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The Political Economy of Implementing the National Rural Employment Guarantee Scheme in India

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Abstract

This paper focuses on four selected questions. (1) How does local political competition and the characteristics of the elected officials matter for the implementation of the National Rural Employment Guarantee Scheme (NREGS)? (2) Is there local capture of the benefits from the scheme? (3) What role does reservation for caste and gender in political positions play in the implementation of the scheme. (4) Do center-state linkages have a role to play in how NREGS is implemented across states? To answer these questions, this paper reviews the relevant literature and finds avenues for future research. It provides some strategies to do empirical work on the four issues highlighted. The paper also provides evidence on some indicators of NREGS implementation across states and suggests that there may be some link between centre-state alignment and NREGS implementation.

Keywords

NREGS, decentralization, elite capture, political competition, political reservation

Acknowledgements

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Introduction

Poverty is very visible in rural India. However, the Government has often been unsuccessful in reaching out to the poor to alleviate their penury. This failure has been, predominantly, a consequence of two systemic problems. The first problem has been that of identification. While this may seem almost farcical in a relatively poor country like India, the ground reality is that identifying the poor through a uniform procedure has often been tough. Various exercises of identifying exclusion and inclusion criteria to detect the poor have been attempted over time, for example, Saxena et al (2009). But these attempts have been contested and there have been some who have argued that such an exercise will necessarily leave out some of the poor; hence anti-poverty schemes should be universal (or at worst, quasi-universal excluding only the richest) (Dreze and Khera (2010)). Such proposals are motivated by the difficulty to specify cut-off thresholds of income (consumption) to identify the poor, so as to provide subsidies and cash transfers. Agriculture income is notoriously misreported and it is impractical to base entitlements on consumption surveys. To get away from having to specify criteria that are impractical to measure, policies have often sought to target people belonging to disadvantaged castes, but the political wrangling that comes with it often makes this controversial (for example, communities wanting to be part of the government approved list of socially backward castes).

The second systemic problem has been one of delivering services to the poor, once they are identified. Provision of such services, either through centralized systems (setting up of schools through government schemes) or through a more decentralized route (giving due power to the elected local representative) have been subject to mis-management and corruption at various tiers of administration. Moreover, in targeting public resources, politicians exhibit group preferences and are opportunistic: in that they benefit disproportionately from public transfer programmes (Besley et al 2005). Where such elected individuals are part of the social elite, this group preference may lead to an elite capture of the programme. Indeed, B.R. Ambedkar, a luminary of the socially underprivileged community in India, was himself against the idea of decentralization, as he feared that this would lead to local elite capture.

Given this setting and faced with the afore-mentioned two problems, on August 25th 2005, the **National Rural Employment Guarantee Act (NREGA)** was passed[1]. *The NREGA provides a legal guarantee for at least one hundred days of employment in every financial year to adult members of any rural household willing to do unskilled manual work at the notified wage*[2]. Households, therefore have a 'right to work'[3].

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[1] The conceptualization of the bill and its contents involved National Advisory Council (NAC: headed by Sonia Gandhi and included, among other people, civil society activists), Ministry of Finance, Ministry of Rural Development, Ministry of Panchayati Raj. For a detailed description, please refer to Chopra (2011a, 2011b).
[2] In this review, we will take the provisions of the act as given.

The act was operationalised through the National Rural Employment Guarantee Scheme (NREGS). The scheme started in the financial year 2005-2006 and it was rolled out in phases. Initially restricted to 200 "poorest" districts of India (February 2006), it was first extended to 130 more districts in phase II (May 2007) and to all districts by 1st April 2008.

The advantage of the NREGS as a poverty alleviation scheme is that the government does not have to identify poor households. The thought behind the scheme is that only needy households will self select themselves into the scheme, given the low wages and the nature of work (manual work).

Secondly, demand for projects is locally determined (explained in detail later) and aggregated up through the various tiers of the administration (block level, district level). The scheme has therefore been designed to be in tune with local needs.

The impact of NREGS depends on its efficacy in delivering work to households. But this necessarily involves many intermediaries, since, first, demand has to be aggregated up through various tiers of administration; secondly, funds have to be allocated among different districts, blocks and gram panchayats (GPs)[4]. The funds allocation is a non-trivial issue, especially, if there is rationing of funds.[5] These allocation processes involve local politicians as well as bureaucrats (state level as well as from the centre). Thus, the implementation of the scheme necessarily involves many levels at which political economy questions can be asked. It is not possible in one review to discuss all of them. Therefore, in this paper, we discuss the political economy of NREGS in the context of two broad questions which have received attention in the field of development economics.[6]

First, we investigate the link between NREGS implementation and the local political factors. As will be explained below in detail, decentralized implementation gives a big role to locally elected politicians. In this context, we review three sub-issues: First, do the characteristics (including political affiliation) of elected officials affect implementation of the scheme. This is necessarily linked to political competition between different parties and we examine, in this context, the role of local political competition on public good provision. Second, is there elite capture in the implementation of the scheme and how does it overlap with capture of the political process at the level of local government; Third: what are the implications of gender or caste reservation of political positions for the implementation of the scheme.

Second, given that centre releases most of the funds for NREGS but the scheme is implemented at a decentralized level, involving politicians who may have allegiance to the state government, what is the implication of centre-state relationship in how NREGS

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[3] In earlier formulations by the NAC, the scheme wanted to provide individuals "right to work". However in the final bill, this was left out as a compromise between social activists and the Ministry of Rural Development. For a detailed account, please refer to Chopra (2011a, 2011b).

[4] A Gram Panchayat is, typically, a conglomeration of geographically contiguous villages. The number of villages in a Gram Panchayat can vary from 1 to sometimes as many as 10 villages.

[5] Recent evidence, reported in a blog (http://www.ideasforindia.in/article.aspx?article_id=29: Last Accessed 12/09/2012) suggests this may well be the case.

[6] The choice of a development economics lens is largely driven by the background of the author. However, many of the same questions have been raised in the field of development studies and political science.

is implemented. This is especially important in two contexts: First, given that work recipients may not always be able to distinguish whether state or the centre is responsible for the functioning of NREGS, its implementation can be used strategically by parties. The centre, may, for example, cut funding if it feels that state governments are getting un-warranted credit. On the other hand, it may release funds to state governments who are governed by the same party so as to maximize the political gains.

 Second, the issue of wages has always been subject to wrangling between the state and the centre. While, state governments are given the right to choose the NREGS wages, there is a provision in the act (Section 6 of the act) through which the central government can retain some control. Centre-State relations can therefore also be examined through this lens: that of wage setting.

 It is important to point out here that this review largely examines the causal relationship going from political factors to public policy implementation. There is an equally interesting line of inquiry that looks at the impact of implementation of public policy on politics. While important and equally relevant, that line of inquiry is beyond the scope of this review.

In Section 1, we provide a brief summary on the specifics of how NREGS is implemented: its administration and financing. Section 2 provides a background on four themes that link political factors to the implementation of NREGS. We survey the literature and provide a summary of some research that may have direct bearing on how to conduct research in the context of NREGS. In Section 3, we summarize how to measure different political factors and NREGS implementation (citing some data sources) and point out strategies for investigating various hypotheses about how (whether) political factors determine NREGS implementation. Section 4 discusses an exploratory study and in doing so provides some recent evidence on the state of implementation of the scheme. Section 5 concludes.

1.   NREGS: *Modus Operandi*

There is great variety in the way NREGS has been implemented in various states in India[7]. Given that there is no one source that lists the variations in the way it's implemented across states, this section lists the *modus operandi* that was laid out when the scheme was first conceived (*The Gazette of India* Part II, Sept 2005)[89].

The NREGS is implemented through Panchayats at various levels:

(a)   Gram Panchayats (*Local Government*) are responsible for identification of projects in the Gram Panchayat Area (a collection of villages). They prepare development plans based on these projects and forward it to the Programme Officer. The project identification is done as per the recommendations of Gram Sabha and Gram

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[7] Anecdotal evidence even suggests district administrations implement it differently.
[8] The variation in how NREGS is implemented across different states is an interesting area of qualitative research.
[9] For a schematic view of how NREGS is implemented in Andhra Pradesh, see Afridi et al (2012).

Sansads[10]. Moreover, the Gram Sabha monitors the execution of the scheme within the Gram Panchayat and is empowered to undertake a social audit of all schemes implemented in GP[11].

(b) Programme Officer: usually the Block Development Officer (BDO) appointed by the *State Government*, consolidates plans from Gram Panchayats and Intermediate Panchayats . The officer also matches demand for employment with the employment opportunities in the area under his jurisdiction.

(c) Panchayat at the Intermediate Level: approves block level plans and forwards it to the District Panchayat for approval. Also monitors projects at the level of Gram Panchayats and Block. (*Local Government*)

(d) Panchayat at District Level: finalizes and approves the block plans and supervises work at the district level. This body is assisted by a District Programme co-ordinator. (*Local Government*)

(e) District Programme Co-ordinator (DPC): may be the collector of the district (*Central Government*) or any district official of appropriate rank decided by the State Government. The DPC "*prepares in the month of December every year a labour budget for the next financial year containing the details of anticipated demand for unskilled manual labour in the district and the plan for engagement of labourers in the works covered under the Scheme and submits it to the district panchayat*" (The Gazette of India Part II, Sept 2005).

Thus, as can be seen, there are various levels of governments enmeshed. The overall evaluation and monitoring of the scheme at the national level is done by the Central Council, which contains largely members from the central government (for more information see page 5 of *The Gazette of India*, Part II). At the state level, this evaluation is conducted by a State Council.

The funding for the NREGS takes place through a National Employment Guarantee Fund. The Central Government draws on this fund to meet costs of:
(a) payment of wages for unskilled workers employed under the scheme
(b) up to three-quarters of the material costs of the scheme (this includes wages to skilled and semi-skilled workers)
(c) a central government determined percentage of the administrative costs (salaries of various officials involved).

A similar State fund covers the part of the expenses that is borne by the state.
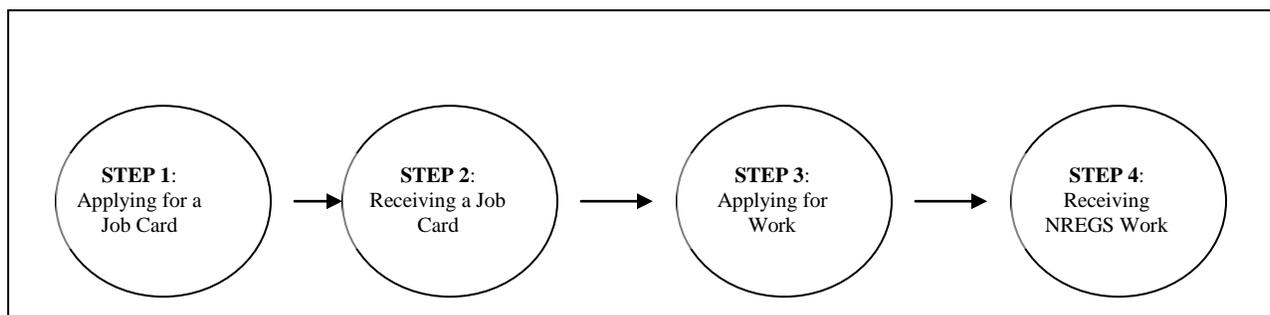
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[10] Gram Sabha and Sansads are local councils formed within the Gram Panchayat.

[11] This, again, differs from state to state. For example, consider how NREGS is implemented in Andhra Pradesh, There are three tiers of administration of NREGA projects in Andhra Pradesh - district, mandal and village. While the district administration is responsible for overseeing the implementation of the NREGA programme, the Mandal Parishad Development Office (MPDO) is the main agency for administering each NREGA project and sanctioning all financial payments for projects undertaken in that mandal. The village council's role is limited to recommending the list, and priority, of NREGA projects to be implemented to the MPDO. Moreover, the timing, frequency and conduct of social audits in a mandal are determined centrally by an independent body – the Society for Social Audit, Accountability and Transparency (SSAAT).

The setting of the wage for NREGS is a critical component as it is left to states to decide where to set them. However, the central government in 2005 moved an amendment in parliament to allow the central government to over-ride the State minimums, subject to the Centrally notified wage being a minimum of Rs 60 per day (MacAuslan 2008). This has subsequently (from 1st January 2010) been raised to Rs 100 and in 2012, it was indexed to the consumer price index for agriculture labour. (Sankaran 2011).

At a household level, there is more uniformity across states in how they can register for work under NREGS. The process of taking part in NREGS work at the household level has the steps illustrated in Figure 1:

Figure 1: Household participation in NREGS: steps involved

First, a household has to get a job card. For this, it needs to register its details with the Gram Panchayat. Once a household receives a job card, they may or may not apply for work. If a household member applies for work, the Programme officer is mandated to ensure each applicant receives work within 15 days of application (or the household must get unemployment compensation). A critical feature of this is that the unemployment compensation needs to be funded by the State Government.

In the initial phase of NREGS, wages were paid wholly in cash (and sometimes in cash and kind). This was changed in the financial year 2007-2008 and subsequently all wages have to be paid through Bank accounts and where banks were not available through Post Office accounts.

Having discussed how workers go about requesting NREGS work, we move on to describe in more detail how projects are decided. As mentioned before, the Gram Sabha recommends the projects. The Sarpanch[12] collates all these demands at the Gram Panchayat level and submits a demand to the next tier. The Act specifies the priority list of project. (See Appendix A for priority list of projects). Initially 8 project heads were laid down in the order of priority. Any other project had to be approved through listing 9 with state-centre consultation. However, further amendments (6th March, 2007 S.O. 323(E), 22nd July 2009 S.O. 1824 E, 22nd September 2011 S.O. 2202 E, 30th July 2010 1860 E, 4th May 2012, S.O. 1022 E) added more items to the shelf of projects. Moreover, the amendments allowed the order of priority to be determined by Gram Panchayats in the meetings of the Gram Sabha.

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[12] In some states, the head of the panchayat is called Sarpanch. In other states he is called Pradhan. For ease of exposition, we will use the term Sarpanch.

2. The political economy of NREGS: themes and some background

In this section we delve into some political dimensions that may explain variations in NREGS demand and uptake. The choice of these dimensions echo the political issues that have been modelled in the context of development economics and, while not exhaustive, cover many relevant dimensions when looking at the specific case of NREGS implementation.

We follow the following format for our discussion. For each theme considered, we provide some background of the empirical evidence on the issue. In particular, where available, we look at studies that have studied NREGS. These form the basis for suggestions of empirical strategies for future work which are discussed in the section that follows.[13]

A. Does the nature of political competition affect implementation of NREGS? What characteristics of elected officials matter for NREGS implementation: their ideology (party affiliation), their education or their wealth?

The implementation of NREGS is dependent on the local political structure (party affiliation/group identity of the Sarpanch) and the administrative machinery, some of which have been placed to redress complaints. However, it can be argued that, ultimately, it is the political will that determines the final outcome (Bardhan and Mookherjee 2010). That the implementation of NREGS is deeply affected by local party and village politics is an issue that has not received much attention to date (De Neve and Carswell 2011).

How elected officials behave may be driven by two objectives: they can be driven by their ideology (captured by Candidate-Citizen models of Besley and Coate (1997)). Alternatively, they may care only about the probability of winning (opportunistic). In the context of India, Bardhan and Mookherjee (2010) have investigated the two theories for the state of West Bengal, in the specific context of land reforms. There are, effectively, two competing parties in West Bengal: the Left Front with its strong political commitment to land reforms and the Indian National Congress (INC) that has, according to the paper, "traditionally represented big landowner interests" (this assertion can be debated in other states; for West Bengal, this is not a big assumption to make given that the Left Front is more to the left of INC). They use a sample of 89 villages, spanning a period of 24 years (1974-1998). They use land ownership and tenancy data for each village. Further, for their analysis, they collect data on Gram Panchayat elections and calculate the share of seats won by each party. They control for trends in voter characteristics

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[13] In many cases, these suggest avenues for future theoretical research. However, in this survey, I lay out strategies that are motivated by concerns related to empirical testing of hypotheses. Needless to point out, these strategies are not exhaustive.

over years by collecting time series data on household land ownership, literacy and caste composition of each village[14].

Using this data, they test the impact of Left Front's share of local government on land reform implementation. They find that areas with closer electoral contests witness greater subsequent land reform implementation. They find evidence for an inverted U shape. Marginal changes in Left Front seats, when the Left Front is not in majority seem to lead to higher implementation of land reforms. However, once the Left Front is in majority, subsequent marginal increases actually decrease the extent of land reforms implemented.[15]

This analysis of land reforms can guide us on how to think about political competition and how that affects NREGS implementation. The key message from the Bardhan and Mookherjee paper is that elected officials are more likely to try harder to implement NREGS better if the party they are affiliated to does not win a large number of GP seats in an area (for example, within a block). On the other hand, if they have a majority, they may be less likely to be serious about implementing NREGS.

Besides ideology, there may also be individual characteristics of the elected representative that make him/her more likely to implement the scheme better. Besley et al (2005), in their study of 259 villages in Andhra Pradesh, Kerala, Karnataka and Tamil Nadu (surveyed in 2002), find that individual characteristics do matter for both being elected into office at the GP level, as well as implementation of programmes (distribution of BPL cards in their context). Their main result highlights the role of education. More educated candidates are more likely to be elected and to be less opportunistic (in this paper, this is measured by the probability of a politician having a BPL card relative to other non politician households). Further, interestingly, it is found that while land ownership and political connections make a person more likely to be elected, they have no differential impact (as compared to those who get elected without these advantages) on how they implement policies.

Some of these results are more suggestive than conclusive. In particular, there is an identification issue in the specifications. Consider the impact of land ownership on how an elected official affects policy. To begin with, we allow for a potential impact of land on both the probability of being elected and whether a household has a BPL card. The estimation is carried out by first modelling the probability of an individual being elected as a function of various characteristics, including land ownership. The predicted probability from this first stage is then used as a control in the second stage model where BPL card access (interpreted as implementation) is modelled as a function of various characteristics including land ownership. The intuitive idea is that since we have now controlled for the probability of being elected, we have purged the BPL

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[14] They collect the information for 1978 and 1998 and extrapolate for all other years at an annual frequency.

[15] The paper provides a theoretical model that produces the inverted U shape. The components it includes are heterogeneous redistributive preferences of two competing parties, re-election concerns and rent seeking motives of the candidates. Under certain parameter values, a more lop sided electoral contest translates into lower redistributive effort by the dominant party, leading to the falling part of the inverted U.

implementation equation of this effect. However, such a model depends crucially on the correlation between the predicted probability and land ownership. If, for example, as an extreme case, land ownership is the only variable that explains the probability of being elected, then the predicted probability will be highly correlated with the land ownership variable in the BPL implementation model. In this case, it is likely that one of the variables comes out statistically insignificant since the model is not able to pin down with precision the exact channel. In such cases, the classic solution is to have excluded variables: those that affect one of the models and not the other. However, *a priori*, it is often difficult to argue that a variable affects election, but not subsequent performance. Indeed in the paper, there is almost no discussion on this. However, since the statistical significance of variables is in-spite of (and not because of) the stated problem, the result on the importance of education is an important result that may be relevant in understanding what characteristics of elected leaders affect NREGS implementation.

B. Is there local capture of the scheme, given that people have a "right" to get work and complain if they are not compensated?

Since NREGS is based on a 'right to work', it may be contended that grievances against local capture may be taken more seriously. Indeed, in some states like Andhra Pradesh, there are independent audit agencies that go door to door to register complaints (Afridi et al 2012). The natural question, then, is what determines local corruption in the scheme. Is there a capture of the local administrative and political machinery by local elites, so that there is no effective bite to the possibility of complaints? What characteristics of voters allow the local political machinery to be corrupt?

There is growing evidence that there is indeed corruption in NREGS implementation. Niehaus and Sukhtankar (2011) provide evidence on the leakage in this scheme due to corruption in NREGS. According to them, while statutory wages were budgeted, local officials, both political as well as administrative appointees, did not always pay the workers their entitled wages. Using primary survey data in Orissa and tallying official NREGS records with actual surveys, the authors find a 100 percent marginal leakage due to corruption. An increase in notified wages from 55 to 70 during the time of survey was not paid to the households (who knew about this increase) while claimed in the records by officials. The authors ascribe this to a lack of "voice", an inability to complain to any political or administrative superior. Since the section of people working on these scheme were poor, this reflects one of the failures of decentralization and the fear of local capture is found to be very real in this particular study.

The issue of local capture is also explored in Jha et al (2008). They use a pooled household level data set for the states of Rajasthan and Andhra Pradesh and find that while the size of land holding has a negative relation with NREGS participation in Rajasthan, it has a positive correlation in Andhra Pradesh. This reflects the possibility of programme capture in Andhra Pradesh and points to better targeting in Rajasthan. To explain this difference, they look at political economy explanations. They find that the hypothesis that more competitive political systems are more likely to have lower capture does not hold, as both the states have a similar competitive two party structure. Another argument that has been put forward by Chhibber and Nooruddin (2004) is that multiparty democracy increases the incentive for politicians to pursue the mandate of their own

(social group), where as in a two party system, parties have to compete with each other across all social groups. However, this is not found to be an explanation for the difference between the Rajasthan and Andhra Pradesh. The main political explanation put forth by Jha et al is that the local politicians are considerably more involved in Andhra Pradesh than they are in Rajasthan, and use NREGS to advance the interests of their followers. This tends to create capture of the benefits from NREGS.

Theoretical models as in Bardhan and Mookherjee (2000) have looked at the link between public provision and local capture and found that the level of local capture (as compared to capture at the national level) is linked to the number of voters uninformed about the policy.[16] These models (especially that of Bardhan and Mookherjee 2000) highlight the role of awareness (being informed) as a crucial part of the process of local capture. The usual assumption made is that the poor are uninformed. However, the NREGS mandates that decisions on the projects are made in Gram Sabha so that the poor can be informed. Moreover the poor may have access to networks that provide them the information about NREGS.

The evidence that lack of awareness of the scheme as well as the right to complain is important is provided in a paper by Shankar and Gaiha (2011), which asks if social and political networks affect how aware households are about NREGS and whether this makes them more likely to complain when they do not receive benefits. This study is based on data sets from Tamil Nadu and Andhra Pradesh. Since both states have a predominantly two party system, fifty percent of villages are purposively chosen so that the sarpanch is affiliated to Congress and other half sides with TDP in Andhra Pradesh; in Tamil Nadu, a similar exercise is done but the parties involved are DMK and AIDMK. Using ethnographic information for these villages, which includes questions to the households on whether, in the previous year, they had attended meetings called by political parties and whether they had made financial contributions to any political party, a political networking variable is created and is aggregated to form a village level political networking variable. Further, it is asked if any individual from the household has attended a Gram Sabha meeting and this is taken as a proxy for political participation and being part of a political network.

The paper characterises those who are politically networked. They find that, in Andhra Pradesh, the relative probability of a household belonging to a political network is higher in villages where households participate in political meetings and contribute financially to political parties (though it was probably not correct to use the same households to construct village averages). In Tamil Nadu, in contrast, it is found, that the relative probability of being in a political network varied with higher ownership of mobiles and TVs in villages and inequality of land holdings.

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[16] Their focus is different in that they seek to compare capture at the national level versus local level. However, given the decentralized nature of the scheme and lack of comparable policies implemented at the central level, a comparison of capture at various levels of government is not possible. Besley and Coate (2003) and many papers that use their set up also discuss the comparison between national and local capture. While theoretically relevant in discussions of NREGS in comparison to other policies that are more centralised, it has, to my mind, limited empirical content.

Developing this further, the authors next link this to NREGS awareness and find that in Andhra Pradesh, people who are networked are more likely to be aware of the promised facilities during NREGS work (Crèches, Work within 5 kms, Unemployment allowance). More striking, perhaps, is the result that individuals who are the same caste as the *sarpanch* are more aware. These results are echoed also in the case of Tamil Nadu and in the case of complaints when faced with benefits at odds with what is mandated.
The crux of the matter in both states, then, is the profile of people who are politically networked. It is the educated who are politically networked (attend Gram Sabhas) and are more likely to complain if NREGS benefits do not reach them.

The studies mentioned in this section reflect that lack of awareness and lack of voice are two important determinants of local capture of the scheme. Given that often the poor and uninformed are people from scheduled castes and tribes, it is then interesting how political reservation for the scheduled castes and tribes inter-plays with the implementation of NREGS.

Moreover, Chattopadhyay and Duflo (2004) found that in village councils with a female head, public investments reflected the preferences of female voters, exemplified by drinking water and roads, more strongly. Given that in many states like Andhra Pradesh and Rajasthan, there are many women working on NREGS, gender reservation for political positions may have an important role for NREGS implementation. This leads us to the third question:

C. What are the implications of caste and gender reservation of elected positions for the implementation of the scheme?

As mentioned above, since the poor are from disadvantaged castes, it is expected that they would benefitmost from the scheme. However, this may need political activism by the representatives of the disadvantaged castes. The effect of NREGS can then be studied through the lens of reservation and political activism of the disadvantaged social groups[17]. This theme has been studied before in the Indian context, most notably by Banerjee and Somanathan (2007) . They empirically examine the political economy of public good provision in India. The period of 70s and 80s was one where the national government took up a policy to provide large number of public goods to villages. Banerjee and Somanathan look at the change in the provision of such public services over the period 1970-1990. Using census data and taking advantage of the fact that the constituency boundaries did not change much over this period, the authors ask whether there is convergence in the public good provision. A non-convergence would imply that the stated aim of the government was nullified by capture at some level. The period of study is also one where policies that favoured socially backward classes were taken up. Therefore the paper also tries to examine if they indeed had some bite or were the rights of the social groups still subverted by the elite classes. This is motivated by the finding that in 1971 social group identities were strongly correlated with access to public goods. Following prior research by Alesina, it is further examined if social heterogeneity negatively affects public good provision. The political economy variable as well as the social heterogeneity indices used in this paper are fractionalization indices (given by

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[17] This is closely associated with our first theme which looks at characteristics of elected individuals.

$1 - \sum_1^n s^2)$, where, for example in the context of political economy, s stands for the vote share of the n political parties).

The results in the paper do point to some convergence over time. Twelve out of fifteen indicators grow slower if their initial level in 1971 were high. However, this would be heartening if the initial levels were near saturation levels. But half the public goods considered were available in less than 5 percent of Indian villages and in less than 10 percent villages 1991. The authors give credit of this modest growth to the political movement of "Garibi Hatao", the poverty alleviation programmes followed in the 1970s.

This link is suggestive but not hard to believe. Stronger evidence on political economy considerations come from the contrast between Scheduled Castes and Scheduled Tribes. The emergence of Dalit politics over the period had increased political representation of Schedule Castes interest and led to better outcomes for Scheduled Castes as compared to Scheduled Tribes (and Muslims). The authors indicate that the emergence of Dalit parties as a breakaway movement, frustrated by the upper-middle class domination of INC, was largely responsible for their political activism and their wrangling for access to public goods.

The issue of reservation for socially disadvantaged groups and on public provision has been more directly studied by Pande (2003). This paper finds that political reservation for minority groups has redistributed resources in their favour. Further, the legislators from these groups have transformed the nature of redistributive policies: the policies have moved from general re-distributive policies towards more targeted policies.

Pande develops a theoretical model which works in three stages: in the first stage, parties chose candidates; in the second stage, the voters choose candidates and in the last stage, elected candidates choose the redistribution policies. The main theoretical result that is tested is if parties cannot commit to what policies their candidates will finally follow, then relative to an equilibrium with no low-caste candidates, political reservation increases the probability of targeted redistribution policies. This hypothesis is substantiated using state level data from India from 1962- 1992. Scheduled Castes reservation is found to favour job quota policies while Schedule Tribe reservation is found to favour welfare programmes. This contrast provides an indication on the general preferences and profile of these communities and while things have evolved over the two decades since, these preferences may indeed have important bearing on how disadvantaged groups benefit from public programmes.

While the literature on public goods and its provision in India is vast, the literature specific to NREGS is nascent. Probably the most influential and nuanced paper written so far is Khosla (2011). Khosla, in his paper, looks at the effect of caste reservation policies through the lens of NREGS. His contention is that the *"profile and history of caste competition in the state, the fragmentation and intensity of partisan politics, the presence and nature of alternative structures of power such as the bureaucracy and grass-roots civil society organizations, and finally, the incentives surrounding the distribution of certain public goods provided by panchayats."* (page 63) affect the efficacy of caste reservation. The author looks at the specific case of Andhra Pradesh and delves into the effect of reservation of minorities at various levels of governance. Andhra Pradesh has also seen a relatively better implemented NREGS. However,

contrary to this being touted as a success for a decentralized implementation with caste reservation, many have pointed out that NREGS has been successful because it is controlled by the bureaucrats and not the Gram Panchayats (GP).

To investigate these claims, the author uses electoral, reservation and NREGS employment data at the GP-level from 2006 to 2009. Since the reservations are not random- grams with the highest proportion population of the relevant caste get reservation first, the authors follow a regression discontinuity design approach- where the last gram in any electoral cycle is compared with the first gram in the next electoral cycle (though it's not clear what is the band-with around this point of discontinuity). The author drops other "uninteresting" cases (for example, the case of reservation in a community where the reserved caste is already a majority in the population); in the end, the regression run measures the effect of reserving the sarpanch seat for a Backward class or SC (versus leaving the seat unreserved) on the participation of that community in NREGS work. The author finds that the only case where reservation matters is the case where Backward Castes have reservation in Coastal Andhra Pradesh and the re-allocation happens solely due to the sarpanch.

To explain the results, the author goes deeper into understanding the link between politics and NREGS. It has been contended by some commentators that when competing parties control adjacent levels in the panchayat hierarchy, administrators face institutional frictions. Thus the paper attempts to measure the impact of the panchayat election in 2006, after which the INC came to dominate almost all district councils, on the distribution of NREGS disbursement to the levels of administrative blocks below (Mandals and Grams).

The author finds that the average disbursement (in terms of total workers hired and total days of work assigned), controlling for caste population, is higher in mandals that are firmly in control of INC (in coastal AP) than areas that are in the opposition (TDP) stronghold or where different parties are in power at different levels. INC strongholds enjoy a 22-29% of a standard deviation increase in employment relative to TDP strongholds and 15-21% of a standard deviation increase relative to areas where both parties are in power at different levels. These patronages however, end at the mandal level and the INC is not able to target the patronage at the Gram level. That the same patronage does not happen on party lines in Telengana is "explained" by the observation that the bureaucracy has a larger control over NREGS.

In understanding patronage at the Gram level, to comprehend how caste reservation may affect NREGS, the author separates out two scenarios. It is argued that, when parties are competing for a reserved seat, the caste rivals of a reserved group will have an incentive to field a candidate who is willing to prevent distribution of funds to his own group. On the other hand, members of a reserved caste community will aim to form political alliances to bring a strong leader. Thus depending on who wins, the effect of reservation can be different. Thus two empirical exercises are carried out, one in areas where the sarpanch is backed by INC and another, in areas where he is backed by the opposition party. While there are no effects for Telangana, Coastal Andhra Pradesh again shows some significant results. The sarpanch backed by INC show a significantly larger proportion of SC workers employed under NREGS due to SC reservation. But SC reservation has no effect where sarpanch's are backed by the opposition. The results

for Backward caste reservations are opposite and are consistent with the caste-biases of the parties. These effects are largest when the proportion of these oppressed communities are smaller in population of the gram.

The coalition and competition between the different caste groups play an important role in determining who gains from NREGS. It is argued in the paper, that caste composition in Telengana (which shows no effect) is very different from that in Coastal Andhra Pradesh. A Gram in coastal Andhra Pradesh has a large SC community along with a relatively large Upper Caste community. These two communities can form a coalition for the reserved SC sarpanch and NREGS funds flow uncontested to SCs. In Telengana however, the Backward castes and SCs form large communities. Therefore there is competition and a reserved SC candidate finds it difficult to transfer funds to the SC communities. The author finds that if one were to consider grams with large BC and upper caste communities, SC reservation does have a significant impact on employment of SC households. However, in Grams with higher population of SCs, the effect of SC reservation is small, as the reservation *per se* is not needed to target funds to the SC households.

This interesting paper is described in detail because it sheds light on the need to have an understanding of community politics to gauge NREGS works. Indeed, the author himself argues that one of the main points of the paper is to show that the same political model cannot work and ground realities need to be factored in. A more practical implication, perhaps, would be to conclude that any empirical exercise needs to factor in some idiosyncrasies at the gram level.

The NREGS specific literature on gender reservation is nascent. In a recent working paper by Afridi et al (2012), there is some proof that reservation of Sarpanch position for women, in the context of Andhra Pradesh, increases the number of complaints in social audits (conducted by an independent audit authority). Therefore, it would seem that women sarpanch's do not necessarily lead to better NREGS outcomes. However, in so far as corruption in NREGS may happen without the involvement of the Sarpanch, this result can also be viewed positively: that people (especially women) are more confident about complaining when the sarpanch is a woman.

So far the discussion of NREGS has only highlighted local administrative and political players. NREGS is a flagship programme of the Indian National Congress; a programme that channels a large amount of funds to different states. Given that the centre releases most of the funds for NREGS but the scheme is implemented at a decentralized level, involving politicians who may have allegiance to the state government, our fourth question is:

D. *Does centre-state relation affect how NREGS is implemented?*

There is some prior work on this theme, especially in the context of India, though nothing on NREGS *per se*. Arulampalam et al (2009) study the allocation of grants from the centre to the state and whether they are motivated by political objectives. The authors first develop a theoretical model and empirically test its implication in the context of India. In their model, there are two parties *L* and *R*; and two levels of government:

Centre and State. The baseline model assumes that the incumbent party at the centre (say *L*), is interested in the electoral performance of its own party at the state level. The centre can allocate grants to the state to fund development projects. However since grants are channelled through the state government machinery, voters do not always realize that the project is funded by a central government grant. Hence the goodwill generated by the project is shared by both the incumbent parties, at the state level as well as at the centre (the exact proportion is a parameter in the model and a tool for comparative statics). In this case, the incentives to transfer grants to states depends on the value of this parameter. Of course, if the same party is in the centre as well as the state, then it receives all the goodwill and the centre has incentive to transfer greater amount of grants to the state. The over-all objective of the central government is to maximize, by appropriate centre-state transfers, the vote share across different states. An additional wrinkle is introduced with the inclusion of "swing states"; a "swing state" is one where the mass of ideologically unattached voters is largest. The authors find that if grants are "small", then the centre will unambiguously provide states with more swing higher grants, even more than states that are aligned to it. The intuition of the argument is that the centre can maximize its votes share by having the independent voters in its corner, by providing grants. A particular theoretical extension that is mentioned but not explored further is 'what would the centre do if it could manipulate the proportion of goodwill it gets' (so as to convince voters that it was responsible for the provision of the public good)? The matter is complicated by the fact that states, not aligned to the centre would also make simultaneous posturing. This case is interesting because NREGS may be thought of as one such targeted scheme where the centre may, credibly, be able to manipulate the goodwill of voters. However, what the states will do and how this plays out in equilibrium is an extension that needs to be explored further.

The authors next take this model to data from India. They consider annual data for the financial years 1974-75 to 1996-97 for 14 major states in India. The dependent variable is the per capita transfer by central plan schemes plus centrally sponsored schemes. The main prediction of the model that can be tested is that states that are aligned and swing states obtain more grants relative to non-swing states, irrespective of whether they are aligned with the central incumbent or otherwise. The two main political variables considered are SWING (swing states) and AL (aligned states). AL takes the value 1 for a state *s* in period *t* if the central government and the state government on March 31st of the previous financial year *(t-1)* share at least one political party and there is no president's rule. While this creates no problems for the period being considered, one needs to be more careful in later periods, due to formation of coalition governments. SWING is constructed using both Vidhan Sabha elections and Lok Sabha elections. For a constituency *j*, the authors calculate the difference in vote share between the 1st (winning) and 2nd most popular parties (and further normalized). A cut off difference of 1 percent is chosen and a constituency is defined a swing, if the difference in vote shares is less than this cut off. The proportion of such constituencies is then calculated at the state level and serves as an independent variable. For robustness, authors take other values of the cut off from 2 to 10 percent (each signifying a different definition of the tightness of the race). With these variables and other controls, authors find clear evidence that supports their hypothesis.

Another influential paper that looks specifically at the politics of expenditures motivated by electoral objectives is Khemani (2004). This paper estimates the equilibrium effect of
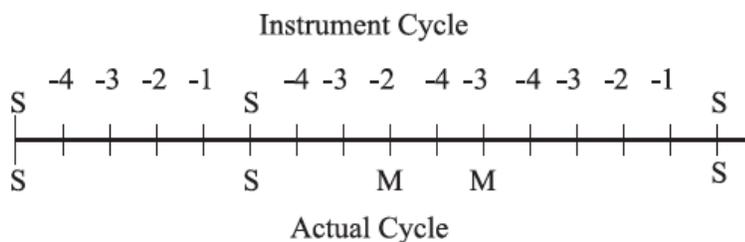
elections on public policy in the Indian states. Using State legislative assembly election data from 1960-1992, it looks at sources of taxes and expenditure (representing public policy) and whether they are affected by election. In the process, the authors also provide the effect of elections on state's delivery on road infrastructure investment. The main technical problem the paper grapples with is the endogeneity of elections, that is, incumbent political parties may call for elections when conditions in the economy are good. To deal with this, this paper distinguishes between scheduled elections and midterm elections. The innovativeness in this paper is this distinction, which can be used in other contexts. Hence it would be fruitful to elaborate on this.

If elections took place after five years only, they would be exogenous. However, the history of state elections is full of midterm elections (about 34 percent of them till 1992). The paper contends though, that in any election year, the year of the next midterm election is not known and hence exogenous. Hence, given that it is often a shock, it is not likely that governments plan economic policies in anticipation of the exact year of the midterm polls.

 The paper constructs an instrument based on the following timing:

S=Scheduled Election

M=Midterm Election

Here the negative numbers stands for how many years later the next election took place. For example in the figure above, after the first midterm election, the next election (also a midterm one) was after two years, thus the number -2 for this election year. The sequence of the negative numbers (Instrument Cycle) forms the instrumental variable since the next election is largely unexpected.

In case the occurrences of mid terms are state specific, state fixed effects are employed. The trickier problem is how to deal with persistent shocks that cause mid terms polls and remain in the system and the paper deals with it by testing if the effect of normal election years is the same as the effect of the mid terms years.

Khemani notes that often, midterm polls are brought about by imposition of presidents rule. In this case, political affiliation would be a "persistent shock" "…*since the electoral effect could be the result of comparing systematically different policies adopted by aligned and nonaligned states, and not the result of strategic manipulation by governments facing elections". (*page 137) To check for this, the paper takes into account whether the state party was affiliated to the centre. Results using this variable do yield that elections matter for choosing policy (the exact details for which can obtained from the paper).

The centre-state political game may well be at play in the context of NREGS. There are hardly any empirical studies and most prior work is merely indicative of forces at play.
In the context of Centre-State political game, the political economy of wage setting is an interesting aspect of NREGS. While in the original NREGA decree (before it was passed), the wages were mandated to be at least minimum wages, subsequently the centre was given the overarching powers to notify any wage rate for NREGS workers as long as it was not below Rs 60 per day. Sowmya (2010) discusses this aspect of wage setting. While one can make the argument that INC affiliated state governments would have the incentive to provide the highest wages, since it was an INC programme, Sowmya makes the opposite argument: that, the non INC states, on many instances raised the mandated wages so high that INC had to invoke its special powers. This has lead to an effective capping of wages and in the bargaining between state and centre, the centre is the effective deciding power.

Since the centre provides most of the funding, it should, ideally, get the political benefit from NREGS. However this assumes that people have perfect knowledge. Also since the state may need to bargain with the centre to raise wages, an increase in wages may often seem victories for the state government. For example, "...*in Uttar Pradesh, there have been successive increases in minimum wages, from Rs.58 a day to Rs.100 a day within a couple of years. The final hike to Rs.100 came on the personal intervention of Chief Minister and BSP leader Mayawati. It was a shrewd political move, which created unprecedented interest in the programmeme among the rural poor and took the wind out of the sails of the Congress as far as taking credit for the NREGA in Uttar Pradesh was concerned.*" (Dreze and Oldgies (2009).

Another case to substantiate this point is illustrated by Chakraborty (2007) who showed that the initial uptake of poor states was very low. The fund utilization for states like Bihar, Uttar Pradesh, Jharkhand was low. There can be two reasons for this. It could be, as pointed out by the author, that the poor administrative set up in these poor states were not equipped to handle how to spend the money. However, another explanation may be important: notice that Bihar and Uttar Pradesh were also non INC states and it is possible that the state government machinery was unwilling to allow a central project in; hence very little was spent in the early days of the NREGS in these states.

A case report that substantiates this hypothesis is Louis (2006). In this short piece he chronicles the slow uptake of NREGS in Bihar even eight months after funds were released to it. The reticence of the non INC government to get going on NREGS can be envisaged by the fact that even in December of 2006 (the scheme was "implemented" in January 2006), the State Employment Guarantee Council, a state level implementing body had not been constituted.

3. Challenges of data and strategies to identify the link between political factors and NREGS implementation

In this section, we try to triangulate the literature on various themes and to provide some empirical strategies that may be used in conducting future work.

The first challenge is to measure NREGS implementation. This can be measured in various ways:

Financial: One can measure the total funds sanctioned to a GP (or a larger aggregate: block or district). It is almost equivalent to look at expenditure on NREGS (Government accounts on *www.nregs.in* usually show 80-90 percent of funds sanctioned are utilized). Total expenditure is broken down into expenditure on labour (wages), expenditure on materials and on administrative costs. The proportion spent on these are more or less prefixed. Therefore those seeking to elicit corruption by looking at the proportions will not learn anything.

Real: One can alternately measure real inputs and outputs. The total number of beneficiaries (number of individuals and households[18]) who have worked on the scheme for each financial year are available. Further, names of people who have worked in a GP are listed with the number of days they have worked in each project. More-over the details of the number of projects sanctioned, completed and ongoing are reported at the GP level.

The corruption in NREGS is not in the inconsistency of accounts. Government functionaries are required to audit expenditures and the funds flow. The corruption may arise in the creation of fictional projects, with accounts for individuals which are credited wages but who have never worked and sometimes have no idea that an account has been opened in their name [19]. In cases where there is brazen exploitation, local authorities may charge individuals for providing work. Therefore their effective NREGS wages are not as reflected in accounts. In addition to these, there are anecdotal accounts of siphoning of material expenditure.

In view of these circumstances, how does one measure corruption. One way is through a primary survey. A comparison of official data (available on the NREGS website or on the job cards/passbooks) and data reported by households may measure the extent of corruption. It is however, contended that materials expenditure is where most of the corruption takes place. In so far as primary audit of projects can be made, if projects are fictional, then they can be detected. If the project is not fictional and some work has been undertaken, then the auditing is more technical and would need an engineer to evaluate the work-site to figure out if the material expenditure is warranted.

Elite capture can be measured through availability of job card/ availability of work to households which belong to more endowed (elite) households (relative to the non elite

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[18] For some states, gender and caste composition of participants are available.
[19] In some cases, these accounts may be opened with the consent of individuals and they may receive a cut to remain silent.

households). For example a primary survey of a village can yield the number of SCs/ landless / poor households that are looking for work but don't get NREGS work[20].
The second challenge is to capture the political factors that may be relevant. Gram Panchayat election results are available with the election commission office (or can be collected from the Gram Panchayat Offices themselves). Election data for higher aggregates: for example assembly and parliamentary constituencies can be sourced for the election commission office (in many cases from the election commission website). The vote share of each candidate is also available as is their political affiliations. Some data on Sarpanches are available on state election websites. However, to get information on margins of victory in Sarpanch elections one needs to conduct a primary survey (or to visit nodal administrative offices for records).

Given these data, what are the various strategies one can use to answer questions raised in the previous section.

(a) Local politics and NREGS Implementation: Does local political competition affect NREGS implementation? In line with the work done by Bardhan and Mookherjee (2010), one can ask whether the implementation of NREGS depends on the seat share of Indian National Congress (INC) in local elections. Similar to the Left Front in West Bengal, which may have been ideologically driven to support land reforms, the INC may be intrinsically more in favour of the scheme since they can claim they conceived it. On the other hand, they could purely be interested in winning local elections. Therefore one might plausibly find an inverted relationship of INC share in local GP elections and the subsequent implementation of NREGS.

Another connected issue is the characteristics of the elected official. We have already noted above that his political affiliation to a party may affect how he may implement NREGS. Apart from their political affiliation, there could be other characteristics that determine how motivated he is to implement NREGS. Where he stands in the community, his individual characteristics together with the village characteristics may define the implementation of NREGS at the village level. These can be looked at in an empirical framework that models the implementation of NREGS on individual and village level characteristics (with due regard paid to separating out the effect of the characteristics on election and subsequent implementation of NREGS).

(b) Local Capture and Political Factors: So far, most of the research has looked at what determines capture and the answer is the awareness or lack of voice. However, there may be an existence of a patronage system with the *Sarpanch* who has the same affiliation as the party ruling at the assembly level being able to siphon off more funds. These would require constructing a data set with

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[20] Similar questions are also present in secondary data. The 66th round of employment-unemployment conducted by the National Sample Survey Organization (NSSO) captures some of this information. However, the lowest level of disaggregation for which reliable statistics can be obtained are large districts or "state regions" (which are a collection of districts that are clustered within a state).

political linkages between assembly and GPs and investigating whether there is more capture when they are aligned.

There are also other local factors that determine capture that have not been investigated. A GP is typically made of 8-10 villages and the Sarpanch may have to decide how to allocate work among villages. Do some villages with affiliation to the Sarpanch capture all the NREGS work leaving other villages that may have opposed the Sarpanch without work. This involves capturing the distance of the Sarpanch from various villages, either geographically, ideologically or in terms of community affiliation (caste/wealth). The intra-village allocation of NREGS work is an interesting area of research within NREGS implementation that has remained neglected.

(c) Does caste reservation have a role to play in how NREGS is implemented? The work of Khosla is the beginning of this enquiry. Its coverage is just one state. Detailed caste information on villages could be used along with reservation information to figure out if NREGS has been good for the disadvantaged classes. The paper by Pande has pointed out that the Scheduled Castes have been successful in getting job quotas for their community. Do they also implement the scheme better than Schedule Tribes? The poor performance of Jharkand and Orissa (with large ST populations) would suggest that this may be an interesting line of enquiry. The same logic holds even between different religious groups. Muslims have been shown in many states to have a low uptake of the scheme (for example Uttar Pradesh); is this because of village communal politics or just because Muslim women are hesitant to work on the scheme?

Similarly the work on the impact of women leaders on NREGS has just started with Afridi et al (2012). Would the results go through in other states? Female labour force participation in NREGS work is equally high in Rajasthan. Does female leadership work equally well in such states. Recall though, that even Afridi et al have not shown that female leadership improves NREGS implementation. Are there states where this has been true or does status of females in society matter? Would the result be the same in Kerala?

(d) The fourth theme can be investigated further with secondary data. This work would be more in the spirit of Arulampalam et al. The objective of this research agenda would be to see if alignment to the central party (INC) makes a difference to the implementation of NREGS. Arulampalam et al point to some implications of swing and alignment of states on centre state transfers. These can be tested in the context of NREGS. There can be various issues of interest in this domain. For example, do states ruled by INC (or partners) spend more money on NREGS than other states? Are there political economy explanations to low utilization of funds (as pointed out by Chakraborty). Do states aligned to the centre ask for higher wages? (As a future agenda, this may be nullified by a recent decree by Ministry of Rural Development to homogenize wages across states). An associated question is whether centre transfers larger amount of funds when a state is close to an election year. In this context, the strategy of using midterm polls can be used to deal with endogeneity. Even for Lok Sabha elections, it is

pertinent to ask if the INC targeted NREGS differently between constituencies. This theme of enquiry is motivated largely by the assumption that the centre is not providing money for the scheme passively to demands made by lower levels of government. Anecdotal evidence, as well as past studies discussed above, suggests that this is indeed not the case.

With these questions in mind, we provide, next, a sub-national picture of where implementation of NREGS stands. To do so, we conduct a brief analysis of secondary data available. The results of the following section are completely exploratory in nature.

4. State level NREGS outcomes: an exploratory look

(a) NREGS Central Funds and Expenditures:
In this section, we look at some broad trends in state funds and expenditures. For this exercise, we take into account the larger states (and where the funds are not driven by other considerations: for example Jammu and Kashmir and the North Eastern States are not taken into account). Figures 2 and 3 (at end of document) plot the total funds available and the expenditure on NREGS by state and over three financial years 2008-09 to 2010-2011. The first thing to notice is that the trends in total expenditure and total funds released are more or less similar over the years. States which have larger funds also have larger expenditures. Andhra Pradesh, Karnataka, Madhya Pradesh, Rajasthan and Uttar Pradesh have large funds and their total expenditure is the largest. There are some temporal anomalies worth investigating: for example the rise in revenue and expenditure in Andhra Pradesh, and the fall in Rajasthan in the financial year 2010-2011. Are there any differences among INC and non INC states? In the financial year 2010-11, the mean funds available to states ruled by INC was INR 269340 lakhs, while the amount available to non INC ruled states was INR 255250.5 lakhs. In terms of total expenditure however, INC states only spent INR 173507.1 lakhs while the expenditure by non INC states was INR 202998.3 lakhs[21].

These figures may however be misleading as the total funds and expenditure are surely driven by the total demand for the projects. However the demand for NREGS by households is not observable. Therefore we use two ways to normalize this. First we normalize the total funds and expenditure by the total number of households who, according to NREGS website records, demanded employment in the previous period. We discuss the results looking only at the funds and expenditures in 2010-2011.

Figure 4 (at end of document) shows that once normalized by last year's demand, the funds and expenditures vary much less. In fact, INC states show a lower per household availability of funds (INR 9956.2) and expenditure (INR 7300.8) than non INC states (Funds : 10962.2 & Expenditure: 7789)[22].

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[21] 1 INR is around 85 GBP. A lakh refers to 100,000.
[22] Results are similar if normalized by the number of households demanding work in 2010-2011.

This would seem to suggest that in terms of funds, there is no discrimination. In fact, non INC states ask for more and spend more.

Is the story different if one were to use different ways to measure demand? If there are deliberate errors at the level of data entry, it is possible that the numbers are inflated, some of which may be politically motivated. We follow another method which uses another source of information: the National Sample Survey consumption and employment rounds in 2009-2010 (66th Round).   We merge state level total funds availability and expenditure for the financial year 2010-2011 from the NREGS web site with various indicators of NREGS uptake from the NSS survey. To begin with, we try to model some structural factors at the state level that should affect demand for NREGS funds. The number of poor should affect the demand for NREGS work. We calculate state level number of "poor" using the consumption survey and using an all India poverty line. The poverty line used is the less conservative poverty line suggested by the Tendulkar committee (we adjust the poverty line which was calculated for 2004 using CPI for Rural Labour).   Since the requirement for getting work is a job card, the proportion of people who have registered job cards would go into the calculation of funds needed. Moreover the funds required should, in principle, depend on the notified wage rate. To these, we add a dichotomous variable that indicates whether the state party in power in 2010-2011 was INC-UPA or Non INC. Our attempt is to check the sign of this variable. Since the regression is done with 18 observations, it would be prudent to take the results in Table 1 (at end of document) as indicative and to be liberal in looking at statistical significance of the results.

Reassuringly, the number of poor in the state does determine state fund allocations as is the proportion of people registered with job cards. Surprisingly, the level of notified wages has nothing to do with the total funds available or expenditure and have a negative coefficient. Interestingly, if the state government is part of UPA, we find that total funds available are higher. This result is significant at 12 percent which indicates this might be a robust result. In the case of expenditures too, we find a positive (though statistically insignificant) relation between a state party being part of UPA.
This is a first indication that if the demand is measured better (rather than what is officially reported), then it may be possible to extricate linkages between politics and Centre-State transfers on account of NREGS.

One can break up the expenditures further.   The NREGS website also reports expenditures on wages, materials and administration. In Table 2 (at end of document), we look at the determinants of the individual expenditure heads. We find that for wage expenditures, the number of poor and job card holders are important. Surprisingly the notified wages come out to be insignificant for wage expenditures[23]. However, recall that the notified wages are for 2009 while the funds are for 2010-2011; so there is no simple mathematical relation which links them. Another plausible explanation is that if the wages are higher, then the expenditures are redirected away from labour towards machinery. The political variable (INC) is positively related to all the expenditures and

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23 In order to ensure, we are not getting the timing of wages wrong, we check the same specification with the total number of people working on NREGS from the NREGS website. We find reassuringly that the coefficient of notified wage is positive (but insignificant).

the result is statistically stronger for wages and administration. Thus it would seem that having an INC/UPA affiliate government at the state does seem to increase funds availability and certain kinds of expenditures.

These results are in line with some of the theoretical results that find that aligned states get a larger share of central funds However, central funds are only one way that the centre can favour its aligned state government. Next we consider another tool to favour its aligned states: notified wages. There is a tension here in central government objectives. While it wants to reduce its fiscal burden, it also wants to give constituents of aligned states a better deal: a higher wage. In the next section we discuss whether there is any preliminary evidence on this hypothesis.

(b) NREGS notified wages:

The notified wage for NREGS is often above the existing wages in the private market. We look at the wages notified in 2009 and compare them in real terms to the median casual private wages existing in 2004 (before NREGS was implemented)[24]. This reflects the extent to which states have fixed the wages above the private casual wages (whether they are actually above state mandated minimum wages is a different issue altogether). Figure 5 (at end of document) plots this premium over private wages state wise. Almost all states have, in real terms set real wages above the 2004 median private casual wages. The exception is Kerala. The highest changes have been for Madhya Pradesh (INC), Chattisgarh (BJP) and Maharashtra (INC).

Next we regress the proportionate change in wages on the poverty rate of the state, the alignment of the state government to INC and an interaction of the two. Results in Table 3 reflect that the wage difference between the notified wage (in 2004 rupees) and the private casual wage in 2004 as a proportion of the 2004 private wage (referred to as "NREGS wage Premium") is highest for states with Congress Party-UPA government and higher for states with high poverty rate. However, the difference between INC and non INC states is lower when the poverty rate is higher. This result is again consistent with INC discriminating in favour of its states. Perhaps the politics plays out in the centre accepting the notified wages asked for by states which are governed by INC where as in the case of other states, it bargains and invokes its discretionary power to maintain lower wages.

(c) State level evidence of local capture.

In this section, we turn to the evidence on local capture. While this will not be correlated directly to any political variable, we will give evidence that there is indeed mis-targeting, which can be largely explained by capture at the local level. For a more definitive study, the data presented here will have to be merged with political variables at the district level (the lowest level that yields itself to merging with the election data).

The variables considered are: 1) household wanting to work on NREGS but not getting work as a proportion of those working and not finding work; 2) The proportion of those

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[24] Comparing them to current private casual wages may not be correct as the NREGS wage often puts pressure on the private wage to rise. Hence at any given point in time, the difference between the two is an underestimate of how much higher the NREGS wage is compared to the private wage.

with job cards who do not look for work: these are probably people who have registered for NREGS without any need for work; 3) the average number of days among those who work[25]. Figure 6 (at end of document) summarizes the state level trends. It is apparent that in many states, people demand work but do not get work. This can be because of various factors which have been discussed before: social heterogeneity may slow down projects or there could be local capture, thus excluding many people from NREGS. Some states perform better: for example Rajasthan, Andhra Pradesh and Tamil Nadu. The states are much closer in terms of those who have job cards but do not work. The above mentioned states again perform better. The same pattern is observed also for the average number of days worked among those who work.

We break up the NREGS outcomes further by social groups. First we look at the proportion of various households from various castes who hold a job card (Figure 7). We see that more than 50 percent of each disadvantaged community (SC, ST and OBC) have job cards in Andhra Pradesh, Madhya Pradesh, Rajasthan and West Bengal. In addition, Orissa's performance among ST s is good in procuring job cards while Tamil Nadu's performance in targeting SCs is creditable.

Next, we look at the proportion of each social group who want to work but do not get work (the denominator therefore includes those who work and those who want to work but do not find NREGS work). Andhra Pradesh, Himachal Pradesh, Rajasthan, Tamil Nadu are the best performers with the lowest proportion in terms of those who want to work but don't get work (Figure 8). In other states, many households in disadvantaged social groups want to work don't get work. The northern states of Haryana, Punjab, Bihar and Uttar Pradesh are the worst performers. Is the capture maximum in these states?

Another indicator of capture is the average number of days of household work for NREGS projects. While households are guaranteed 100 days on NREGS projects, the average number of days barely crosses 50 days in most states (Figure 9). In the case of Scheduled Tribes, Andhra Pradesh, Himachal Pradesh and Rajasthan provide 50 days of work to households. In the case of Scheduled Casts, it is only Rajasthan. Only Himachal Pradesh, Karnataka and Rajasthan provide 50 days of work for OBCs. The indicators are thus very low. Why is the uptake so low among disadvantaged groups in so many states? This scenario, whereby many people are looking for NREGS work but not finding any, coupled with less than 50 days of work for those who work, points to a failure for implementation of NREGS.

How are these then related to political variables? It is clear that simple centre-state alignments do not explain this performance. To delve deeper into this, one needs to go to district level aggregates and check whether the political affiliations at the assembly-constituency level matter. This is left as an endeavour for future research.

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[25] Source of the data: National Sample Survey, 66th Round on Employment and Unemployment (all reported figures are author's calculations).

5. Conclusion

This review paper has attempted to look at the specifics of how NREGS works at various level: at the level of funding from the Centre, the bureaucratic set up and the steps households need to take to avail of the scheme. We also provide some background on selected questions that may be asked in the context of the link between political factors and NREGS implementation. These identify four questions that could be potentially studied.

1. The first question that can be studied is how the nature of political competition and the characteristics of elected officials affect the implementation of NREGS. While there have been studies that look at the role of caste dynamics and political reservation (Khosla 2011, Afridi et al 2011) on local implementation of NREGS, there have been no empirical studies that have explicitly shown a causal link between political competition and NREGS implementation. However, that such a causal link exists in the context of policy implementation is known (Bardhan and Mookherjee 2010). In particular, political competition may be driven by either the ideology of candidates and their parties, or by opportunistic behaviour (that is, behaviour driven by chances of re-election). Since NREGS is an initiative of the ruling Congress party (as a lead member of the UPA alliance), it is interesting to investigate whether local politicians affiliated to the Congress party implement NREGS better as it is a 'Congress led scheme' or whether the NREGS implementation depends on the strength of the party in local elections. Following Bardhan and Mookherjee (2010), would we also find that in constituencies where Congress has a large number of elected officials, the implementation of NREGS is worse?

   Political ideology is only one characteristic of a candidate that may affect local implementation of NREGS. There may be others: for example, this paper points out to the education of elected officials as a key determinant of how they implement policies. In the context of NREGS implementation, there may be others: for example, wealth and social identity of elected candidates may well determine how well NREGS is implemented. There has been almost no empirical research that establishes whether individual characteristics of elected officials matter for local implementation of NREGS. Hence, this is a fertile area for future research.

2. This is interconnected with the second question proposed in this paper. Given evidence of corruption in NREGS (Nieheaus and Sukhantar 2011), another lens to look at NREGS implementation is through capture of the scheme and whether there are political circumstances that abet it. In this context, this paper suggests that, perhaps, the political affiliation of elected members relative to the affiliation of candidates elected to higher tiers of the political system matter. Therefore, it is plausible that the Sarpanch is able to capture funds of the scheme more if the assembly constituency has elected a member from the same party. Another political dimension may be the intra village dynamics of political power. The *Sarpanch* may divert funds and projects to villages that support him, denying

others of NREGS work. This is another aspect that has not been studied in the context of NREGS.

3. While we have alluded to characteristics of the elected officials and their impact on NREGS implementation, we have not brought up, explicitly, the impact of reservation of political posts on the implementation of NREGS. This is, a third question of interest. The existing studies on this topic (Khosla 2011 and Afridi et al 2012) are limited to only one state (Andhra Pradesh). Khosla (2011) points out that reservation effects are heterogeneous and depend on the characteristics of the social community they are embedded in. This naturally calls for more investigation into the effect of reservation on NREGS in other contexts: other states and areas with different social compositions.

4. While the three themes of enquiry suggested above have been local in nature, the fourth question raised in the paper is macro and fits into the larger literature of centre-state alignments. Given the literature that points out to the importance of centre-state alignment in fund allocation in the context of India (Arulampalam et al 2009 and Khemani 2004), a natural question to ask is if states aligned to Congress get larger funds than other states. More-over, is there an implicit political game being played in the level of wages fixed and the timing of the increases. This may be a more retrospective question given the recent proposal of setting an uniform wage across states (differing only by a cost of living index).

With these four questions in mind, we conduct an exploratory data analysis. Giving snapshots that point to a variation of implementation of NREGS across states, we provide some preliminary evidence that if the state government is INC-UPA, then they have set (notified) higher wages and have more funds released to them. These are preliminary results and merely suggestive. Future research should take these issues forward with data at a more disaggregate level.
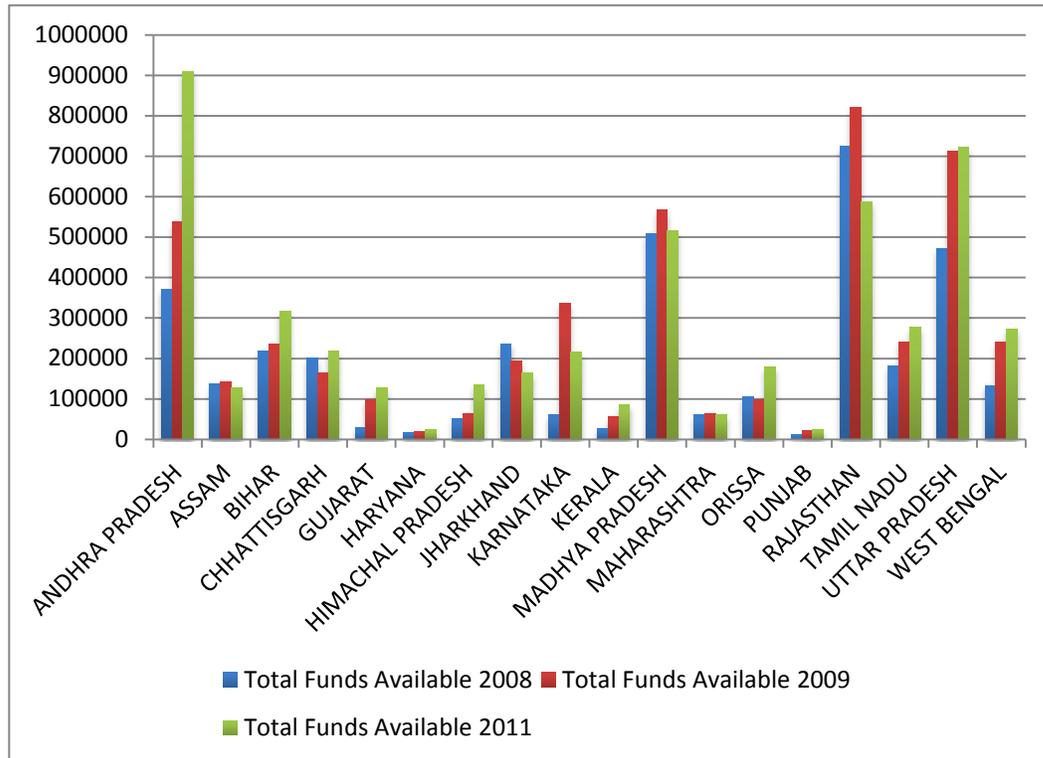
Last but perhaps most importantly, we have provided some evidence that the targeting of NREGS is not good with large number of demanders not getting work. These seem to vary by state. However, this is surely best understood at the local level. This review calls for more studies at the local level that aim to understand the mechanics of this capture so as to better inform debates on decentralization and its efficacy on public provision.

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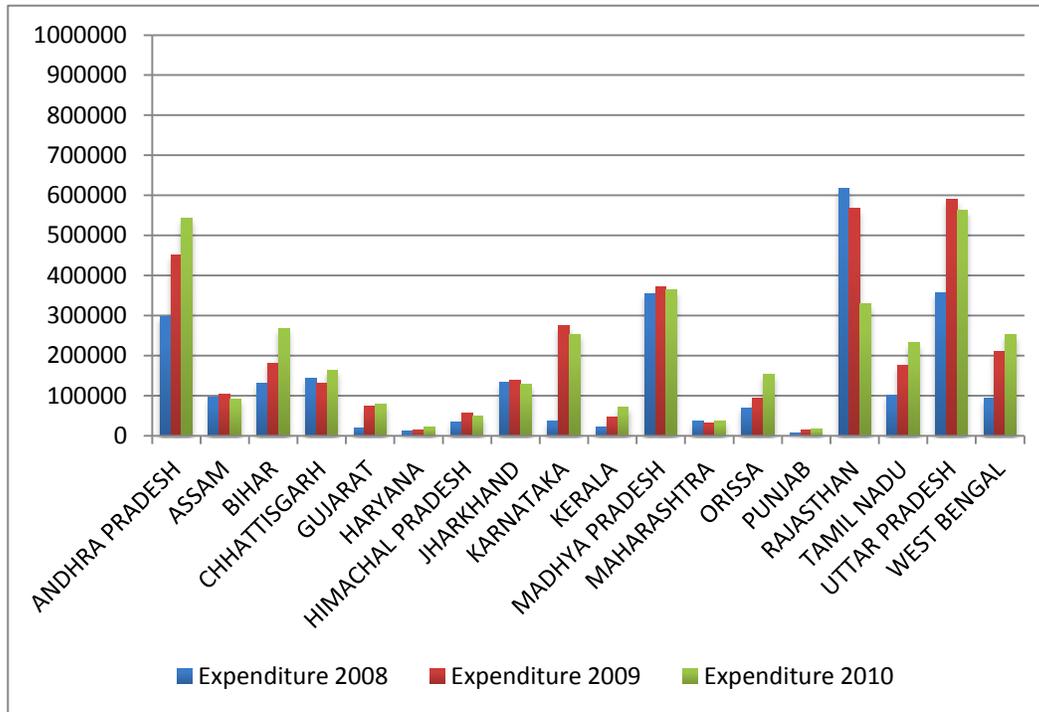
Figure 2: Total funds released + outstanding balance (in Lakhs INR)
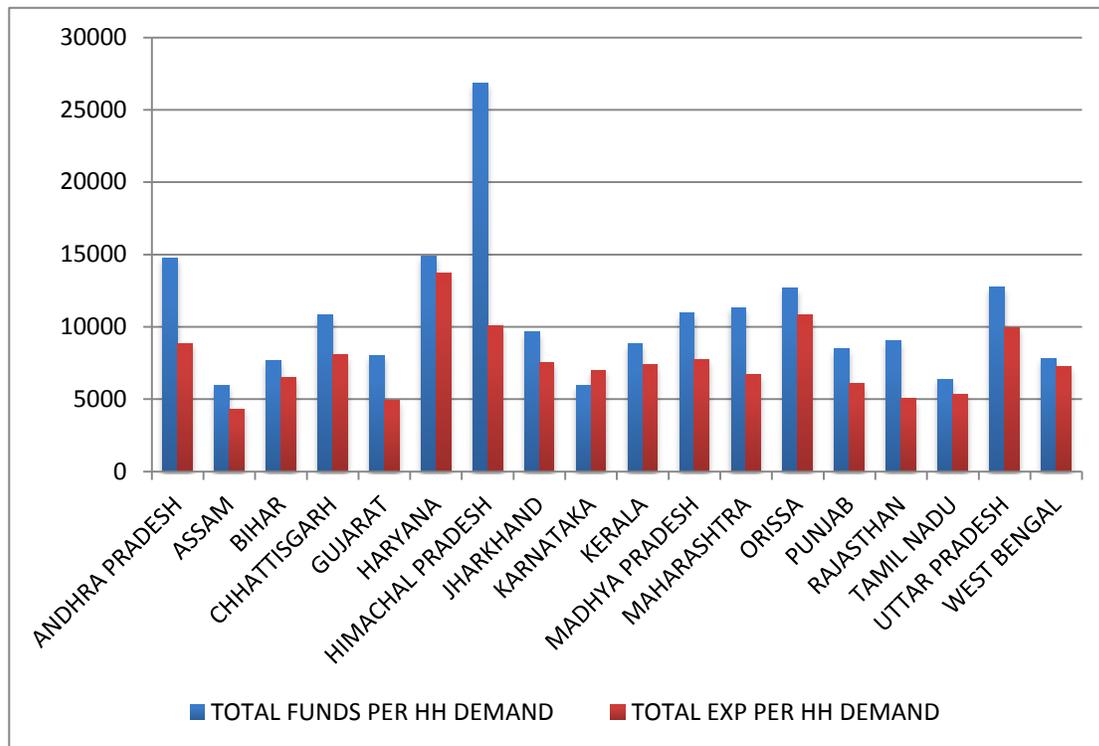

Source: Compiled from www.nrega.nic.in
Note: 1 Lakh=100,000
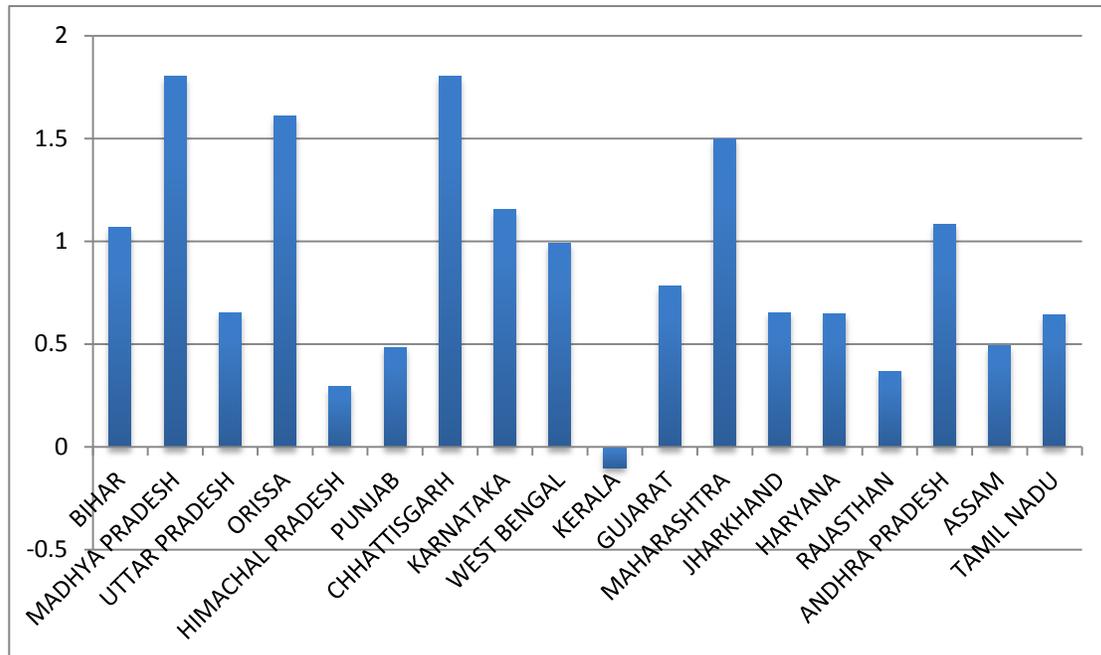
Figure 3: Total expenditure on NREGS (In Lakhs INR)

Source: Compiled from www.nrega.nic.in
Note: 1 Lakh=100,000
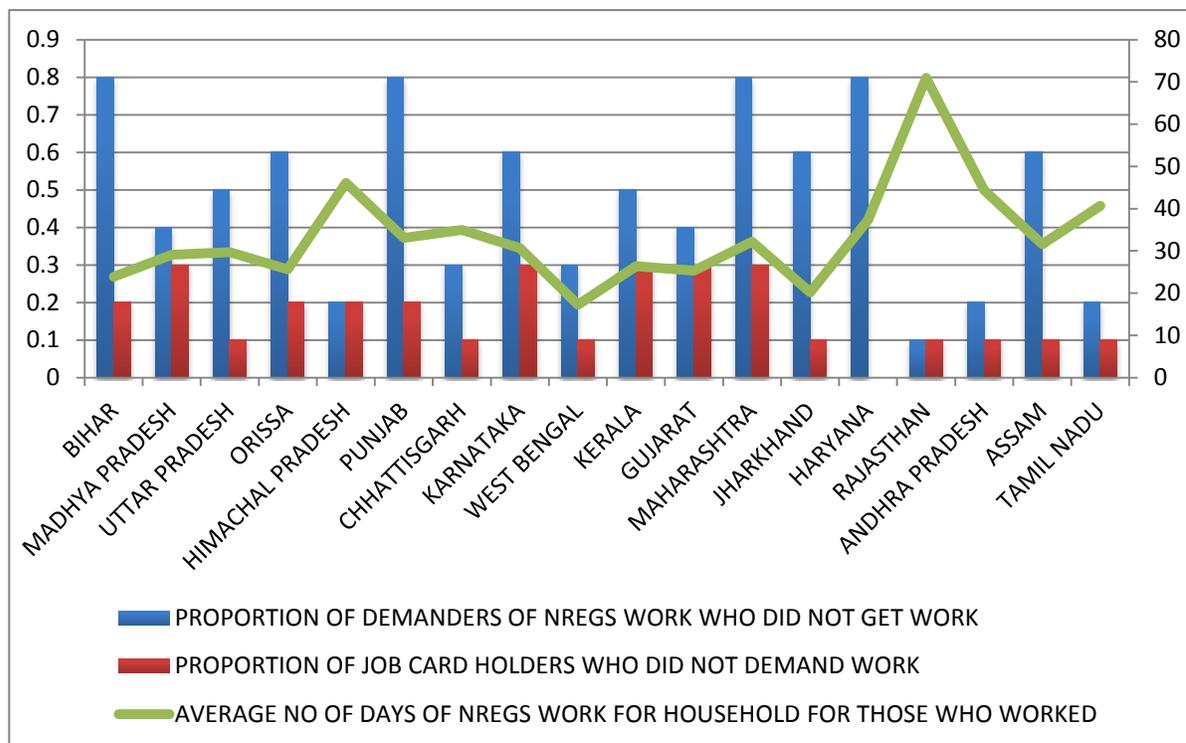
Figure 4: Funds & expenditure per household demand (in INR)

Source: Author's Calculation.

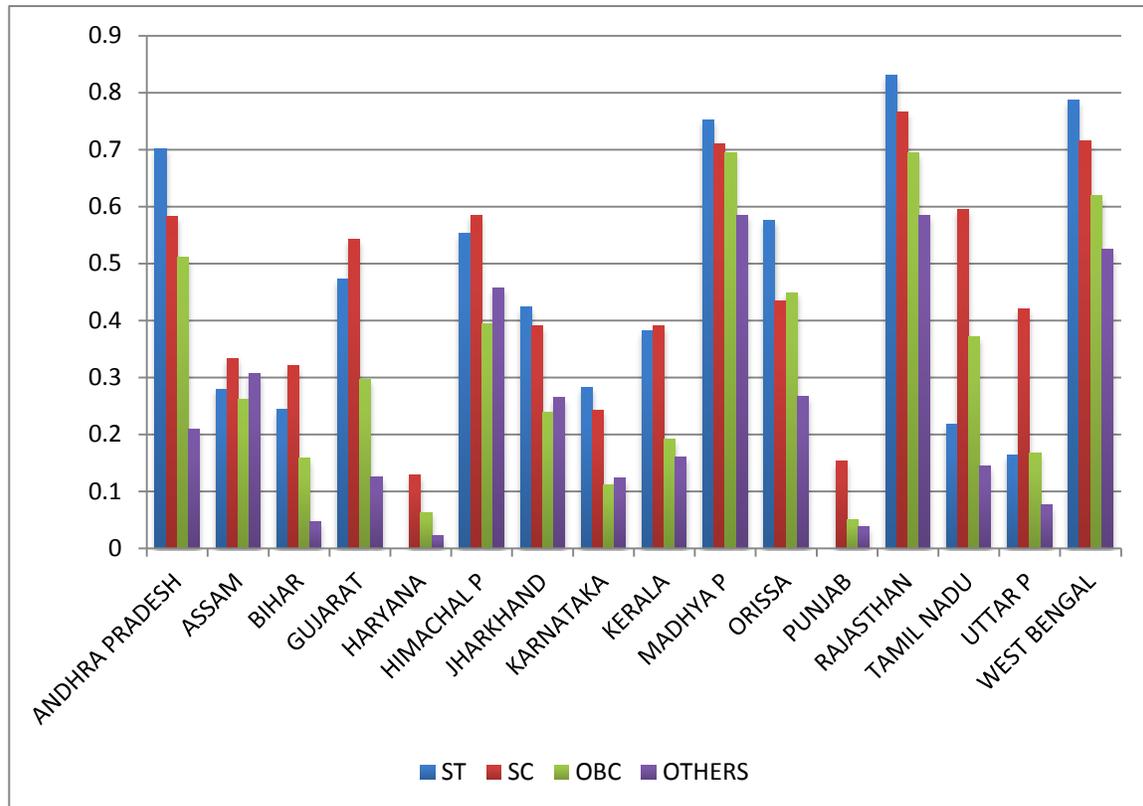**Figure 5: NREGS wage premium**

Source: Author's Calculation.

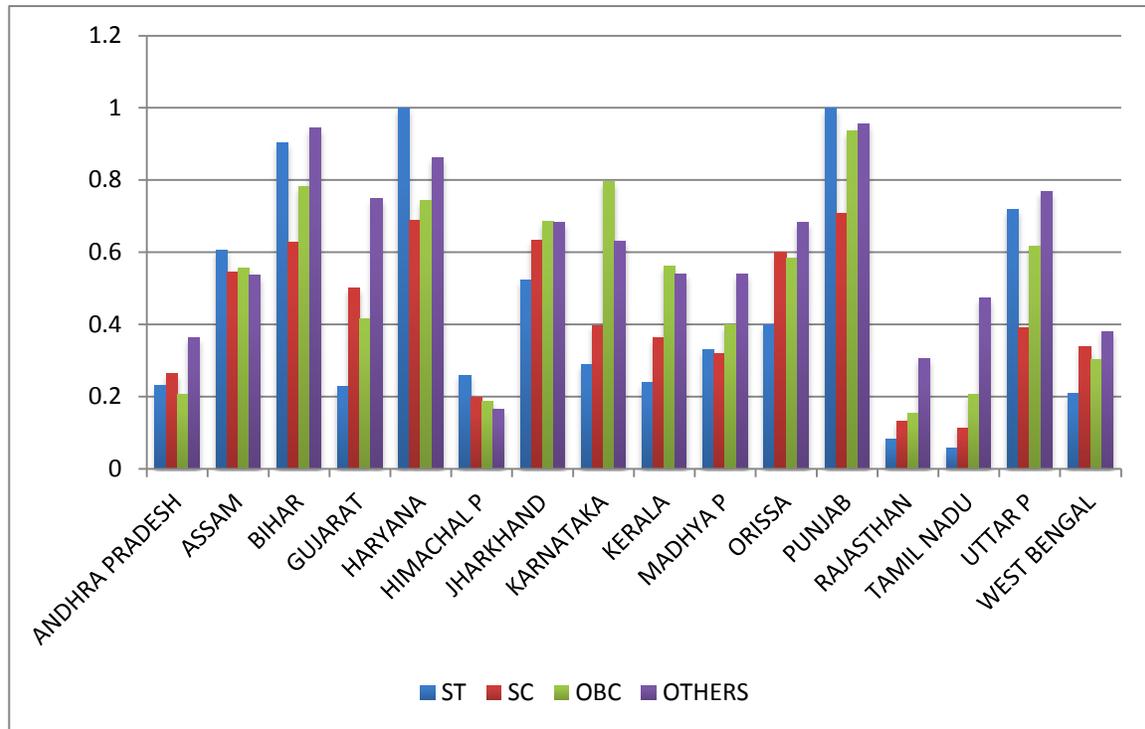**Figure 6: NREGS outcomes: state level**

Source: Author's Calculation from unit data NSSO 66th Round, Employment-Unemployment

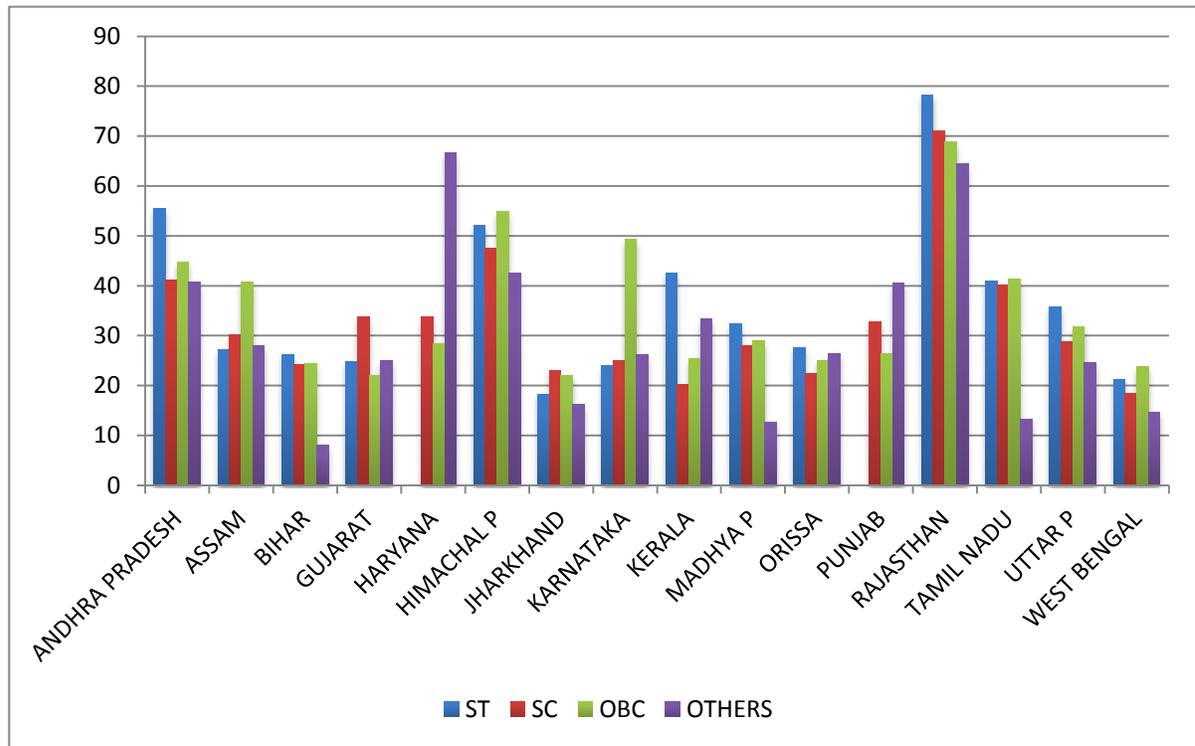**Figure 7: Proportion of households holding job cards**

Source: Author's Calculation from unit data NSSO 66th Round, Employment-Unemployment

Figure 8: Proportion of households who want to work but do not get work

Source: Author's Calculation from unit data NSSO 66th Round, Employment-Unemployment

Figure 9: Average days of work for those who got work

Source: Author's Calculation from unit data NSSO 66th Round, Employment-Unemployment

Table 1: OLS Regression: State Level

	TOTAL FUNDS (2010-2011)	TOTAL EXPENDITURE (2010-2011)
# OF POOR IN 2009	0.011	0.009
	[0.019]*	[0.006]**
PROP OF JOB CARD HOLDERS	621,918.25	329,063.62
	[0.029]*	[0.056]
NOTIFIED WAGES IN 2009	-304.147	-728.977
	[0.935]	[0.752]
STATE PARTY IS INC	157,473.79	71,782.65
	[0.123]	[0.245]
CONSTANT	-113,601.61	40,122.26
	[0.847]	[0.912]
Observations	18	18
R-squared	0.596	0.653

p values in brackets

* SIG at 5%; ** SIG at 1%

Table 2: Expenditure Break Up: State Level

Expenditure: 2010-11	Expenditure (Wages)	Expenditure (Material)	Expenditure (Admin)
# OF POOR IN 2009	0.005	0.003	0
	[0.012]*	[0.004]**	[0.110]
PROP OF JOB CARD HOLDERS	205,223.16	106,338.87	17,501.59
	[0.065]	[0.077]	[0.179]
NOTIFIED WAGES IN 2009	-780.02	96.869	-45.826
	[0.605]	[0.905]	[0.801]
STATE PARTY IS INC	54,118.89	10,278.54	7,385.23
	[0.182]	[0.630]	[0.136]
CONSTANT	75,158.76	-36,501.87	1,465.35
	[0.751]	[0.777]	[0.959]
Observations	18	18	18
R-squared	0.634	0.637	0.415

p values in brackets

* SIG at 5%; ** SIG at 1%

Table 3: NREGS Wage Premium

	NREGS wage premium
STATE PARTY IS INC	0.694
	[0.083]
Poverty Rate of the State	0.026
	[0.000]**
STATE PARTY IS INC *Poverty Rate	-0.03
	[0.043]*
Constant	0.166
	[0.429]
Observations	18
R-squared	0.616
p values in brackets	
* SIG at 5%; ** SIG at 1%	

Appendix A

	Priority List	
2005	1	Water Conservation and Water Harvesting
	2	Drought Proofing (Afforestation and tree planting)
	3	Irrigation canals including micro and minor irrigation works
	4	Provision of irrigation facility to land owned by SC and ST households, or to land of beneficiaries of Land reform or that of beneficiaries of India Awas Yojana
	5	Renovation of traditional water bodies (desilting tanks)
	6	Land Development
	7	Flood Control and Protection works including drainage in water logged areas
	8	Rural Connectivity to provide All weather roads
	9	Any other work notified by Central Govt. in consultation with State Govt.
Added as Amendments		
	9*	Construction of Bharat Nirman Rajiv Gandhi Sewa Kendra as knowledge resource centre at the block level and as Gram panchayat bhawan at the GP level
	10	Agriculture related works: Composting, Vermi-Composting, liquid Bio manures
	11	Livestock related works: poultry shelter, goat shelter, fodder trough etc
	12	Fisheries related work
	13	Works in Coastal areas, such as fish drying yards
	14	Rural drinking water related works
	15	Rural Sanitation related projects
	16	Any other work notified by Central Govt. in consultation with State Govt.

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