SUPPLY OR DEMAND? HOW POLITICS INFLUENCES THE IMPLEMENTATION OF THE MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT IN RAJASTHAN

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Himanshu, Abhiroop Mukhopadhyay, Basudeb Chaudhuri
CNRS -NOPOOR unit in India

NREGS in India, the largest rural employment scheme in the world, has played an important role in revitalising the labour market in rural areas. It has led to the creation of a class of workers who are using the scheme as a safety net, and these workers are also able to use it as a bargaining tool for extraction of higher wages. Given the fluctuations in the employment generated and the overall effectiveness of the programme in reducing rural poverty in the last 5 years, this research examines the political dynamics behind the implementation of national programmes in several ways, focusing on political competition as well as the role of elected representatives. Better policy design will be enabled by this research.
MGNREGS is the largest anti-poverty public employment guarantee programme anywhere in the world. The NREG Act (NREGA) under the scheme was launched on February 2, 2006. Renamed as Mahatma Gandhi National Rural Employment Guarantee Act in 2009, it was implemented in three phases. In its first phase the act was introduced in 200 of the most backward districts. Under the second phase, which was initiated in 2007, another 185 districts were brought under its ambit. The third phase, which occurred in quick succession, spread to the remaining 285 rural districts. Reducing rural poverty remained the basic objective behind its implementation. The Act guarantees 100 days of employment in a financial year to any rural household, whose adult members are willing to do unskilled manual work. Furthermore, state governments are liable to pay unemployment allowance, if work is not provided within 15 days of its demand, thereby granting legal entitlement to work.

Indeed, MGNREGA was a flagship programme of the coalition that was led by the INC between 2004 and 2014.

The recent performance of MGNREGA has been a matter of debate. While the expenditure reached a peak in 2010-11, central release of funds (nominal) for MGNREGA followed a downward trend, with some uptick observed during 2013-14 to 2015-16. However, the level did not reach the previous peak of 2010-11. In real terms, deflated by Consumer Price Index for Rural Labourers (CPI-RL; 1986-87 = 100) at 2006-07 prices we find that in real terms funds allocated for the scheme has significantly gone down since 2010-11. Figure 1 gives the nominal and real expenditure on MGNREGS.

Figure 1 Expenditure on MGNREGS

A quick look at the trends in some of the basic employment-generation statistics under MGNREGS indicates that after the introduction of the scheme in 2006, average person days generated per household and the number of households that availed 100 days of employment reached a peak during 2009-10, while the number of households that demanded employment and were provided employment were the highest during 2010-11. Noteworthy is the trend of unmet demand under the scheme. During the first four years of its implementation, unmet demand remained very low and was more or less stagnant. Post 2009-10 it showed some spike, but since 2011-12 there has been a complete reversal in the trend. It is true that the number of households that have demanded employment under MGNREGS works has come down after reaching a peak during 2010-11, but while figure corresponding to 2015-16 is quite high and around 2009-10 levels, in case of total number of households that are provided employment, the figure has gone below the level of 2008-09. This basically implies that although the demand for MGNREGS works witnessed a decline in the recent years, the number of households that were provided employment fell even further. Not only that, average person days per household also
declined post 2009-10, with some increase observed during 2012-13 and 2013-14 but transitory. The number of households that availed 100 days of MGNREGS works in 2014-15 went down even below its 2006-07 levels. However, data for 2015-16 depicted some revival. In terms of participation in MGNREGA works, percentage of women participation in person days increased almost consistently over the years. The picture in case of STs was just the opposite. In case of SCs participation in person days reached a peak during 2010-11, following which it declined and remained more or less stagnant.

**Figure 2 Employment in MGNREGS**

![Graph showing employment in MGNREGS over the years](image)

**Figure 3 Unmet demand in MGNREGS**

![Graph showing unmet demand in MGNREGS over the years](image)
Rajasthan, especially, impressed with its performance in the initial years of its National Rural Employment Scheme (NREGS), but experienced a sharp decline (even relative to other states) in outcomes from 2010 onwards. Figure 1 illustrates state trends in NREGS outcomes in terms of expenditures, and households completing 100 days of NREGS work between the period 2008/09 and 2012/13. This period coincides with the INC-led government in Rajasthan.

Figure 5. The Decline of the NREGS in Rajasthan

On paper, MGNREGA is touted as being demand-driven – work is to be provided to those citizens who ask for it. Following on from this assumption, some have attributed the decline in implementation outcomes across India to a satiation of demand due to work provided successfully and declining poverty rates. In other words, the very success of MGNREGA has led to less demand for work.

Taking the case of Rajasthan, researchers sought to establish and explore whether the fall in MGNREGA expenditures reflects falling demand for work, or a failure of the state to supply work. Researchers examined the role of elected heads of Gram Panchayats (Sarpanches) in allocating NREGS projects to villages. Since the remit of Sarpanches is linked to funds sanctioned at higher levels, the researchers looked at whether the approval of block level funds is influenced by political competition, in particular, between political parties contesting elections.

source: www.nrega.nic.in, our calculations

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1 Elected village councils
MGNREGA implementation depends on the supply of work (rationing) rather than demand for it

While MGNREGA is in principle demand-based, the involvement of various levels of political institutions in collating and approving requests for work and allocating projects makes it implausible that supply will match demand perfectly. In fact there is overwhelming evidence that the scheme is top-down, and that this has led to a “discouraged worker” syndrome (with workers more likely to wait for work rather than demand it). This may explain the sharp decline in NREGS outcomes since 2010/11 better than the consensus within the establishment that the demand for NREGS work has been satiated.

Supply-side factors such as flow of finances, administrative bottlenecks, minimum wage policy and the reluctance of authorities to register demand (that they are obliged to meet) have contributed to the decline in NREGS outcomes, which has been the steepest in Rajasthan among Indian states. Researchers found that across 8 districts in Rajasthan, though there was considerable variation in the proportions of households who engaged in NREGS work (ranging from 39% to 89%), an average of 89% of households were interested in NREGS work. Not everyone who expressed interest in work demanded it: overall, only 61% of households actually requested work. These households believed that “villages get work only when it is available”. Lack of faith in the system therefore masquerades as lack of demand for MGNREGA work. Demand is far from satiated; it is in fact constrained. Over 94% of the villages claimed this was the case, and more than half of Sarpanches (55%) admitted to “unmet demand”.

Supply of work is influenced by the Sarpanches responsible for allocating work at Gram Panchayat level

At Gram Panchayat level, what emerged from the village survey was the key role played by the Sarpanch in determining which villages get work and what kind of work would be given. Of the villagers sampled, 64% felt that the Sarpanch determines the allocation of work among villages within their Gram Panchayat, and 56% felt that the Sarpanch determined which projects got demanded and which ones were consequently implemented.

Unsurprisingly, 43.24% of the Sarpanchs mention that the allocation of NREGS funds is demand-driven. But there was a clear statement that they had felt constrained for funds in the past (43%), with nearly 44.59% citing the prominent role of higher-up officials.

A fund-constrained Sarpanch has to ration work in some manner. Ideally, the Sarpanch would provide work first to those most in need. But identifying need is difficult, and Sarpanches may employ their own political strategies. Rationing can occur if the Sarpanch favours households from certain constituent villages over others within the Gram Panchayat. The Sarpanch may favour households from his/her own village as a repayment for voting, because of caste affiliation, or simply because of ease of access. Equally, a Sarpanch may prefer giving work to households from other villages in order to woo voters there.

The researchers found that there was much better perception of the Sarpanches amongst respondents from the Sarpanches’ own village – over 64% there thought their Sarpanch had done well as opposed to 38.85% of respondents in other villages. This is only tentative evidence of bias on the part of Sarpanches, but quantitative data analysis backs up the qualitative outcomes, showing that the percentage of households with job cards getting work in Sarpanch villages (24%) is almost double that in non-Sarpanch villages (12.4%), and person days of work per household were more than double in the Sarpanch villages (almost 15 days) compared to non-Sarpanch villages (7 days). Overall, the results show that the advantage of being from a Sarpanch’s village is in the range of 10%. There is therefore significant rationing of work by the Sarpanch in favour of his/her own village, manifested both in villagers’ perceptions and in actual outcomes.
Supply of MGNREGA work is influenced by political competition

Programme implementation can be influenced positively by local political competition, in particular between parties in local elections. In the context of land reform in West Bengal state, Bardhan and Mookherjee (2010) find that even if political will to implement a scheme is driven by the ideologies of parties, implementation may actually be dictated by political opportunism.

In the case of Rajasthan, such opportunism was found to govern the relationship between vote share of the INC in blocks and subsequent NREGS fund allocations. In blocks where the INC has a very low vote share or a very high vote share (that is, where political competition is low), implementation in terms of fund allocation is low. With close elections, however, higher funds go to blocks where the INC had a lower vote share. This is plausible because in areas with high political competition, where no single party dominates, it may be feasible to affect votes through transfer of funds. However, these results only hold true when the district member of parliament (MP) is from the INC (which in the period under study was in power at state level). This is plausible as the district MP is an important member of the body that approves block funds.

In the case of the Bharatiya Janata Party (BJP), which was in opposition in Rajasthan at the time of the study, there is no significant correlation between vote share and funds. Only in the special case when the district MP is from the BJP and the focus is on closely contested blocks is there a negative relationship between vote share and fund allocation. However, given that very few MPs were from the BJP, this correlation disappears once the analysis is extended to all closely contested blocks.

This difference in relationship between vote share and fund allocation for the INC and BJP may be due to two reasons. First, it may not be optimal for the BJP to follow the same strategy as the INC as MGNREGA may be identified by voters with the INC. Second, even if the BJP wanted to implement a similar strategy, they may have been unable to do so because they did not have sufficient control over block allocations in the period studied. While these two explanations cannot be disentangled without extending the analysis to a BJP-governed state, the evidence that there is a negative correlation between vote share and fund allocations when the MP is from the BJP provides some support for the latter explanation.

These results contribute to the literature on the political dynamics behind the implementation of national programmes in several ways, focusing on political competition as well as the role of elected representatives.

In establishing that Sarpanches ration NREGS work in favour of their own villages, the research contributes to the extensive literature on local level dynamics, particularly the role of elected representatives in channelizing and meeting demand in NREGS. Discriminatory rationing may be a problem where there is more than one village within a Gram Panchayat, as in other states in India.

While better data management at the village level may help unravel the level of existing discrimination, the problem of intra-village dynamics within Gram Panchayats needs further study. In particular, issues of subcastes/caste, population composition and size of village may be relevant in understanding the dynamics of employment generation in Rajasthan. At the very least, these results indicate that a temporal tracking of villages through the Management Information System may readily help detect instances of discrimination within Gram Panchayats.

The finding that political competition may influence allocation of NREGS funds points to the potential problems of decentralized program implementation. When schemes involve political institutions like those embedded in the Panchayati Raj system in India, they can often be held hostage to political games among parties. The fact that parties are able to influence funds, over and above what is determined by structural factors like rainfall and demographics, underlines this.

These results also bring out the role of local politics in affecting economic outcomes. Studies that try
to examine the impact of MGNREGA on economic outcomes are generally limited by their focus on variation in implementation outcomes. In providing a political explanation for funds allocated, the research seeks to understand better the source of variation of the scheme across different parts of India, and unearth the impact of MGNREGA on employment and poverty rates.

NREGS has played a much larger role in revitalising the labour market in rural areas. It has led to the creation of a class of workers who are using the scheme as a safety net, and these workers are also able to use it as a bargaining tool for extraction of higher wages. Although the evidence so far is limited to infer that the general upturn in rural wages has been led by the scheme, there is at least acceptance that it may have played a role directly through upward pressure on wages and tightening of the supply of casual labour to the market and indirectly through the pressure on the state governments to increase minimum wages. The fact that the success of NREGS has also led to a large section of farmers organizing politically against the act is additional proof of the ability of the programme to generate pressure on private wages. Similar evidence on a slow-down in rural-urban migration and its impact on urban wages are yet to be clearly established.

Could the finances allocated to NREGS have had a greater effect on poverty if they had been allocated to the public goods that enhance human capabilities in a durable way, by expanding their opportunities through education, training and greater social mobility, as some critics of the program have argued? NREGS has served the purpose of mitigating short term vulnerability of the poor through employment provision and enables the creation of a framework of rights. This does not preempt a larger debate on the institutional and policy instruments needed for impacting the causes of long term poverty. We would argue that the short and long term objectives are not mutually exclusive. While investment in human and physical infrastructure will take time to create opportunities, NREGS is like a social safety net which not only take care of the immediate vulnerabilities but also the jobs provided are manual which are generally done by people who are excluded and marginalised like women and SC ST. So there is no inevitable conflict between the two objectives. Both should continue and as and when there is no need for such a social safety net, the programme will automatically close down.

RESEARCH PARAMETERS

Researchers used socio-economic data from the National Sample Survey and Ministry of Rural Development and conducted a large primary data survey in 75 multi-village Gram Panchayats, 328 villages, and 3916 households across 8 districts in Rajasthan to determine whether the state’s declining NREGS outcomes owed more to supply-side or demand-side factors, as well as to determine the influence of elected representatives (Sarpanches) on provision of NREGS work. The analysis compared data on NREGS performance in the Sarpanches’ villages with that of non-Sarpanch villages from 2008/09 to 2012/13 using a unique sampling design and a fixed effects regression.

The influence of political competition on NREGS funds was studied using longitudinal data from Rajasthan from two rounds of elections (2005 and 2009) and funds sanctioned for NREGS work (in 2009/10 and 2012/13). The analysis addressed problems of reverse causality and close elections were studied separately as a special sub-case.

FURTHER READINGS


### PROJECT NAME

NOPOOR – Enhancing Knowledge for Renewed Policies against Poverty

### COORDINATOR

Institut de Recherche pour le Développement, Marseille, France

### CONSORTIUM

CDD The Ghana Center for Democratic Development – Accra, Ghana  
CDE Centre for Development Economics – Delhi, India  
CNRS (India Unit) Centre de Sciences Humaines – New Delhi, India  
CRES Consortium pour la Recherche Économique et Sociale – Dakar, Senegal  
GIGA German Institute of Global and Area Studies – Hamburg, Germany  
GRADE Grupo de Análisis para el Desarrollo – Lima, Peru  
IFW Kiel Institute for the World Economy – Kiel, Germany  
IRD Institut de Recherche pour le Développement – Paris, France  
ITESM Instituto Tecnológico y de Estudios Superiores de Monterrey – Monterrey, Mexico  
LISER Luxemburg Institute of Socio-Economic Research – Esch-sur-Alzette, Luxembourg  
OIKODROM - The Vienna Institute for Urban Sustainability – Vienna, Austria  
UA-CEE Université d’Antananarivo – Antananarivo, Madagascar  
UAM Universidad Autónoma de Madrid – Madrid, Spain  
UCHILE Universidad de Chile – Santiago de Chile, Chile  
UCT–SALDRU University of Cape Town – Cape Town, South Africa  
UFRJ Universidade Federal do Rio de Janeiro – Rio de Janeiro, Brazil  
UNAMUR Université de Namur – Namur, Belgium  
UOXF-CSAE University of Oxford, Centre for the Study of African Economies – Oxford, United Kingdom  
VASS Vietnamese Academy of Social Sciences – Hanoi, Vietnam

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### WEBSITE


### FOR MORE INFORMATION

Xavier Oudin, oudin@dial.prd.fr  
Delia Visan, delia.visan@ird.fr

### EDITORIAL TEAM

Anne-Sophie Robilliard (IRD)  
The views expressed in this paper are those of the authors and do not necessarily represent the views of the European Commission.