

India's latest and largest workfare program: evaluation and recommendations

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ABSTRACT

This paper evaluates the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) of 2005. MGNREGA provides last-resort employment to rural Indians and guarantees beneficiaries one hundred workdays per year, which consist of building and maintaining local infrastructure. I find that although the program has had strong short-term results, as it currently stands it will likely not generate lasting impacts. Due to a lack of skills development and durable infrastructure, workers remain dependent on the scheme for income, and the maintenance of infrastructure is dependent on continued program funding. In addition, poor oversight allows for corruption and decreases effectiveness. I describe MGNREGA's weakest areas, as well as provide recommendations for how to refine them.

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I. Introduction

This paper evaluates the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) of 2005, also known as India's workfare program or by its previous name National Rural Employment Guarantee Act (NREGA). The objective of the Act is to provide a safety net for vulnerable groups in rural areas, promote sustainable development of the agricultural economy, empower the rural poor through rights-based law, and advance new ways of doing business through the principles of transparency and grassroots democracy.¹ The scheme provides last-resort employment, targeting those who cannot find any other paid work for parts of the year.

The government of India has implemented many workfare programs since the 1970s, and MGNREGA is the latest one, combining lessons and best practices. Given the program's large size, high costs, and potential to contribute to rural development and poverty alleviation, an assessment of where it is succeeding and failing is very important. I assess MGNREGA's design and implementation, corruption problems, and whether it is achieving its objectives, using data provided by the Indian government and many reports and articles from experts on the subject. I begin the paper by describing MGNREGA and discussing its strengths and shortcomings. In section IV I analyze MGNREGA data for expenditure and beneficiaries, and in section V I discuss the program's short and long-term results. In my concluding section, I propose recommendations to improve the scheme.

II. Description of the program

India has a long history of workfare schemes, in which the central and state governments work toward livelihood security in rural areas by providing employment. The country's previous

¹ NREGA Operational Guidelines.

workfare program's outreach was greatly expanded between 1989 and 2005, and eventually culminated in NREGA on September 7, 2005.² NREGA began with 200 poor Indian districts in Phase I (2006-07) and was extended to an additional 130 districts during Phase II (2007-08). Since April 2008, the act has covered the whole of rural India, and was renamed the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in October 2009.

Workers (one person per household) are guaranteed 100 days of employment per year with a wage of no less than the state's minimum wage and no more than 125 rupees a day, which may be higher than the local daily wage for farm labor.³ The central government pays for the entire cost of wages for unskilled manual workers, 75 percent of the cost of material and wages for skilled and semi-skilled workers, and all administrative expenses (except for those of the State Employment Guarantee Council). The state government pays for the remaining costs: 25 percent of the cost for material and wages for skilled and semi-skilled workers, the administrative expenses of the State Employment Guarantee Council, and unemployment allowances when it does not provide employment within 15 days of application.⁴

The Gram Sabha (village council) is responsible for recommending works to be built under MGNREGA, performing social audits, and working as a forum for information sharing. The Gram Panchayat (village government) is responsible for the planning of works, registering households, executing works, convening the Gram Sabha for social audits, and monitoring the implementation of the program at the village level.⁵ MGNREGA's architects believed the scheme would be more effective if the Panchayats had the above-mentioned roles, instead of

² Eleventh Five Year Plan, Chapter 4, Rapid Poverty Reduction.

³ NREGA Operational Guidelines, and Wright and Gupta.

⁴ NREGA Operational Guidelines.

⁵ Ibid.

mid-level bureaucrats, because the electorate can hold local leaders accountable.⁶ Eligible projects are primarily in the areas of water conservation and harvesting, irrigation canals, renovation of traditional water bodies, drought proofing, land development, flood-control and protection, and rural connectivity (roads).⁷ According to the Ministry of Rural Development, Mr. Jairam Ramesh, MGNREGA works focus on the causes of chronic poverty, with an aim to alleviate poverty in a sustainable/environmentally friendly way.

The total funding for MGNREGA for the 2009-2010 financial year was 4,957,615 lakh rupees (approximately 9 billion dollars). Because the program is demand-driven, expected expenditures each year are only tentative – if there is greater than expected demand for MGNREGA jobs, the government must provide the jobs and pay the wages. Both men and women are eligible, and the share of women in MGNREGA employment must be at least one-third of the total for each state.⁸

An interesting feature of MGNREGA is that it is self-targeting: the government does not determine who is poor and eligible. As the Yale economist T. Paul Schultz says, means-tested programs are thought to reduce the time that beneficiaries work in the paid labor force, because the more they work the lower the program benefits received.⁹ MGNREGA, on the other hand, incorporates work requirements as screening devices.¹⁰ The self-targeting model relies on the opportunity cost of showing up to work: those who do not need the money or who can find better-paying jobs will not show up.

India's Eleventh Year Plan (2007-2012) points to MGNREGA as one of the main planks of rapid poverty reduction strategies in India. Programs such as these are created because poverty

⁶ Wright, Tom and Harsh Gupta.

⁷ NREGA Operational Guidelines.

⁸ Dreze, Jean and Christian Oldiges.

⁹ Schultz, T. Paul.

¹⁰ Besley, Timothy and Stephen Coate.

remains a serious problem in India, particularly in rural areas. Although India's poverty rate has been declining, it is still high: the percentage of the total population who lived below the national poverty line was 45.3 in 1994 and 29.8 in 2010.¹¹ MGNREGA's focus is rural areas because 70 percent of India's population, and most of the poor, reside in the countryside.¹² The contribution of agriculture to national income has fallen dramatically in recent years but more than 600 million Indians still depend on farming.¹³ The lack of jobs seasonally and throughout the year, and lack of jobs that pay wages that are high enough to provide for a family, are two of the main rural problems. Another problem is decreased agricultural productivity over the past few decades: the capacity of the agricultural sector to absorb labor has gone down due to a sharp decline in rural infrastructure, such as irrigation. As a consequence, output per capita has decreased and rural laborers receive very low wages.¹⁴

Employment programs are considered great last-resort development initiatives: the World Bank has reported that public employment is an effective strategy for the prevention of famine and poverty reduction.¹⁵ If well implemented, MGNREGA can in fact be an effective policy to boost rural wages and income, increase agricultural production, and reduce migration and population pressure in urban areas.

III. MGNREGA's implementation: strengths and shortcomings

MGNREGA has benefited the Indian rural population, but it has some implementation deficits that limit the program's potential. I describe the program's benefits, followed by its main problems, in the next paragraphs.

¹¹ World Bank - World Development Indicators (WDI).

¹² Census of India, 2011.

¹³ Shah, Mihir.

¹⁴ Datta, Polly.

¹⁵ World Bank, *World Development Report*.

Most importantly, MGNREGA ensures that millions do not starve. By guaranteeing a minimal income for able bodies when no other work can be found, the program helps citizens afford food for their families. There is also tentative evidence that the scheme has led to an increase in cultivated land, improved dietary habits, and reduced forced migration.¹⁶ Nevertheless, payment is sometimes delayed for months,¹⁷ which means that MGNREGA cannot be relied upon as an emergency fund to meet current needs.

The India-based Belgian economist Jean Dreze, one of MGNREGA's main advocates, claims the transition to a rights-based framework has led to a major decline in labor exploitation in rural public works. Wages are now higher, delays in wage payments are shorter than before, productivity norms set by employers are more reasonable, and complaints of harassment cases are rare.¹⁸ The Minister of Rural Development of India, Mr. Jairam Ramesh, has also said that because MGNREGA's pay is often better than that at other rural jobs, workers have gained some bargaining power to demand higher wages from private employers.¹⁹

According to the outspoken Minister Ramesh, MGNREGA has had the following implementation problems: Gram Sabhas' lack of capacity, malfeasance, and uneven and limited implementation across India. I have identified a few more: the program does not teach workers any new skills, the infrastructure built is not durable, and reduced migration might have negative effects. I describe all of these problems next.

The Gram Sabhas (village councils) play a pivotal role in the planning, monitoring and implementation of MGNREGA, primarily performed through public meetings between local government and citizens. The public expected this arrangement to solve corruption and

¹⁶ The Economist.

¹⁷ Minister Jairam Ramesh, The Economist.

¹⁸ Dreze, Jean.

¹⁹ Wright, Tom and Harsh Gupta.

inefficiency problems. However, the councils had never dealt with large amounts of funds before, and lack the support structure to properly utilize them. Capacity building and training would prepare the councils for performing their new roles, but experts say both the number and quality of human resources deployed for MGNREGA so far are inadequate.²⁰ The 2007 report of the Comptroller of Auditor General (CAG) described the lack of adequate administrative and technical manpower as a big problem, because it undermines the preparation of plans, scrutiny, approval and monitoring of the work being done.²¹

Another significant problem, identified by Minister Ramesh and other senior officials, is that MGNREGA is riddled with corruption.²² The program is designed to be self-targeting and to reach every able-bodied person demanding work, ostensibly preventing clientelism and other corruption problems, but it is not implemented well enough to prevent leakages in general. Local officials in Gujarat, Madhya Pradesh and Jharkhand were found to demand a bribe for application forms or job cards, in amounts as high as a daily wage. There have also been instances of discrimination with regard to caste, age and gender, with evidence that single-women-headed households were denied registration.²³ Workers have stated that powerful people control the employment lists, and some people are being paid whether they work or not.²⁴ A report in the Rajasthan capital of Jaipur found that influential villagers claimed pay without turning up to work, or used mechanized diggers to finish the work more quickly while still charging for the full hours.²⁵

²⁰ Shah, Mihir.

²¹ Datta, Polly.

²² Jairam Ramesh (Padmanabhan's interview), and Tom Wright and Harsh Gupta.

²³ Sjoblom, Disa and John Farrington.

²⁴ Wright, Tom and Harsh Gupta.

²⁵ Ibid.

Social audits have also found inconsistencies between the number of job cards issued and the number of people working, indicating that local officials are inflating the number of workers and pocketing the funds.²⁶ A quarter of the 200,000 job cards in the Rajasthan district of Karauli were found to be fake, and only 60 percent of households in Orissa said that a member had done any of the work reported on their behalf.²⁷ Part of the reason why malfeasance takes place with MGNREGA is that the central government relies on state governments to comply with its operation guidelines, and it does not monitor how state and local governments are conducting the scheme. This arrangement leaves MGNREGA vulnerable to corruption and other irregularities. Corruption limits the impact of anti-poverty programs and taints their credibility, and unfortunately this is nothing new to India: Rajiv Gandhi estimated that only 15 percent of money spent on India's poor over time made it to the intended recipients.²⁸

Lastly, MGNREGA is expected to affect migration, with mixed results. Program employment is usually provided within five kilometers of the village where the worker resides at the time of the application.²⁹ If rural-urban migration is decreasing because rural workers are able to sustain good lives, then the scheme works well in improving rural livelihood and decreasing population pressure in the urban areas. Local insurance allows them to stay in the villages. Nevertheless, migration is often necessary for workers to join more productive sectors of the economy. Mobility is important for efficiency, development and economic growth.³⁰ MGNREGA's effect on migration, and its conflicting consequences, must not be overlooked. In the next section I analyze migration census data, as well as other MGNREGA statistics.

²⁶ Sjoblom, Disa and John Farrington.

²⁷ Wright, Tom and Harsh Gupta.

²⁸ Ibid.

²⁹ Basu, Arnab, et al.

³⁰ Kochar, Anjini.

IV. Data analysis

Census data show that between 2001 and 2011 India's rural population decreased from 72 percent of the total to 69 (see table 1). Given that rural areas have a higher fertility rate than urban areas, 3.2 and 2.2 children per women, respectively, the decrease in the rural population is likely due to rural-urban migration.

Table 1: Rural-urban population distribution in India

Distribution	2001 census	2011 census
Rural	72	69
Urban	28	31

Source: Ministry of Home Affairs, Government of India. 2001 and 2011 Census data retrieved from www.censusindia.gov.in

MGNREGA is expected to have a large effect on migration, as rural workers have a guarantee of 100 days of employment close to home and therefore have less of an incentive to move to the cities. However, we need more detailed data to estimate the effects of the program on migration over this short period. Helpful information includes surveys asking rural families about migration and their reasons, or more detailed data that would allow for an econometrics analysis on the causes of rural-urban migration and MGNREGA's effect.

MGNREGA's designers and administrators take pride in showing that the program serves a large percentage of women and scheduled tribes and castes. In 2009-2010 women comprised almost half of all participants, although the percentage is very low in some states (6.7 in Jammu & Kashmir) and much higher than average in others (88.2 in Kerala). Scheduled tribes and castes comprise around 20-30 percent of total participants, but their presence varies from 0 to 100 percent across all states' MGNREGA. These data show that, albeit on average the program benefits a relatively large share of underprivileged groups, some states are not doing their part.

Table 2: MGNREGA participants and number of persondays per household

	Average 2006-07	Average 2009-10	Range 2009-10
Women	40	48.1	6.7 to 88.2
Scheduled tribes	36	20.7	0 to 100
Scheduled castes	26	30.52	0 to 79
Persondays per household	43	54	18.8 to 94.6

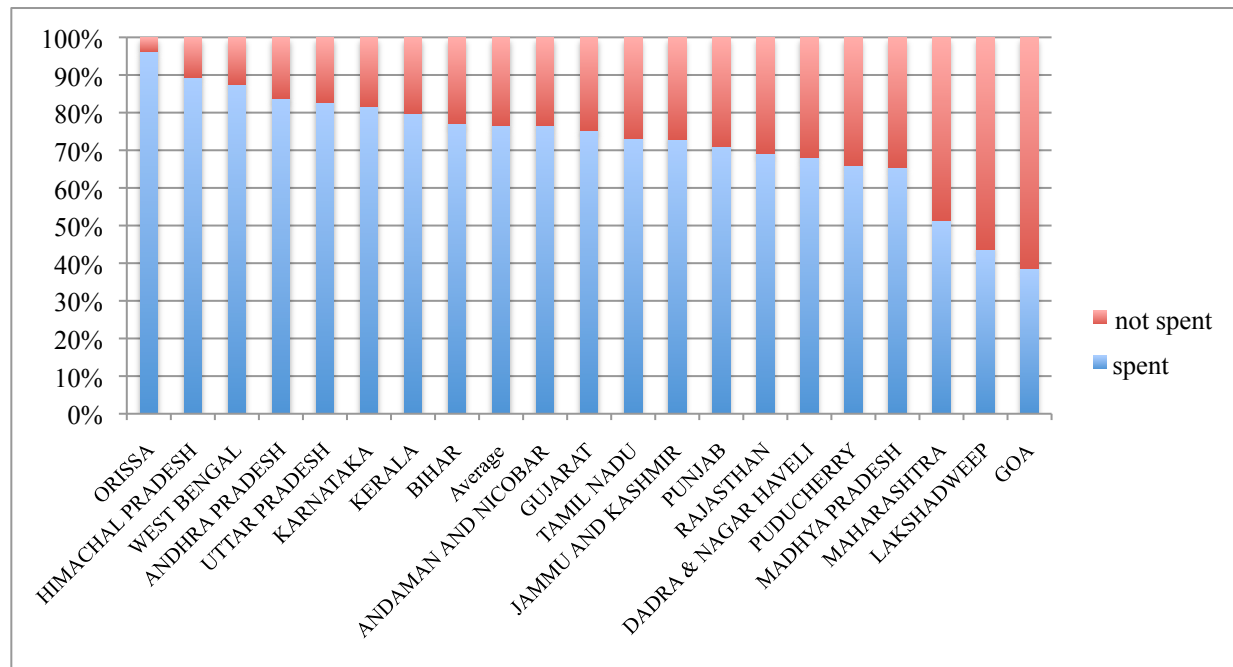
Source: Author with data from www.nrega.nic.in and Dreze and Oldiges.

Average number of persondays (work days) per household has increased since 2006-7, from 43 to 54 days, but still remains well below the guaranteed 100 days. Although government data say around 99 percent of workers who demand jobs through MGNREGA get one, reports and interviews made by journals such as *The Economist* and *The Wall Street Journal* tell stories of disempowered workers not getting jobs, while friends and relatives of employment list administrators find jobs easily. Additionally, knowledge about the program and worker's rights is low in some villages,³¹ and it is likely that the average number of persondays per household would be higher if all villagers were well informed.

The central government's release of MGNREGA funds to states is dependent on each state's proposed Labour Budget (which calculates expected demand for unskilled manual work) and an analysis of utilization of funds previously released.³² Even so, last year many states spent less than 70 percent of disbursed funds. Figure 1 shows that states vary widely in their expenditure/total funds ratio, and the average ratio is around 77 percent.

³¹ Dreze, Jean.

³² NREGA Operational Guidelines.

Figure 1: Percentage of total MGNREGA funds that were spent in 2009-2010

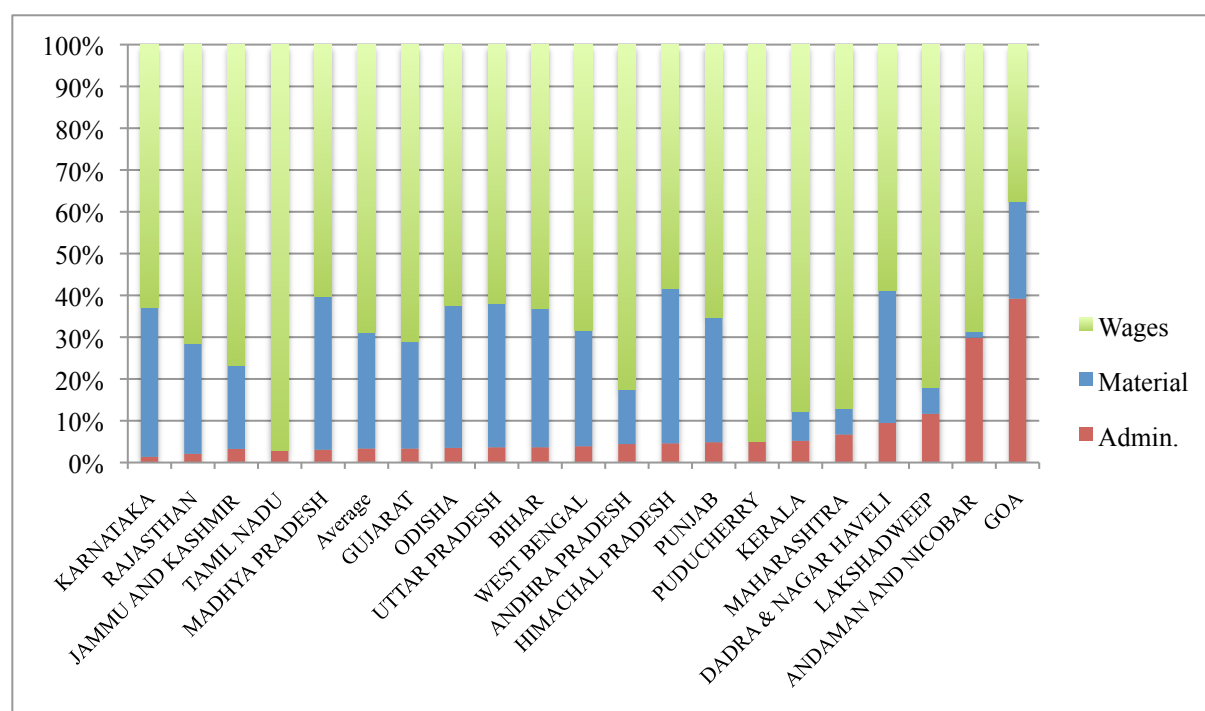
Source: Author with data from www.nrega.nic.in

These expenditure data provoke some questions. Why is it that Goa and Lakshadweep spent less than half of their funds? Is the administration of the program less efficient in those states? Or did states such as Orissa and Hymachal Padresh spend almost all of their funds because of leakage? It is in the government's and society's best interest to seek answers to these important questions, by questioning their states. Poor oversight allows for leakages and idleness and in turn decreases the program's effectiveness.

According to Transparency International – India, the most corrupt states are Bihar, Jammu & Kashmir, Madhya Pradesh and Karnataka, and the least corrupt are Kerala, Himachal Pradesh, Gujarat, and Andhra Pradesh. Although least corrupt states tend to be more to the left on the expenditure spectrum, I did not find a strong correlation between corruption level and expenditure. In fact, the least and most corrupt states (Kerala and Bihar, respectively) have almost the same expenditure ratio.

State expenditures also vary according to the share dedicated to wages, material and administration costs (see Figure 2). Some states, such as Karnataka and Rajasthan, have very low administrative expenses of around 1 percent. The average for all states is also low, less than 5 percent. Goa's and Andaman and Nicobar's administrative expenses, on the other hand, surpass 30 percent. In Goa, workers' wages are less than 40 percent of the program's total expenditure, while the average for all states is 67.5 percent. Clearly, MGNREGA does not work efficiently in Goa and Andaman and Nicobar. Many of the states are not respecting the 60:40 wages to material costs ratio prescribed in the scheme's operational guidelines. Another interesting finding is that Tamil Nadu and Puducherry reported zero annual expenses on material. It is very unlikely that this actually happened.

Figure 2: Total expenditure by percentage spent on wages, material, and administration



Source: Author with data from www.nrega.nic.in

If the central government does not take these numbers seriously, for instance by inquiring about whether the outlying numbers are misreports or fund leakages and demanding

accountability of funds from state governments, corruption and inefficiencies may continue to plague MGNREGA.

IV. MGNREGA's results in the long term

My analysis of MGNREGA's implementation and data shows that the program has some strong results in the short-term. Among them, I have identified the most important results as: providing a safety net for rural citizens, empowering the poor to demand higher wages from private employers, and generating work for women and scheduled tribes and castes. The first and second results are clear goals of the program. Nonetheless, as it currently stands, I do not expect MGNREGA to have significant effects in the long term, particularly because workers do not learn new skills and the infrastructure built is of poor quality.

MGNREGA workers do not receive any training, and jobs are purely manual and unskilled. There is a lack of skilled technicians at almost every site,³³ and no labor-replacing machinery is allowed, so workers are not acquiring abilities that can improve their long-term prospects of breaking out of poverty. In response to this criticism, Minister Ramesh states that the scheme is not intended to teach skills, but rather to function as last-resort employment. However, with this approach in mind MGNREGA becomes simply a "Band-Aid solution": it provides work for people who are in desperate situations but does not address the root causes of the problem, nor does it prevent the problem from surfacing again.

Not surprisingly, given that work sites usually only have unskilled workers doing all of the work manually, the infrastructure built through MGNREGA is of very poor quality. Only basic works get done, and less than half of the projects started since 2006 have been completed.³⁴ Niten Chandra, a senior official at the Ministry of Rural Development, says that state

³³ The Economist.

³⁴ Wright, Tom and Harsh Gupta.

governments are responsible for monitoring projects and ensuring audits are carried out, and therefore are at fault for cases of corruption and unfinished work. He also states the goal of the program is to create work and raise wages, not to build major infrastructure.³⁵ The result is that the program consists of mostly wasteful construction, with roads that are washed away with heavy rain. Minister Ramesh acknowledges that the works are of poor quality, particularly the roads.³⁶

Given MGNREGA's design and implementation, and statements from senior government officials, it is clear that the government has approached MGNREGA purely as a job-creation program. However, many studies have shown that giving preference to employment creation over the construction of durable assets results in poor-quality works, large numbers of incomplete projects (more than half), and very low levels of maintenance.³⁷ We already see many of these problems with MGNREGA. The requirement of a 60:40 ratio of wages to material costs and the prohibition of the use of labor-replacing machinery also makes it harder to produce durable assets. The study undertaken by CSE concluded that about 80 percent of the assets created under the MGNREGA are not providing sustainable benefits.³⁸ Rural employment and infrastructure upgrading have not been complementary, but they should be in order for MGNREGA to have lasting effects on India's rural development.

VI. Conclusion and recommendations

MGNREGA has produced benefits for rural India, particularly through the provision of extra income during tough times. Nevertheless, the program has many areas that need

³⁵ Wright, Tom and Harsh Gupta.

³⁶ Jairam Ramesh (Padmanabhan's interview).

³⁷ Datta, Polly.

³⁸ Ibid.

improvement, in order to increase its efficiency and efficacy. I describe MGNREGA's weakest areas, as well as provide recommendations for how to refine them, below.

Rural development and employment should be twin objectives: incorporate skills development and durable infrastructure in MGNREGA

MGNREGA's design and implementation limit it to simply generating last-resort employment. Workers do not receive training nor learn new skills for the job market, and can only build basic and low-quality infrastructure. As a result, workers are dependent on the scheme for jobs, and the maintenance of infrastructure is dependent on continuing MGNREGA funds. If this program ended tomorrow, rural India would likely go back to 2005: rates of poverty and severe malnutrition would increase again, and the infrastructure built with the program would crumble. There are many ways to impact the long term; Conditional Cash Transfers (CCTs) programs, for instance, invest in the future by requiring school attendance and medical check-ups for beneficiaries and their children. What would be most fitting for MGNREGA would be to build more sophisticated and durable infrastructure, by disbursing skilled personnel to handle machinery and oversee the works, and by training workers in new skills and roles that they can use in the job market.

Tackle corruption and provide timely payments so the program can more effectively work as a reliable emergency fund

Clearly, there are problems with MGNREGA that are limiting its scope and impact. Due to corruption, or sometimes merely ineffectiveness, payments are often delayed, sometimes by as long as a few months. For the poor who live from check to check, such a delay can have drastic consequences. Therefore, MGNREGA does not yet work as a reliable emergency fund, since in

many places workers cannot expect to be paid immediately after working. In addition, expenses reports from some of the state governments indicate misuse or waste of funds, so the central government must scrutinize these numbers and demand accountability for the scheme's funds. It would be helpful to have a team in the Ministry of Rural Development assigned to tracking funds and ensuring they are being put to good use. One approach that is working well in Andhra Pradesh includes a strong management information system (MIS), which keeps tracks of all transactions involving MGNREGA's funds.³⁹ This system increases the chances of violators getting caught, and as a consequence it has decreased corruption in Andhra. MIS has the potential to bring the same benefits to other states. Another solution to tackle corruption is to increase the capacity of village councils and governments, which I discuss next.

Build capacity at the village level through the Gram Sabhas and Gram Panchayats to increase MGNREGA's effectiveness

There is a need at the village councils and governments for full-time professionals who are trained to do their job well, with speed and quality, and who are accountable to the councils. Greater use of information technology can improve their work and increase transparency in the sanction of works, release of funds, and wage payments (in a process called social audit) and also take appropriate action when there is evidence of fraud. Technical and scientific support can help these organizations implement and monitor MGNREGA more effectively. Capacity building would be highly beneficial and not too costly: some calculations estimate that such an effort would cost only two percent of total MGNREGA costs, monitoring and evaluation would cost one percent and pure administrative expenses can be kept as low as one percent.⁴⁰

³⁹ Jairam Ramesh (Padmanabhan's interview).

⁴⁰ Shah, Mihir.

Jean Dreze and England's Overseas Development Institute point out Rajasthan as a state where MGNREGA has been working well, and they believe that is happening for a few reasons: the right-to-information movement in Rajasthan has instilled a culture in which information is easily available to the public; the availability of registers of workers at worksites has decreased corruption; and the Gram Panchayats' extensive experience with labor-intensive public works helps them implement MGNREGA more successfully. Therefore, awareness generation, transparency in registries, and increased capacity of local institutions could have a major impact on MGNREGA's effectiveness across the country.

Such a large-scale and costly workfare program can and should be able to provide more than unskilled and unproductive last-resort employment. MGNREGA's results fall short of the huge sums of money spent, particularly in the long term. As it currently stands, the poor do not learn any new skills, only basic and low-quality works are completed, large sums of money are being wasted or pocketed, and the poor remain dependent on the government for work. MGNREGA's employment creation benefits rural India, but a program that also generates wealth and sustainable development would be better yet.

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