

# CAG Report on NREGA: Fact and Fiction

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The draft report of the Comptroller and Auditor General on the working of the National Rural Employment Guarantee Act was used by many sections of the media to strongly criticise this employment programme. Much of the coverage sensationalised the findings of the report. What did the CAG actually say? Where did the CAG fall short in its investigations? And what can we learn from the CAG to improve the functioning of the NREGA?

The debate sparked off early this year by the leak of a draft report of the Comptroller and Auditor General (CAG) on the National Rural Employment Guarantee Act (NREGA) – hereafter the “CAG report” – has come at a critical moment. A balanced and careful stock-taking of the performance of the NREGA after two years of implementation is required, and could serve as a useful guide to further action in the context of the extension of the programme across the country.

Unfortunately, the controversy over the CAG report, as it has unfolded in the media, has precluded any constructive exercise of this sort. Instead, the report has been widely used to dismiss the Act as a failure, by presenting the findings in a biased manner. In this article, we seek to present aspects of the report that have either been insufficiently emphasised or ignored altogether so far, along with an appraisal of the strengths and weaknesses of the CAG report.

## 1 Overview

The CAG report is the most extensive assessment of the implementation of the NREGA so far.<sup>1</sup> The scope of CAG audit was the 200 districts covered by the first phase of the NREGA since February 2006. The range of records audited included the relevant records of the ministry of rural development (MRD), state rural development offices, and block and gram panchayat (GP) level offices between February 2006 and March 2007. In overall terms the CAG studied records relating to 68 districts in 26 states, 128 blocks within the selected districts, and 513 GPs in the selected blocks.<sup>2</sup> However, this massive scale of operations has inevitably meant a focus on certain aspects of implementation at the expense of others. As such, the temptation to view the report as the last word on the NREGA must be avoided.<sup>3</sup>

It is also important to recall the context in which the CAG undertook this “performance audit” of the NREGA. It has been easily forgotten that the audit was initiated at the request of the MRD and not in the routine course of CAG’s operations. The intention, at least to begin with, seems to have been commendable, even courageous: to commission an independent body to identify problems in the programme as they were emerging.<sup>4</sup>

We try, in this article, to understand what the CAG report can (and cannot) be interpreted to say. Such an exercise is necessary, we argue in the first section, because of the way in which the media coverage has unfolded. Much of the coverage was sensationalist and many of the opinions expressed would not be borne out by a plain reading of the report. For instance, the reportage and initial controversy centred on three aspects – the national average estimates (including the figure of 3.2 per cent of the beneficiaries availing 100 days of employment), the alleged violations of operational guidelines and claims about corruption. We demonstrate that the report is far more circumspect and measured in its treatment of each of these.

However, the confusion is not merely media-driven. Part of the blame for this must also be laid at the door of the CAG, for what was effectively a half-hearted “performance audit”. Auditing “performance” must surely include some sense of the actual impact of the programme even as it looks at questions of compliance with prescribed requirements. For a variety of reasons that we explore, the CAG is deafeningly silent on the former – the impact on the lives of workers and the quality of the assets created. The report has little to say about actual socio-economic outcomes, whether it is the impact of NREGA on poverty, or on women’s empowerment, or agricultural productivity. The main benchmark of “performance” remaining is a procedural one: conformity with the Operational Guidelines (OG) of NREGA (including the main provisions of the Act itself). Indeed, even this benchmark is a blunder, since the OG are not binding on the states. This silence on the impact and

Acknowledgements are due to Amitabh Mukhopadhyay, Nikhil Dey and Reetika Khera. Special thanks to Jean Drèze.

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the misconceived yardstick for compliance have come together to create the present ambience of hysterical NREGA-bashing.

Further, precisely because the main focus is procedural, the report has had relatively little to say about corruption. Contrary to the impression that has been created in countless media reports, there is very little about the extent of “leakages” in NREGA. Some of the procedural irregularities identified by the CAG, of course, do make the programme vulnerable to corruption, and the report also mentions specific instances of embezzlement. But nothing in the report substantiates sweeping claims that “NREGA funds don’t reach the poor”.<sup>5</sup>

In the last two sections we present some of the findings of the CAG that can help in providing direction to the mid-term course-correction – the stated objective of the MRD in inviting the CAG in the first place.

## 2 Media Coverage

The CAG episode has been the occasion on which NREGA has received the most sustained negative media attention since its enactment in mid-2005. Thus far, reportage about social audits and the Central Employment Guarantee Council visits had highlighted instances of corruption within a framework of overall optimism about the Act.

The tone set by the initial reportage on the matter vitiated the possibility of a dispassionate reading of the CAG report [Ghosh 2008]. Consider the headlines of the four-part article series (published in *The Indian Express* between January 7 and 10 and authored by R Tiwari and G Pandey) which broke the story on the issue:

### Shadow over Showpiece

– UPA guaranteed 100 days of work to poor, over 96 per cent didn’t get it, says first audit

– It’s official: In poorest states, job funds don’t reach the poor

– Congress ka haath kiske saath?

– In opposition camp too, delays, mismanagement

This mix of dramatic numbers and well-worn clichés was characteristic of the stories as well. The articles consistently distorted findings of the report by stringing them together, out of context, into exaggerated conclusions. By picking almost exclusively on one section – the state-specific findings – a part of the report

was projected as its essence, generating false controversies.<sup>6</sup>

## 3 Controversies

As pointed out earlier, “performance” in the report has meant compliance rather than outcomes. Contrary to the impression given in many media reports, the report has not investigated the veracity of documents (e.g., by speaking to labourers), except in a section on works and muster rolls. This prevents the CAG from making a conclusive statement on many of the suspected irregularities that it has uncovered. For the most

**Table 1: Different Approaches**

	Per “Registered Household” (CAG report)	Per Household Employed under NREGA (MRD Figure)
Average days of employment	18	44 (approximately)
Households accessing 100 days	3.2	10 (approximately)

Source: CAG data are from Comptroller and Auditor General (2007), p 44. The MRD figures are from Dreze and Oldiges (2007).

**Table 2: Sampled Districts vs National Averages (CAG Approach)**

	CAG Sample	Full National Data
Average days of employment per registered household	18	24 (approximately)
Households accessing 100 days as percentage of registered household	3.2 per cent	5 per cent (approximately)

Source: CAG data is from Comptroller and Auditor General (2007), p 44. The MRD figures are from Dreze and Oldiges (2007).

part, the CAG has carefully refrained from making any categorical claim about these irregularities, but the media has harped upon them as concrete evidence to damn the Act.<sup>7</sup> In this section, we try to carefully understand some aspects that have generated much heat but little light during the course of the media coverage.

### 3.1 Estimates of Employment

Many initial media reports focused on a particular set of figures mentioned in the CAG report, according to which each registered household received 18 days of employment on average, and only 3.2 per cent of registered households worked for the full 100 days. In response to this, the MRD came out with an alternative calculation, suggesting an average of 44 days of employment per household, with 10 per cent of households getting 100 days of employment (Table 1).

These two sets of figures were reported by the media as competing claims, but the fact of the matter is that both are derived from the same source: the official Monthly Progress Reports (MPR).<sup>8</sup> This false controversy, pitting the CAG against the MRD, was played up in the media. So how did they arrive at two different numbers from the same data?

The real issue is what these figures con- note. The CAG took registered households as the reference group, while the MRD’s calculations focus on households employed under NREGA. The “registered household” (CAG) approach does not capture the demand-driven aspect of the Act. Any rural household – whether or not it subsequently seeks employment – can get a job card through registration. Registration is simply an expression of potential interest in applying for employment. In many instances, government servants, shop owners and others who are unlikely to

engage in manual labour have been registered, “just in case”. MPRS suggest that the proportion of registered households that have actually worked at NREGA worksites is around 55 per cent. There is, then, a gap between the “registered households” and “households employed”.

The gap between the two figures can be construed in more than one way. It can be read to suggest an “access issue”, implying that the households already registered are not able to avail of the employment opportunities due to procedural or other hurdles. Field visits do lend some weight to this possibility.<sup>9</sup> At most NREGA worksites the authors have visited, work is accessed as and when a project is initiated by the authorities. (Indeed, the procedures for demanding work are among the least clearly understood aspects of the Act – among officials as well as workers.)

Nevertheless there remains another possible interpretation for the gap between those registered and those obtaining employment: that some job card holders chose not to demand work. In this case, the “per employed household” approach that the ministry relied upon (which suggests a much better performance) seems more appropriate. In either case the figures, when carefully understood,

serve as the starting point for further investigation rather than simple condemnation or celebration.

A second problem with the media's presentation was that they misrepresented CAG figures (which are calculated for sample districts) as national averages. The CAG based its numbers on 465 GPs. Using the data from the entire country would yield different results, as shown in Table 2 (p 40).

Last but not least, it must also be kept in mind that these are average, national figures that reflect data from extremely different regions. An uneven performance of states in implementation of NREGA in the first few years, while troubling and unacceptable in the long term, is also a realistic initial outcome. As such, an average figure would not reflect the NREGA's potential. In other words, these averages should not be treated as benchmarks for judging the viability of the programme.<sup>10</sup>

### 3.2 Statement of Non-Compliance

In assessing compliance, the CAG has compared actual practices with the stipulations from three sources: the Act, the OG and MRD communications. A significant chunk of the report consists of lists of states that have not complied with some norm or the other stipulated in any of these three. Lists have been compiled for over 45 such norms. Not all of these are equally significant. The fact that "...(21 States) had not prepared exhaustive lists of all tasks to be taken up under REGS in different geo-morphological conditions" [CAG, p 41] can hardly be considered as significant as delays in the payment of wages, for instance. At times, the exercise is in danger of becoming simply a mindless act of comparing stipulation after stipulation to reality. However, the investigation of the core stipulations of the NREGA is certainly a valuable part of the report.

We have selected nine of the more significant of

these criteria and arranged them into a table showing the compliance status of the 10 states with the maximum districts under NREGA in the year 2006-07 (Table 3). Even here, however, it must be noted that CAG has adopted an "either/or" approach which tends to hide more than it reveals. To illustrate, consider the compliance recorded by the CAG on minimum work-site facilities – water, shade, first aid kit and childcare facilities (if there are five or more children below the age of six years at the worksite). The findings in this respect read as follows [CAG, p 28]:

Worksite facilities were not provided in 202 GPs in Andhra Pradesh, Assam, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Manipur, Orissa, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal (15 States).

If even one of these facilities in one of the GPs of any of these 15 states was found to be missing, this state would have joined the list. As a result, this statement tells us precious little about the actual state of things. Such an approach can only yield a partial if not distorted view of the implementation.<sup>11</sup>

### 3.3 Financial Irregularities

Instances identified by the CAG as possibly involving financial irregularities have been splashed across the media. Financial irregularities are not the main focus of the report. However, it does mention specific cases from which corruption can be inferred. In contrast to the presentation in

the media, a careful examination of such instances does not lead to a picture of widespread corruption.

In a small number of cases, the CAG has reported clear-cut financial irregularities. These are based largely on a paper audit and, only in Orissa, on cross-verification of records with the statements of labourers. An instance of this from Bihar [CAG 2007, p 59].

Rs 8.99 lakh was paid as wages to fictitious labourers in respect of 7 works, as the name of the same labourer was recorded twice or thrice for the same period in the same or other muster rolls (MRS).

Adding up such examples reveals that their scale and number where financial irregularities are clearly stated are not particularly significant in the CAG report.

It would not, however, be unfair to add to these clear-cut instances others like the following one from Andhra Pradesh (ibid, p 59).

Tampering of muster rolls by using white fluid and marking absent as present and also overwriting the number of days worked was noticed in general during examination of muster rolls pertaining to the works selected in certain selected GPs.

In a case like this, while the description of the practice suggests that funds have been siphoned off, the CAG provides no numbers by which we can gauge the extent of the fraud. Even adding them up, the evidence of corruption forms a very small part of the report.

The fact that such meagre findings about corruption have been unearthed is

**Table 3: Statement of Non-Compliance in 10 States with Highest Number of NREGA Districts**

	Non-Appointment of Employment Guarantee Assistants <sup>1</sup>	Job Cards Not Issued within the Prescribed Time Frame <sup>2</sup>	Lack of Worksite Facilities <sup>3</sup>	No District Schedule of Rates	Non-payment of Minimum Wages	Delay in Payment of Wages <sup>4</sup>	Non-payment of Unemployment Allowance <sup>5</sup>	Expenditure without Administrative Approval and Technical Sanction	Monthly Squaring of Accounts Not Done <sup>6</sup>
Spread in Total Sample	268 GPs in 18 States	162 GPs in 15 states	202 GPs in 15 states	23 states	90 GPs in 11 states	200 GPs in 18 states	53 blocks in 17 states	24 GPs in 7 States	131 GPs in 10 States
Andhra Pradesh	x	x	x	x	x	x			x
Assam	x	x	x	x			x		
Bihar					x				
Chhattisgarh	x	x	x	x	x	x	x		x
Jharkhand	x	x	x	x	x	x	x	x	x
Madhya Pradesh	x			x	x	x		x	x
Maharashtra		x			x				
Orissa	x	x	x	x	x	x	x		x
Uttar Pradesh	x	x	x	x		x	x	x	x
West Bengal	x	x	x	x		x			x

(1) These are supposed to be staff dedicated to NREGA present at every gram panchayat. They are the most important operational unit at the GP-level.

(2) Job cards have to be issued within 15 days of application for registration. (3) Shade, drinking water, first aid and provision for childcare.

(4) Within 15 days of the date on which the work was done. (5) Labourers are due unemployment allowance if 15 days have elapsed since the date of application for work and no work has been provided. (6) Monthly squaring of accounts is to be done under three heads, viz, money held in bank accounts at various levels, advances to implementing or payment agencies, and vouchers of actual expenses.

Source: Compiled from Comptroller and Auditor General (2007) passim.

more a testimony to the limitations of the approach of the CAG to this audit than an accurate picture of the extent of corruption. Indeed, processes like social audits and detailed muster roll verifications (of the kind that have been pioneered by Mazdoor Kisan Shakti Sangathan in Rajasthan) are far more effective as ways of quantifying corruption. The fundamental point, which bears repetition, is that the draft CAG report is not an assessment of the extent of corruption in the NREGA.

#### 4 A Work in Progress

The performance audit (PA) is a specialised and relatively new form of audit being taken up by the CAG.<sup>12</sup> It subsumes and seeks to go beyond the more usual kinds of audits which simply check the account books or look at compliance with stipulations. The guidelines for performance audit in India suggest that the CAG is ideally expected to opine on three facets: the effectiveness of a programme/department in achieving its objectives (outcomes), the levels of economy achieved and the efficiency displayed. Beyond these three basic elements, PA also has a number of subsidiary aims: to understand the unintended consequences (both negative and positive) of the operation of the programme, the fitness of the built-in control and audit functions, and address issues relating to equity. This is a vast brief, and could, potentially, enable a wholesome and comprehensive examination of any programme.

##### 4.1 Effectiveness

Assessing the effectiveness of any programme would entail comparison of the actual impact with the intended impact. The CAG itself terms it "goal attainment analysis" and considers it a vital part of the PA process [CAG nd]. Judging effectiveness requires auditors to comment on outcomes. Given the complexity of the NREGA, as well as its anticipated outcomes, it would have required creative thinking on the part of the CAG to come up with performance benchmarks against which to judge the early implementation of the programme. With reference to NREGA, effectiveness would include delivery of entitlements, socio-economic impact and usefulness of assets created.

On this count, the report is close to being an unmitigated failure. For the most

part, it avoids the question altogether. Where it has stepped into an overall assessment, the CAG has chosen to use either national averages of employment generated, or existing poverty lines to pronounce on the impact of the NREGA. The complexity of the employment figures and the inadequacies of the national average have been discussed already. Using the below the poverty line (BPL) status as a marker of access (coverage of the scheme among the rural population) is not a holistic indicator of distribution; it might at best serve as a rough guide to the same.<sup>13</sup>

NREGA outcomes ought to be assessed in terms of the socio-economic impact in the lives of people. Only an intensive field-based interaction with the labourers will suffice as a methodology for fulfilling this objective. A PA dedicated mainly to finding contradictions within the records must be an incomplete one ab initio.

Having not assessed outcomes satisfactorily, the supplementary aim of identifying additional ones has not even been attempted. For instance, there is scattered evidence from many places that NREGA is empowering women, encouraging rural savings, helping with schooling, activating panchayati raj institutions, etc. It would have been invaluable if some of these had been investigated by the CAG.

##### 4.2 Compliance Appraisal

We have mentioned earlier that compliance is one of the major concerns of the CAG report. The CAG has sourced the audit criteria, for the purpose of judging compliance, from the Act, the OG, and MRD circulars. Importantly, in this respect CAG has completely ignored state schemes initiated under the NREGA, and other state circulars and communications. Under NREGA, states have been entrusted with the task of formulating an employment guarantee scheme for the purpose of implementing the Act. States have also been delegated with elaborate rule making power. In essence, apart from providing finances, the central government has a largely supervisory role.

The OG of the MRD are formulated to guide the design of the employment guarantee schemes by the states. The idea, as outlined in the OG, was to provide

guidance for creating an environment conducive to implementation.<sup>14</sup> While the CAG has used the OG as a criterion to audit the administrative practices in the programme, the OG are, strictly speaking, of an advisory nature (certainly so in terms of their legal status). The OG, in its prescriptions, set a very high threshold in terms of record-keeping rules, transparency provisions, and participatory requirements in monitoring and vigilance. Many state schemes fall short of meeting these guidelines, which give rise to a state of confusion and conflict. But processes which are a result of such confusion cannot be dismissed as outright procedural irregularities. State directives, rules and schemes are the primary sources of procedure for the implementing agencies in the field. In fact, a proper performance audit would have to assess the state schemes themselves against the binding norms created by the central government (other than the OG) and also the various thresholds that inhere in the Act.<sup>15</sup> Having failed to do so, CAG has termed the state-wide faulty practices (which may have their origin in the state schemes) as irregularities, which, technically speaking, they are not.

With NREGA in its third year, rule making and procedural standards are gaining some uniformity. But, by implication rather than design, the CAG has hit upon the fact that the NREGA still has some way to go towards formulating universal procedural norms: a situation that demands urgent correction.

##### 4.3 Fallout of Methodological Oversights

The aspects the CAG has omitted to consider have proved to be just as significant as the ones that it has examined. Omissions in the report have become an important issue, given the overall environment of expectations and weight a PA report carries.<sup>16</sup> For instance, silence on effectiveness of the programme in the CAG report has been taken as evidence of absence of any impact of NREGA in rural areas.

There have been numerous stories of the NREGA making a significant difference to the lives of people. There is evidence for other kinds of outcomes as well. Useful works have had some impact on agriculture and availability of water. It was an

essential part of the performance audit's mandate that the CAG evaluate these kinds of outcomes in objective terms. The absence of this kind of analysis has done immense disservice to the cause of people to whom the NREGA has given a measure of control over their lives.

In other instances, the unduly narrow investigation has precluded bringing out the "teething problems", which are responsible for the shortcomings mentioned in the report. For instance, in some states an ill-drafted scheme (failing to provide an effective framework to the implementing agencies in the field) is responsible for many of the violations of the Act or OG. And the lack of a centralised monitoring system has allowed central government to sleep over most of the instances of mis-utilisation, diversion and under-utilisation. The CAG has successfully pointed out the symptoms and violations that can be made out by comparison with the OG, but analysis of the underlying systems (internal control structures, IT backbone, etc) and review of procedural framework (adequacy and fitness of administrative norms and rules) has not been attended to.

Another methodological weakness is the use of online job cards and muster rolls to verify labourers' claims. Firstly, physical job cards cannot be substituted for by online job cards. The monitoring and information system (MIS) is, at best, an additional record keeping and transparency device useful for monitoring purposes. As things stand it does not qualify as a record for the purpose of an audit. On the contrary, MIS itself needs to be subjected to an IT audit (another kind of audit conducted by the CAG) so as to probe the integrity of records, data feeding processes, online data management and presentation.

## 5 Recommendations of CAG

The CAG report points to a number of issues in the implementation of NREGA. Despite methodological problems, the section on recommendations is the most valuable part of the report. Some of them are novel. Others have been advocated for some time, but are likely to receive more attention now that they have been endorsed by the CAG. Given the way the

debate has unfolded so far, there is a genuine danger of the recommendations getting lost in the din of exaggerated opinions. This will be particularly tragic as many of them can make a positive contribution to the NREGA's extension to the whole of rural India.

**(a) Staffing:** CAG has singled out lack of dedicated administrative and technical staff for NREGA as the key constraint responsible for procedural lapses. For instance, according to the OG, the "programme officer" at the block level is supposed to be a full-time, dedicated post of rank equivalent to the block development officer (BDO). Similarly, the OG recommend the appointment of a full-time gram rozgar sevak ("employment assistant") in each gram panchayat. As the CAG report points out, however, these appointments are yet to be made in many states. Staff shortages have become a common excuse for non-compliance with the guidelines.

Another critical finding relates to special staffing needs of a select group of districts, "which suffer from acute poverty, where employment demand is high, and consequently where there is increased pressure on the NREGA organisational set-up" [CAG 2007: 16]. CAG prescribes adequate staff as the way to enforce accountability in the matter of record maintenance and online data management.

**(b) Transparency Measures:** Quite correctly, the CAG has chosen to highlight shortcomings in the maintenance of job cards and muster rolls. Among other things, they have recommended that the state governments must ensure that job cards are not retained by gram panchayat or departmental officials under any circumstances.

Another major problem that the CAG identifies is that in many places the mandatory biannual social audits are not taking place. Here too, the CAG's findings lend important support to a demand that others have raised – that the social audit process must be taken far more seriously by the administration.

**(c) Works:** The CAG has pointed out that a number of projects not on the list of permissible works (such as shamshan ghats,

panchayat ghars, community centres, school buildings and playgrounds) are being executed. It has recommended that state governments should be empowered to expand the list of permissible works in the light of local conditions, after keeping MRD informed.

**(d) Employment and Wages:** According to the OG, district-wise Schedules of Rates (SOR) must be prepared after undertaking careful "time and motion studies" for the NREGA workforce. On NREGA works, as the CAG points out, anyone above the age of 18 years can come to work, including first-time workers, women and the elderly may not be as productive as an able-bodied experienced worker. As such, it is important that new SOR be formulated for the NREGA with carefully calibrated and realistic stipulated tasks so as to ensure fair payment of wages. The CAG makes a pointed observation to the effect that the state governments should ensure payment of minimum wages, "notwithstanding any other conditions", which is only possible if tasks have been carefully configured to take into account the specificities of NREGA works and the composition of the NREGA workforce.

**(e) Unemployment Allowance:** The reluctance of state governments to disburse unemployment allowances has been noted by many. The CAG has indicted a number of state governments for effectively scuttling the unemployment allowance. The report also brings out the myriad ways in which they have managed this. In Orissa and Jammu and Kashmir, the administrative structures and resources required for operationalising the allowance were ignored. In other places, like Madhya Pradesh, the unemployment allowance was paid, but only to a few workers and after a long struggle. Even this, as the CAG points out, was charged to the central government.<sup>17</sup>

Noting the aforementioned, CAG has advised the central government to consider amending NREGA rules to allow the centre to pay part of the unemployment allowance, while instituting controls to minimise chances of persons drawing unemployment allowance without demanding employment or working.

## 6 A Constructive Response

The sound and fury generated by media accounts of the CAG report has, understandably, pushed the government on the defensive. The minister of rural development, for instance, termed the report “totally false” (*Business Standard*, January 15, 2008). However, as we have reflected in the paper, the document is a mix of constructive elements interspersed with facts that can be misrepresented. Nevertheless, it is an independent look at the NREGA that can be extremely useful. It is imperative that the government respond constructively to the report rather than simply discard it or dismiss it as false.

One immediate step in this direction would be to comb through the report and take firm action in cases where labourers’ entitlements have been denied. To illustrate, over 12 cases involving delayed payments like the following one from Andhra Pradesh have been presented in the report: “No compensation was paid to labour in respect of 2,05,911 cases of delayed payments of wages in the state beyond the stipulated period of 15 days during 2006-07”.

For those who come to NREGA worksites, often the poorest in areas where alternative employment is not easily available, the consequences of not receiving wages on time are often cycles of debt or migration.

Apart from delayed wages, other important issues directly affecting labourers include payment of wages at outdated rates. Most states revised their minimum wage rates upwards in the course of 2006-07, and often labourers were paid at old rates even after notification of the new wages. Paying the arrears due to labourers, no matter how small the amounts involved, can be fairly easily done based on these findings. Similarly, cases of incomplete job card distribution and non-payment of the unemployment allowance should be dealt with promptly. The CAG has done the government a favour by identifying these specific instances. Immediate action could have far-reaching demonstration effects, with relatively little effort. In the longer term, obviously, much more sustained effort will have to be put in to ensure continued compliance with norms.

On many of the longer-term questions, we have presented some of the CAG’s useful recommendations. A constructive

response, however, would also look beyond the report and attempt to deal with a number of other administrative systems that need to be in place. There is an urgent need to clarify issues like the centre-state relationship within the act. States have considerable autonomy under the Act, enabling them to formulate their own schemes and rules. The disadvantage of this is that there are no minimal best practices that every state is compelled to follow. As states move towards clarifying and finalising their rules and schemes, it is important that some space for these minimal procedures be created.

At the same time, the diversity of administrative practices has also been an advantage. In many places, innovative solutions to specific problems are being implemented. A substantial pool of administrative experiences has been built up over two years, which can be drawn upon to anticipate the challenges that lie ahead.

Such exchange of experiences might also help the government to steer clear of “silver bullet” solutions. Two proposals that have been gaining increasingly vocal support after the leak of the draft CAG report, particularly to ensure transparency, have been the use of MIS and banks making wage payments. Both of these have been touted as ways to check the kinds of administrative deficiencies and loopholes that the CAG has noticed.

It must be realised that, as of now, and for the immediate future, MIS facilities developed under NREGA are in their infancy. Even in states where online reports are being filed in real time, like Orissa, experience suggests that it might be complicating the issue more than the problems it resolves [see Dreze, Khera and Siddhartha 2007 for effects of MIS in Orissa]. More extensive use of the MIS, at this point of time, cannot be seen as much more than a learning process. It certainly cannot serve as a reliable transparency check, and it is not a substitute for the strict implementation of other more important transparency safeguards – muster rolls, job cards, social audits, etc. Overemphasising the MIS at this stage would be like attempting to run before learning to walk.

The system of bank payment of wages, too, has been promoted as a magic cure against corruption. It is certainly an important innovation, with much potential in due course. However, as field reports from Mayurbhanj (Orissa’s pioneer district in this respect) and other places suggest, bank payments on their own are unlikely to ensure that corruption is eliminated [Vanaik and Siddhartha 2008]. Once again, there is no “quick-fix” substitute for the entire range of transparency safeguards.

Further, bank payments raise problems of their own. In areas of poor outreach of the banking system it creates practical problems for NREGA workers. An effective system of bank payments also requires intensive awareness drives and streamlining of processes and procedures on the part of the administration. For instance, the results can vary a great deal depending on whether bearer cheques, account payee cheques or letters of credit are used as the instrument to transfer money from the GP’s bank account to workers’ accounts.

## 7 Conclusions

The CAG report’s major shortcoming has been that it fails to match up to the comprehensive terms of reference of a performance audit. Performance audit findings are not meant to be “a random assortment of various financial and regularity audit findings but an assessment of either the whole or the part of the programme/subject/function/system” [CAG nd: 9]. The report often breaks into just such a random assortment, and the media has used this as an opportunity to amplify and extrapolate from the negative findings. The silence of the CAG on the overall impact of the NREGA (apart from the two figures discussed earlier – on average employment and households completing 100 days) was an outcome of these failings. Had the CAG methodology incorporated more interaction with NREGA workers, its own purposes might have been better served.

Despite falling short on a number of counts, the CAG report has highlighted many genuine problems and pointed out improvements that are required. Even the limited experience of conditions on the ground has yielded a fairly rich harvest of recommendations. Much of this translation of findings into “policies and programmes”,

however, depends on parties other than the CAG. The attitude of the government up to the present has largely been a defensive and reactive one. The exaggerated claims of the media and the fact that questions are being raised about the Act itself, has led the government to go into denial mode. For the government to simply issue rebuttals and bury its head in the sand about the fact that many of the things necessary for effective implementation have not been put into place is not a constructive response to the report.

There is an urgent need to distil the lessons from two years of the NREGA's implementation. A process of extensive consultation and planning must accompany the extension of the programme. The CAG report, as the most extensive and ambitious study of the implementation of the NREGA so far, can be a starting point for a process that should go well beyond it.

## NOTES

- Other reports have taken a deeper and more holistic view of the implementation of the programme, however, they have been restricted to particular regions. See, for instance, Drèze, Khera and Siddhartha (2007).
- In each state, the CAG selected 25 per cent of NREGA districts. In each district two blocks were selected, and in each block, four gram panchayats were shortlisted for detailed examination. Finally, four worksites (preferably three completed and one ongoing) were selected for audit in each GP. See Comptroller and Auditor General (2007).
- Numerous examples of the use of CAG findings as an authoritative statement on the state of NREGA implementation have circulated in the press. Lately they have also found their way into research papers as well. For examples see Mahapatra, Sakhuja, Das and Singh (2008) and Ambasta, Shankar and Shah (2008). Indira Hirway warns against using the report in such a manner: "The CAG has taken a very simplistic and sweeping approach in analysing the weaknesses as well as in making recommendations for improving the working of the NREGA" [Hirway 2008].
- As Vinod Rai, the newly appointed Comptroller and Auditor General points out, "This is a case in which the government invited the auditors to do the study. Under normal circumstances we would have done this at a later stage. The government took a positive view saying that it would like to do mid-course corrections if corrections are required" [Chikermane 2008].
- Perhaps the most misleading headline in this regard was, "It's official: In poorest states, job funds don't reach the poor" [Tiwari and Pandey 2008: 2]. This headline stretched the limits of ethical journalism. As Jean Drèze points out about this headline: "This statement, and variants of it printed in this article and elsewhere, give a very misleading picture of the CAG report. Indeed, the report does not present any evidence of massive leakages in the NREGA, nor was this the objective of the investigation" [Drèze 2008].
- The Centre for Science and Environment policy paper also takes note of the biases of the media coverage of the CAG report: "The recent CAG assessment of NREGA performance has been making headlines. Media coverage has mostly projected the CAG report as a failure of the NREGA. Instead, a closer analysis of the findings shows that the NREGA has performed badly due to absence of right implementation framework as well as obsessive focus on employment creation only" [Mahapatra, Sakhuja, Das and Singh 2008; Roy and Dey 2008].
- Interestingly, Vinod Rai, when asked his perspective on the CAG Report, put it in the following terms: "...the government is not the executor all the way down. The central government allots the money, state government agencies implement the scheme. When the central government looks at it, it looks at it piecemeal. So do state governments. When audit did it, it did so holistically. And found the lacunae. And we're not saying this is all malafide" [Chikermane 2008, emphasis supplied].
- Monthly Progress Reports consist of the basic statistics reported by each district to the MRD (District Implementation Reports). They are available at [www.nrega.nic.in](http://www.nrega.nic.in).
- The authors have been involved in surveys of the implementation of the NREGA in Chhattisgarh, Orissa, Himachal Pradesh and Rajasthan.
- "It has neglected the variations in the performance in different districts. For example, there are at least 30 districts where about 90 per cent of allotted funds are spent, 100 days of work has been generated per participant, about 60 per cent workers are women and the average wage rate paid is more than Rs 70 per day. Instead of calculating all-India averages, the CAG should have tried to understand why the NREGA has succeeded in these districts" [Hirway 2008].
- One of the revelations of the CAG report seems to be that Bihar complies with most of the provisions of the Act and OG. Note that in Table 3, it has the least number of violations. Reports we have received from some districts in Bihar, while admittedly anecdotal, suggest that this assessment is exaggerated.
- The CAG lays down an elaborate framework for the performance audit. See Comptroller and Auditor General (nd). Much of the information about auditing guidelines in this section is sourced from that document.
- See Jha, Gaiha and Shankar (2008) for an approach to judge the determinants of the participation in NREGA.
- See 'Context', Government of India (2006). The status of the OG has been a bone of contention since the very beginning. But of late, some states have treated the OG as merely recommendatory. The NREGS Rajasthan is a case in point, which has made clear departures from the OG. At the same time, field visits in some of the other states reveal that field-level agencies do fall back on OG for guidance on a continuous basis. Whether the legal status of OG mandates its compliance in the field, in the event of the scheme lacking in prescriptions is a legal issue. The issue also has a federal aspect to it. NREGA is widely seen as a legislation giving a new lease of life to panchayati raj. NREGA vests the power to select projects in panchayats. They are also key to implementation and monitoring of the Act. The 73rd Constitutional Amendment (inserting the Eleventh Schedule), broadly speaking, entrusts the state government with the task of assisting and facilitating the PRIs to function autonomously. When, as under NREGA, the centre introduces an instrument of prescriptions, standards and accountability (like the OG) which has a bearing on panchayats some state governments see it as breaching the sacrosanct relationship between the state and panchayats.
- Central rules made under section 31 and circulars and directions passed by the central government under Section 27. According to Section 37, central rules would override state rules, in case any conflict arises on any subject relating to the implementation of the Act.
- The status of the CAG as a constitutional body and therefore an "official" and final arbiter on public spending has had its impact on the credence that has been lent to the performance audit. Immediately after the leak of the report, the MRD swung into damage control mode. Just 10 days after the story broke it called a meeting of all states to seek responses on the findings of the report. It is also reflected in the headline of Tiwari and Pandey (2008: 2).
- Under the stipulations of the Act, the state government will be responsible for the payment of the unemployment allowance. The provision is intended as incentive to the states to provide employment since the central government provides the entire amount spent on labour.

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