



## MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME-AN ACID TEST FOR CENTRE- STATE FINANCIAL RELATIONS

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### 1. Introduction

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has completed seven years since its inception in India. The aim of this programme is to enhance livelihood security of households in rural areas of the country by providing at least one hundred days of manual wage employment to every household in a year. If this programme achieve its objectives of , first, providing work and thus income to the poor and marginal sections of the society and second, create productive assets that raise land productivity and thus, contribute in raising agricultural yields, then it would be able to transform the face of rural India.

The 'Right to Work' establishes in this Act makes it a distinctive and special in terms of resource allocation and the number of households demand employment. Today, 45 million households have demanded jobs under this programme for year 2009-10. The participation of Schedule Castes and Schedule Tribes and Women in the large proportion is one of the main achievements of this programme. There are still large regional variations in the performance in the implementation of this scheme in various states. It is essential to reduce this gap among states in terms of its implementation. However, the average 42 days of the work at all India level have been provided under MGNREGA and this is significant to raise this average.

MGNREGS is a Centrally Sponsored Scheme (CSS) in which maximum funding and Policy framework is done by the Union Government and Implementation and monitoring is by and large done by the State Governments. This is the largest and biggest ever poverty alleviation program implemented in India after Independence in which states and Centre have to involve fully and take responsibility to benefit the rural poor. As several CSS schemes particularly the poverty alleviation programs have been discontinued because of poor performance. However, MGNREGS, despite several criticisms, has been very successful in several parts of the country. There is a need for decentralization of the scheme because of several diversities in resources - physical as well as human. Fund flow from the Central and state governments to the districts seem to be the biggest hurdle and hence is an acid test for the continued success of the program. The objective of the paper is to critically examine the nature of sharing of expenditure, execution and monitoring and suggest measures for sustainability of the program.

### 2. Objectives

The following are the objectives of the paper:

- a) to review the progress of MGNREGS
- b) to analyse the funding pattern of the project
- c) to critically examine the Centrally Sponsored Schemes of the Central Govt.
- d) to suggest measures for effective functioning of MGNREGS.

### 3. Review of Literature

In this section, a brief summary of some recent studies relating to the implementation on MGNREGS and its impact on rural poverty has been given.

Tapas Kumar Mohanty (2010) in his study on MGNREGA points out that the National Rural Employment Guarantee Act (NREGA) promises a revolutionary demand-driven, people-centered development programme. Planning, implementation and social audit by gram sabhas and gram panchayats can engender millions of sustainable livelihoods following initial rounds of wage employment. But NREGA has had to battle against the legacy of an ignominious past. Rural development programmes over the last 60 years have been dependent on the munificence of the state. They have been implemented top-down, using labour-displacing machines and contractors who have customarily run roughshod over basic human rights. This book provides all informations regarding NREGA and different social development programmes of Govt. of India."

SR Singh (2011) also came out with a similar work titled "National Rural Employment Guarantee Act NREGA: Issues and Challenges." While providing the chronology of wage employment programmes implemented in the country, SR Singh opines that: "India has been taking ample of measures to alleviate poverty and achieve the goal of rural development since its independence. All such programmes measures and schemes can be divided into two categories asset endowment schemes and employment generation schemes. Needless to name them all, however, employment related programmes which gained popularity were Food for Work in 1970s RLEGP in 1980s Jawahar Rojgar Yojana in 1990s and many others. National Rural Employment Guarantee Act, Commonly known as NREGA has been the recent and most effective attempt for employment generation with almost giving right to work to the rural poor. The Act passed in 2005 has brought almost a revolution among rural poor. It has been renamed as Mahatma Gandhi National Rural Employment Guarantee Act MNREGA in 2006. It has been devised as a public work programme to address the issue of a rights-based approach to development; provide income security to the rural households through guaranteed wage employment; reduce/check distress migration from the rural to urban areas; and create durable community assets in the rural areas to trigger an overall development of about six lakh Indian villages. The jobless growth of the 1990s stagnation or even decline in the growth of agricultural productivity distressed farmers committing suicide in various parts of the country and increased migration from the rural to urban areas was the larger socio-economic contexts of this Act. The economists have been of opinion that lack of rural infrastructure has been the main reason of arrested pace of development. This Act caters to the need and created a sample of rural infrastructure friendly to agriculture."

Bagchi, KK (2011) brought out a edited volume titled "Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) As Right to Employment: Assessment of Impact and Effectiveness." The volume embodies research work of selected researchers on the evaluation of implementation of Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) now being implemented in all the rural districts of India. The act seeks to promote inclusive growth. The primary objective of the act is augmenting wage employment. Experiences of implementation of the programme demonstrate that the results have been mixed. The contributing scholars have identified the causes of limited success of the programme in different parts of India. The researchers have made practical suggestions for better implementation of the programme. Though most of the contributors have dealt with empirical issues, some researchers have dealt with theoretical issues on the subject. It is expected that the book will be useful to the concerned researchers, academicians and the policy makers.

Asha Kiran (2011) in his work on “NREGA: A Revolution” studied related issues extensively. In his opinion, the National Rural Employment Guarantee Act, 2005 better known as NREGA is perhaps the first of its kind in the world when the Congress led UPA Govt. has adopted revolutionary step by providing an economic safety net to 2/3 of the country’s population or 71.9 per cent India’s rural poor. The NREGA can be well taken as an innovative policy to boost. 1. The rural economy. 2. Stabilize agricultural production and 3. Reduce the population pressure on urban areas for employment and thereby transform the geography of poverty. The NREGA by providing legal guarantee to work marks a paradigm shift from all earlier and existing wage employment programs because it is an act and not just a scheme.

Sivamurugan (2012) while focusing his work on poverty and unemployment dealt at length on employment generation programmes undertaken in the past and also on MGNREGA. Through his publication titled ‘National Rural Employment Programme’ he opined that poverty and unemployment the two major problems facing countries. Not only developing countries but also some of the developed countries of the world are struggling with the above said problems as a result of recent economic crisis. But compared to developed countries the situations of most of the developing countries are too worse. Since 1950s the Indian government and Non- Governmental Organizations have initiated several programs to alleviate poverty including subsidizing food and other necessities, increased access to loans, improving agricultural techniques and price supports and promoting education and family planning. An in-depth analysis of such problems in those countries exhibits the need of a National Rural Employment Programme. India one of the country among them recognizes earlier the need of such a programme and speed up the steps to its implementation in the early period of 2005. The act was enacted with an aim of improving the purchasing power of rural people by providing a legal guarantee of 100 days of employment in every financial year to adult members of any rural households willing to do public work related unskilled manual work at the statutory minimum wages of Rs. 100 per day. The success of the programme tends the UPA government to change its name as Mahatma Gandhi National Rural Employment Guarantee Programme. This book deals with the empirical studies related to the impact of National Rural Employment Guarantee Programme in India.

#### **4. MGNREGS-Programme Management**

MGNREGS could be considered to play vital role in strengthening rural economy. Steady progress is being made by the scheme under MGNREGS, with the improved administrative and implementation structure in place and other associated factors. However, this cannot be sustained unless several issues are addressed in the future.

For instance, more than half of the MGNREGA workers were holding small patch of land either as small or marginal farmers. Most of their land is being left as fallow or leased out due to lack of investment power with them. Over a period of time, it is expected that the investment power of these workers is likely to be optimized and they may in turn invest the same on their lands. The investment will in turn enhance the agriculture productivity in small and marginal land-holdings. However, the investments needs to be focused through a convergence efforts from the different government line departments, especially agriculture and extension workers etc.

As the works taken up under MGNREGS is resulting in massive earthen works for soil and water conservation, the same cannot be sustained unless these structures are dovetailed to other development works by converging the efforts of different departments.

Though MGNREGS has the uniqueness in terms of its transparency since the works are subjected to social audit by the public forums yet this needs to be strengthened for better tomorrow. It is the responsibility of each and every adult individual in a rural area to focus on his rights and responsibilities in this regard. Otherwise, the social-audit can be usurped by greedy classes. Hence, the very institution of social audit has to be strengthened in a right earnest.

Finally, MGNREGA can be considered as a great opportunity to the rural labour but the opportunity may evaporate if they do not focus on their rights and responsibilities. Towards this, government officials, social activists, the educated class has to wage an integrated campaign to strengthen the rural economy and in turn Indian economy.

#### **4.1. Funding Pattern**

**The following are the sharing of costs of MGNREGS by the state and the Centre.**

**The Central Government bears the costs on the following items**

- The entire cost of wages of unskilled manual workers.
- 75% of the cost of material, wages of skilled and semi-skilled workers.
- Administrative expenses as may be determined by the Central Government, which will include inter alia, the salary and the allowances of the Programme Officer and his supporting staff, work site facilities.
- Expenses of the National Employment Guarantee Council.

**The State Government bears the costs on the following items**

- 25% of the cost of material, wages of skilled and semi-skilled workers.
- Unemployment allowance payable in case the State Government cannot provide wage employment on time.

#### **4.2. Statutory Institutional Mechanism**

The MGNREG Act has made provision to monitor the implementation of scheme, at the various levels. The statutory institutional mechanisms enforced in the Act are discussed here under:

##### **(i) Central Council**

The Central Employment Guarantee Council (CEGC) was constituted under Section 10(1) of the Act. CEGC Rules 2006 were

Notified on 25.05.2006 and set up vide notification dated 22.09.06. The Council advises the government on all the matters concerning the implementation of this Act. The Council also reviews the monitoring and grievance redressed mechanism from time to time and recommends improvements.

##### **(ii) National Fund**

Under Section 20(1) of the NREGA, a National Employment Guarantee Fund (NEGF) has to be constituted. The Central government established a non-lapsable fund called National Employment Guarantee Fund to be managed according to the Rules. The rules for National Fund were notified on 2.1.2007.

##### **(iii) State Councils**

The State Employment Guarantee Council (SEGC) is to be constituted by each State Government under Rule 12(1) of the NREG Act.

At the district, sub-division and block level, exclusive personnel were placed in to oversee the implementation of the schemes.

#### (iv) Programme Outcome

As per the latest information available, MGNREGA resulted in providing employment to 4.98 Crore Person Days of employment in the year 2011-12.

The person-days of employment provided, progress on works taken up and expenditure incurred since inception is provided below:

Table-1 presents the number of job cards issued and the no. of households provided employment for the last six years. There is a progressive increase in the numbers from 3.8 crores to 12.3 in job cards; and from 2.1 to about 5 crores of jobs.

**Table -1: Demand for Employment and Its Status in India**

Sl. No	Financial Year	Cumulative No. of HH issued job cards(in Crore)	No. of households who have demanded employment	No. of households provided employment(No. in Crore)
1	2011-12*	12.28	5.03	4.98
2	2010-11	11.98	4.98	5.49
3	2009-10	11.25	5.28	5.25
4	2008-09	10.01	4.55	4.51
5	2007-08	6.48	3.43	3.39
6	2006-07	3.78	2.11	2.10

Source: www.nrega.nic.in as on 28th, May, 2012.

Table-2 provides the trends in person days of employment by caste. Table reveals that there is a good progress among SC's and women. There is a need to implement the program in a better way in tribal areas.

**Table-2: MGNREGA: Person days Employment Generated in India by caste and gender**

Sl. No	Financial Year	Person days (in Lakhs)				
		Total	SCs	STs	Others	Women
1	2011-12	211.42	46.60	38.38	126.43	101.86
2	2010-11	257.15	78.75	53.61	124.78	122.74
3	2009-10	283.59	86.44	58.74	138.40	136.40
4	2008-09	216.32	63.36	55.02	97.95	103.57
5	2007-08	143.59	39.36	42.07	62.16	61.15
6	2006-07	90.5	22.95	32.98	34.56	36.40

Source: www.nrega.nic.in as on 28th, May, 2012.

Table-3 shows the trends in the flow of funds and actual expenditure under MGNREGS during the last six years. Total expenditure rose from Rs.8823 crores in 2006-07 to Rs.39,377 crores in 2010-11.



**Table – 3: MGNREGA: Status of Funds Released and Expenditure at the National level (In Crores)**

Sl.No.	Financial year	Funds Available	Central Release	Expenditure
1	2011-12*	41563.51	9951.50	37548.79
2	2010-11	52648.89	10382.87	39377.27
3	2009-10	45682.46	24714.19	37909.78
4	2008-09	37397.06	29939.60	27250.10
5	2007-08	19305.81	12610.39	15856.89
6	2006-07	12073.55	8640.85	8823.35

Source: www.nrega.nic.in as on 28nd, May, 2012.

Table-4 gives the status of physical works undertaken during the last six years. In the year 2006-07, only 8.35 lakh works have been completed, where as 74 lakh works have been completed in 2011-12.

**Table-4: MGNREGA: Status of Physical Works Undertaken in India (in lakhs)**

Sl. No.	Financial Year	Works Ongoing	Works Completed	Total Works
1	2011-12*	59.12	15.01	74.13
2	2010-11	38.83	25.85	61.62
3	2009-10	23.57	22.59	33.83
4	2008-09	15.60	12.14	27.75
5	2007-08	96.12	8.22	17.88
6	2006-07	44.48	3.87	8.35

Source: www.nrega.nic.in as on 28th, May, 2012.

## 5. Release of Funds

Field reports are suggesting that there remain considerable delays in the release of funds, leading to delays in initiating works, abandoning continuing works already started and sometimes, in delays of payment to workers. The guidelines state that the MGNREGA would be different from the previous employment guarantee schemes because there would not be predetermined allocations but releases based on state proposals. Each state would formulate and submit a state annual work plan and budget proposal to the MoRD. The actual release to a state government will depend upon its actual utilisation of funds released. The MoRD will release funds, say the guidelines; to a revolving fund at the district level to be operated as a joint account of which one of the signatories will be the district programme coordinator (usually the district magistrate). After 60 per cent of the allocation given to any GP has been spent, the GP may apply to the block-level programme officer for the MGNREGA for the release of additional funds. However, this process does not seem to be working and requires urgent attention. MGNREGA district senior officers and state government officials regularly have to visit Delhi to secure the release of payment. There is a possibility that the central government will, instead of releasing funds for the MGNREGA directly to districts allocate funds to state governments, who would then become responsible for allocating to districts. This would clearly be more efficient and less burdensome for the small number of central government staff dealing with the programme. Nevertheless, procedures would need to be streamlined at the state level to ensure that village works are not stalled in the future by delays in fund flows from state capitals to district headquarters. The emergence of an administrative

secretariat at the state capitals for the MGNREGA would thus be an important step in the right direction to ensure (a) speedier smoother flow of funds to the districts; and (b) better monitoring of the programme works.

## **6. MGNREGS-Some critical observations about CSS**

MGNREGS is the biggest CSS in recent years that brought the UPA govt. back to power for the second time. In India's developmental plan exercise we have two type of schemes viz; central sector and centrally sponsored scheme. The nomenclature is derived from the pattern of funding and the modality for implementation.

Under Central sector schemes, it is 100% funded by the Union government and implemented by the Central Government machinery. Central sector schemes are mainly formulated on subjects from the Union List. In addition, the Central Ministries also implement some schemes directly in States/UTs which are called Central Sector Schemes but resources under these Schemes are not generally transferred to States.

Under Centrally Sponsored Scheme (CSS) a certain percentage of the funding is borne by the States in the ratio of 50:50, 70:30, 75:25 or 90:10 and the implementation is by the State Governments. Centrally Sponsored Schemes are formulated in subjects from the State List to encourage States to prioritise in areas that require more attention. Funds are routed either through consolidated fund of States and or are transferred directly to State/ District Level Autonomous Bodies/Implementing Agencies. As per the Bajaj Committee Report, April, 1987, CSS have been defined as the schemes which are funded directly by Central Ministries/Departments and implemented by States or their agencies, irrespective of their pattern of financing, unless they fall under the Centre's sphere of responsibility i.e., the Union List.

Conceptually both CSS and Additional Central Assistance (ACA) Schemes have been passed by the Central Government to the State governments. The difference between the two has arisen because of the historical evolution and the way these are being budgeted and controlled and release of funds takes place. In case of CSS, the budgets are allocated under ministries concerned themselves and the entire process of release is also done by them.

At National Development Council (NDC) meetings and other platforms many states have expressed their difficulties to provide their share to enable them to access the Central fund under CSS. The methods of transferring the Central fund have also been objected. Under many schemes funds under CSS are transferred to the states level bodies or district level bodies bypassing the State Governments. It dilutes the control, authority and responsibility of the State Governments. Furthermore, the schemes lack flexibility. Since the areas, most of the schemes address fall under the domain of the State Governments or concurrent list. In many states, the State Governments are also implementing schemes in such areas. Hence there is need for flexibility of convergence. It is also said that the schemes have rigid provisions/norms.

Though in recent years the number of schemes has been reduced, the states had always objected the proliferation in the number of schemes. In the meetings of NDC the states have suggested minimum number of CSS, transfer of the entire CSS funds to the states without any restrictions and flexibility in the implementation of the schemes. As a proportion of total plan transfer the share of Normal Central Assistance (NCA) has declined (NCA is not tied to any scheme in particular sector and also not subject to any central guideline). As against this the share of CSS as Gross Budgetary Support

has increased continually in the last three Plans and reached 41.59% in the 11th Plan. Many are also of the view the CSS should be abolished and the funds should be simply transferred to the states as NCA.

There are arguments against the above. First argument is that it is also important that there should be a sense of ownership by the states. Financial participation by states ensures this ownership which may not be there if 100% grant comes from the Central Government. Second argument is, transfer fund directly to district or rural/urban local bodies make them more accountable. This practice also avoids delays in administrative approvals and diversion of funds. By strengthening PRIs/local governments and giving them pivotal place in CSS will bring about the desired result through effective planning and implementation of CSS.

#### **The Following points favour this argument**

1. Local governments are in a better position to appreciate problems holistically and come out with cross-sectoral solutions.
2. They are better suited to exploit local production possibilities and adopt technologies which can be handled locally.
3. They also have quicker outreach and can provide faster feedback.
4. As local governments are closer to the people, they are capable of identifying local priorities and entering into partnership with communities for the management of assets and facilities. The third argument against the abolition of CSS and simply transferring the fund directly to the states as NCA is “there is merit in using Central resources tackle the specific obstacle that would prevent the achievement of inclusive growth and this is best done by effective earmarking resources to support state expenditure in particular areas such as rural development, health, education, agriculture and irrigation. Second, the mechanism of CSS enables the centre to address problems as they exist in different states without being constrained by the Gadgil Formula, which would otherwise guide the transfer of untied fund. Such programmes are of national priorities and cut across the state boundaries.

#### **6. Suggestions for effective implementation of MGNREGS**

In a country like India where states vary in the geographical, demographic and economic conditions, it was high time these kind of flexibility was brought in,” said a state official who is implementing MGNREGS when asked about the new proposal.

Based on the Chaturvedi Commission report, submitted in 2011, the Planning Commission proposal aims at overhauling the hierarchical structure involved in the implementation of CSS. Once accepted, the states will have the freedom to tailor CSS according to their needs and requirements.

“It will make the Central schemes like MGNREGS more effective as every state will be able to make changes in the ambit of the CSS. Till now, the state governments have had to plead before central ministers with huge egos,” said an official, indicating a recent spat between RD Minister Jairam Ramesh and states over MGNREGS. Several states like TN, Kerala and Bengal had demanded to include state specific works to be included in the ambit of MGNREGS.

The Planning Commission has fine-tuned the Cabinet note pertaining to this that is likely to be cleared in the Cabinet soon. Once cleared, the states will have the real freedom in implementing the Centrally Sponsored Schemes (CSS) according to its requirements. The new proposal would be path breaking in Centre-state relationships. Apart from making the federal structure more strong, it will remove the feudal nature of the CSS,” said a source. Interestingly, Planning Commission deputy Chairman Montek



Singh Ahluwalia who is not known for having any liking for decentralisation of power is the active force behind this move.

The Ministry of Rural Development has issued instructions to States and Union territories regarding the stoppage of Central Assistance under Section 27 of Mahatma Gandhi NREGA. The directions have been issued in the wake of the monitoring and review of MGNREGA in the States and the field level visits of the officials from the Ministry, Members of Central Employment Guarantee Council (CGEC), National Level Monitors (NLMs), audit teams and media reports which have often revealed anomalies in the implementation.

Under MGNREGA, the State Government has to implement the scheme and it is expected that they would institute remedial measures. If the Central Government directs the State Government for taking steps for effective implementation of the provisions of the Act and the State Government do not respond by prompt remedial measures as well as corresponding action under Section 25 against persons responsible for defaults and violations of laws, then the Central Government, if necessary, may in exercise of the powers conferred under sub-clause (2) of Section 27 of the Act order for stoppage of release of funds to the Scheme. The liability for funding the Scheme or payment of unemployment allowance during the period shall be with the State Government.

**In pursuance of the provisions following process has been laid down by the Ministry of Rural Development**

1. Under Section 27 of MGNREGA it has been provided that complaints received from independent sources will be enquired into by the Government of India.
2. In case there is prima-facie case for further investigation, a proper statement of charges will be framed and sent to the respective State Government for enquiry and response within a period of two weeks.
3. Once the report is received, a screening committee constituted at the Ministry level will examine the report and in case, it is not found satisfactory, get the charges investigated by the CBI (where criminal intent is prima facie established) or by a team of officers of the Ministry, where system failure or non criminal lapse seems to be the case.
4. In the case of investigation of the case by the CBI, the state Governments should transfer the accused officers out of the areas of operation of the Mahatma Gandhi NREGA. In case the State Government does not comply, the release of funds will be stopped.
5. In the case of investigation by a team of central officers, on receipt of the report, the release of funds will be stopped and the State Government will be given a reasonable cure period within which they should remedy the system and
6. Central funding will be restored once the Central Government is satisfied that the State Government has taken appropriate remedial measures.