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Money For Nothing

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There is a growing chorus of views - representing some very influential writers in India and elsewhere - in favour of direct cash transfer into poor people's bank accounts as a more efficient social security net than the National Rural Employment Guarantee Scheme (NREGS). Economist Arvind Panagariya has called direct cash transfer "the least costly policy to give immediate relief to the poor". Having returned from a series of field visits to understand the working of NREGS, I think it would be a bad idea. Under such a scheme, NREGS would morph into a gravy train for everyone and the rural elite would be laughing their way to the bank.

The challenge in designing any subsidy programme is of minimising what statisticians call type I and type II errors. Under the first, the scheme ends up excluding the deserving. Under the second, it includes the undeserving. Type I error implies failure to tempt and make it possible for all the poor and the needy to use the scheme to their benefit. Type II error mounts when the scheme offers the undeserving strong temptation to capture it. The scheme's design, including its underlying incentive structure, drives the pressure for type II error; quality of programme implementation determines the size of type I.

The NREGS launch in 2006 had created a widespread impression in many parts of rural India that it would eventually end up as a cash transfer programme. Many people believed the job card-holder household would be entitled to an annual cash transfer of Rs 10,000. This is why numerous well-off households and local bigwigs, including village sarpanchs, acquired them. If cash were to be transferred to all job card-holders in present conditions, type II targeting error would be extremely large.

NREGS design - guaranteeing 100 days' unskilled manual work to any household, rich or poor, willing to do such work - minimises type II error. Even if the rich acquire job cards, they can benefit from NREGS only if they are ready to do unskilled manual work, which they are generally not. NREGS self-targets the needy. The BPL card, ration card and NREGS job card under cash-transfer denote entitlement, not what their holders do. That NREGS reduces type II error is evident in the fact the number of households registering for work that is much smaller than that of job card-holders. Again many NREGS projects remain unfinished and funds are returned because those who registered for work do not show up. This would hardly be the case if all job card-holders were automatically entitled to Rs 10,000 deposited in their accounts.

It has been argued that information technology advances make direct cash transfers a feasible proposition. This would be true had the central government correctly identified the 3.9 crore poor households. Had doing this been easy, we should not have had a growth industry in fake ration and BPL cards. That only 2.6 crore out of 3.9 crore poor households sought NREGS work may suggest poor implementation but it pretty much rules out the scheme's capture by the elite.

Another argument - that works undertaken under NREGS would be of dubious quality and not benefit those who work - deserves attention. But suggesting cash transfers as an alternative is throwing the baby out with the bathwater. The need is to focus on ways to improve the quality and impact of NREGS works. We need to distinguish between the scheme's wage and non-wage benefits such as better village roads, groundwater recharge and irrigation channels. While the poor may enjoy both, the non-poor would be interested primarily in the non-wage benefits. The key challenge is to enhance the stake of both groups in maximising the latter.

Creation and maintenance of natural resources in rural India suffer from an 'incentive deficit' because of their largely common pool nature. In earlier times, this deficit was overcome by forced labour or by what Robert Wade called "mutual cooperation through mutual coercion, with some coerced more than others". With the decline of traditional village authority systems, these institutions have disappeared. Today, a farmer who benefits from a village tank is unwilling to regularly desilt it unless others who benefit cooperate too. Those threatened by water logging are likewise unwilling to clean village drains and those benefiting from canal irrigation are unwilling to help clean canals. NREGS can bridge this incentive deficit and mobilise village communities to protect and build natural resources.

The common pool resource in which everyone has a stake today is groundwater, on which rural India has come to depend overwhelmingly. Most NREGS investments, on private or public land, contribute to ground-water recharge as a significant spillover benefit. Desilting village ponds or digging new ones, cleaning field channels, digging farm or fish ponds - all contribute. It is in this context that the furore over using NREGS funds on private lands needs to be viewed. If building and/or desilting farm/fish ponds or irrigation channels under NREGS on private lands promotes durable assets through better supervision by owners and enhanced groundwater recharge, there may be merit in supporting such investments.

The writer is a senior fellow at the [International Water Management Institute](#).

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