion's share of benefits since panchayats (local officials, see p.3) had been closely engaged with planning as well as implementation.

Part of Dungarpur's success is undoubtedly attributable to administrative improvements across the board introduced by a dynamic District Collector. However, Bhatia and Dreze believe that Rajasthan's extensive experience of labour-intensive public works has made the government more experienced in handling such schemes. They also suggest that the right-to-information movement in Rajasthan has instilled a culture in which information is easily available to the public. Awareness-generation, transparency in registers, and the close involvement of panchayats could have a major impact on NREGA across the country.

— e.g. water conservation, land development, afforestation, provision of irrigation systems, construction of roads, or flood control — are prone to being taken over by wealthier sections of society. In their monitoring study of NREGA in Madhya Pradesh, Samarthan and colleagues found that the types of activities undertaken were more or less standardised across villages. This raises the questions about whether effective local participation had taken place, and whether the activities would be relevant to improving livelihoods.

It has also been suggested that NREGA should draw on poverty-reduction lessons from other countries. Argentina, for example, has successfully linked employment-generation programmes to compulsory enrolment in schools and immunisation for children. In South Africa, individuals are given help in seeking employment opportunities once they have contributed to publicly funded works.

## Targeting

NREGA is currently the biggest self-targeting programme in India, open to all rural people who are willing and able to undertake manual labour in their village. An increasing number of employment-generation programmes initiated by the Indian government are self-targeting,<sup>2</sup> on the principle that only the poorest will be interested in manual work for low wages. While the evidence suggests that self-targeting can work well under certain circumstances, it is not clear that NREGA is sufficiently well-implemented to minimise errors of inclusion and exclusion and to prevent leakage of funds more generally.

Early reports on NREGA suggest that the implementation of the scheme needs to improve if the poor are to be reached effectively. Dungarpur district of Rajasthan is a role model for effective targeting, in part due to an exceptionally strong public administration. In most other locations, social status, social networks, nepotism, religion and politics have influenced access to the scheme, and wealthier sections of local society are, in some cases, manipulating the implementation of NREGA in much the same way as they do with other government initiatives.

The requirement for beneficiaries to register with the lowest tier of local government — Gram Panchayat — for job cards (that guarantee the bearer work) — is substantially contributing to exclusion. In Gujarat, Madhya Pradesh and Jharkhand it has been found that the bribe demanded by local officials for an application form for a job card may range from Rs 5 to Rs 50, where a day labourer might earn only Rs 60 (US\$1.5) or so. Instances of discrimination with regard to caste, age and gender have been observed, with some evidence that single-women-headed households are being denied registration.

Social audits have revealed discrepancies between the numbers of job cards issued at the panchayat level and the number of people working, suggesting that numbers have been inflated to generate

more funds than needed, which are then embezzled by local officials. A delay in the distribution of cards is also common, which suggests that people are unable to work even though employment may be available. The overall assessments of the effectiveness of self-targeting within the Maharashtra Rural Employment Guarantee Programme — a forerunner to NREGA — also present a mixed picture: some argue that it is low-income, low-asset households and female agricultural labourers who have benefited most from the scheme, but others have observed that the benefits have been concentrated in certain geographical pockets and that low awareness of entitlements and provisions have resulted in the exclusion of undeveloped tribal areas. This is consistent with the argument that the poor need to be empowered to demand their rights for any form of targeting to be effective. The ‘right to work’ embedded in NREGA makes it unique, and if efforts are made to help the poor in recognising and articulating this right, these may ultimately prove to be equally, or perhaps even more important, than the principle of self-targeting.<sup>3</sup>

## Effects of the scheme

Prior to launching NREGA, the national coalition government emphasised its potential to stimulate rural growth through the establishment of productive physical assets and the influx of funds through wages. It is too early to assess the impact of NREGA on growth and poverty reduction at this juncture, but experiences from the earlier Maharashtra Employment Guarantee Scheme can give a broad idea of possible impact.

It is widely agreed that the benefits of the Maharashtra programme have been secondary and indirect rather than direct. It has, for instance, raised agricultural wages in Maharashtra by making labourers reluctant to accept anything less than the official minimum wage. A similar trend is already being observed with districts using NREGA.

Another indirect benefit is that it has acted as an insurance for rural workers against unemployment, although the increase in employment and income generated may not be substantial. Furthermore, it has stabilised income for rural households as more work has been provided in the agricultural off-period (April to July). There is evidence that this has assisted income-smoothing among the poor and reduced their need to make adjustments by cutting down on food expenditure, sale of livestock, or resorting to taking expensive loans. There is conflicting evidence over how far the assets created by public works benefit the poor: some support the notion of substantial contributions to agricultural productivity from which the poor also benefit; others argue that the location of the assets has tended to benefit those in wealthier households with irrigation facilities, since their wells have been recharged through the various structures created or rehabilitated. Lastly,

there is some evidence that the Maharashtra project has engaged women in positive ways and helped to enhance their independence. As with NREGA, the project has had problems in reaching tribal areas and other geographical pockets of poverty.

One view, rarely heard, is that whilst the provision of some local employment is potentially important, the easy availability of work under NREGA may discourage rural workers from seeking work in rapidly growing areas of the economy. This may, in turn, reduce the potential pace of economic transformation, and lower the prospects of workers gaining new skills. In this way, NREGA, as a means of social protection, may ultimately work against economic growth.

## Conclusion

Except for isolated instances, there is little evidence that NREGA is being implemented better than the panoply of poverty-focused schemes introduced by the government of India over the past 20 years, where a large share of intended benefits have been captured by the elite classes, including petty functionaries. If employment guarantee schemes can be linked up with other schemes to improve skill levels among workers, the benefits can be long-term, but this will require improved levels of coordination in the public sector.

The rights-based dimension of NREGA can be important in the short term, especially where rights are expanded to include, for example, crèche facilities, and the poor are supported in becoming aware of, and realising, their rights. For the longer term, improved ability to voice and claim rights can spread also to other economic and social spheres, with substantial benefit for the poor. Whilst there is as yet little evidence that the public works in which poor labourers are engaged will generate benefits for them (and thus not be captured primarily by the better-off), it does seem that employment-generation programmes help put upward pressure on wages and bring average daily rates closer to a legal minimum. Finally, several issues relate more to the inherent characteristics of public works programmes like NREGA, and less to their specific implementation. One is that they cater only for the able-bodied who do not have major commitments to looking after dependents. Thus, specific efforts need to be made to cater for those unable to engage fully in the productive economy, if they are not to be left behind. A second is the danger that, given their focus on the creation of local employment, NREGA may be discouraging rural workers from moving to areas of higher productivity where skills for better employment can be obtained, and so may be delaying economic transformation.

## Endnotes, references and project information

### Endnotes

1. This was launched in the 1970s, initially as a relief programme to overcome the effect of severe droughts.
2. Most recent examples are: Sampoorna Grameen Rozgar Yojana (SGRY) - Universal Rural Employment Programme; Employment Assurance Scheme (EAS) – now merged with SGRY; Drought Prone Areas Program (DPAP); and the National Rural Employment Guarantee Act (NREGA).
3. Experience from other employment generation schemes based on self-targeting (e.g. DPAP and SGRY) illustrate that exclusion of the poor and inclusion of the better-off are common. Poor governance along with widespread corruption are cited as key reasons.

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### Project information

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