Employment Guarantee and Conditional Cash Transfers
Programs for Poverty Reduction

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Introduction
Cash transfer programs have a long history. Governments have implemented these programs to deal with adverse events affecting the capacity of groups of the population to support themselves. Examples date back to the 1500s with the successive English Poor Laws providing welfare to women, children, the elder and handicapped and work-fare to the able-bodied. These laws highlight an important distinction for the political economy of social programs. The target population, the poor in need of support, is divided in two groups. Namely, those receiving the benefit in the form of a wage for a work that has been organized with the aim of assisting them, and those receiving the benefit with no action required on the side of beneficiaries. Work programs have been frequently used to assist the poor in distress. Examples include China's work programs of the 1920's, India's several famine programs dating from colonial to post independence times, and US’s New Deal programs that sought to overcome the effects of the great 1930's depression. Dreze and Sen (1989) stress the importance of work as the counterpart to a benefit to argue that work programs are perhaps the only politically acceptable scheme to operate large scale transfer resources to those in need. Their discussion is set in the context of droughts and famines, but the argument extends to other natural and manmade shocks, including crisis.

Over the last 20 years, cash transfers have become popular in many developing countries. Building on the success of two programs, Brazil’s *Bolsa Familia* and Mexico’s Oportunidades, a Fieszben and Schady (2009) report the number of countries with such programs expanded from 3 in 1997 to 28 in 2008.¹ These programs have introduced a number of features, among others: careful targeting, the fulfillment of a condition, typically investments in human capital, on the part of beneficiaries, and evaluation schemes. In attention on the novelty of these features, these programs are often called the new generation of cash transfers and identified as conditional cash transfers.

A number of excellent studies have reviewed public works programs and conditional cash transfers programs. We will make no attempt to discuss further
the issues addressed in those studies. We will focus instead on a narrow issue: what could be the role of public works programs and conditional cash transfers in reducing long term poverty.

Public works
There are a number of studies looking at the theory and practice of public work programs. Early reviews include Dreze and Sen’s 1989 of famines and public works programs in Africa and India, Mukherjee’s 1997 study of several public works programs in Africa, India and Latin America, and the comprehensive 1997 review of Subbarao et al that looked at safety nets and public works programs in Africa, Asia, Latin America, and the Middle East. More recent reviews include, among others, Devereux and Solomon (2006), Lal et al (2010), McCord (2009) and Nino et al (2009). In general, reviews converge in pointing out that work programs, if well designed and implemented, can constitute a powerful policy to reach the poor and transfer resources to them. The work requirement combined with a low wage makes program jobs only attractive to the poor, who thereby self-select themselves to the program. Self-selection is an attractive feature. It reduces administrative costs of the program; it also softens the stress of making submissions for approval, among others. Nevertheless, geographical and ethnical targeting is sometimes recommended as a complementary tool to better reach the poor. Reviews also agree on highlighting the importance of adequately setting wages, which should not be too low to render the program incapable of meaningfully supporting households. Neither too high to avoid attracting better off households, which can lead to the crowding out of the poor, inflate the budget and substitute productive jobs in labor markets.

Nino et al (2009), who review 37 work programs spanning over 20 years, highlight the link between poverty reduction and public work programs. In their view, these programs also have the potential to reduce poverty in low income countries. Devereux and Solomon (2006), drawing mainly from 4 national employment programs, stress two points relevant to our discussion of the link with poverty reduction. First, the authors argue that although public works
programs were generally adopted for their self-targeting capabilities, it is increasingly recognized that the assets produced by programs are also important. Public works programs have created assets with long lasting benefits for individuals, communities and the society. Second, public work programs provide workers with life skills that can help them to escape poverty and build institutions—for planning, managing and monitoring—that entail the creation of individual and community capacities for employability and development.

The capacity of public works programs to reduce poverty necessitates, among other things, a sizeable, timely and continuous transfer of resources to the poor. However, most public works programs are temporary and small. In a study of a hundred and a half work programs, McCord (2009) finds that almost half of them were conceived as one-time interventions, 11 percent had a life time of 6 or more years, only 6 percent were open ended, and their average life length was only 3 years. In a multi-region study, Nino et al (2009) report findings pointing in the same direction: about 40 percent of the 27 public works programs reviewed were designed to respond to a one time shock. They also found that programs were small, particularly outside the Sub Saharan African and the South Asian region. In these two regions programs cover between 7 and 9 percent of the economically active population, which is not very large, but in the remaining regions programs provided jobs that accounted for less than 2 percent of the economically active population.

To significantly contribute to poverty reduction, public works programs must have the necessary flexibility to provide jobs where and when needed and avoid interference with the development of markets. Employment guarantee schemes, thus, can potentially be a powerful instrument to reduce poverty. If well budgeted and designed, these schemes can quickly expand in response to shocks and readjust back to normal operation as the shock wave fades away. The importance of timely assistance during shocks to avoid long lasting negative effects on poor’s wellbeing has been rightly stressed in vulnerability studies. Program flexibility might be particularly important to avoid unnecessary interference with market processes, as well as to avoid the unnecessary costs of
making jobs available when and where they are not needed. In the context of developed market economies, these schemes play the role of employer of last resort. In the context of structural under and un-employment, these schemes could play a catalyzer role to develop markets and reduce poverty.

Employment guarantee schemes might be implemented in cities, but it is rural areas where their potential to reduce poverty reaches its best. In rural economies, where labor markets are rudimentary, an effective employment guarantee scheme can break the monopsony or oligopsony of rich local employers. By bringing competition to local labor markets, employment guarantee schemes can help the development of markets where this is most needed. The flexibility that the guarantee attribute gives to the program increases the degree of competition in labor markets regardless of the quantity of employment exerted by the program. The simple possibility of getting a job at the program wage rate is enough to render labor markets more competitive. Keeping in place a continuous, long term, guarantee scheme can deliver positive effect, sometimes making available needed jobs, at other times by simply ensuring that markets remain competitive without necessarily replacing market employment. A well designed guarantee scheme that reduces the costs of participating in paid labor activities, which might be high for poor families, also enhances the efficiency of labor markets.

Designing and implementing an employment guarantee scheme adds complexity to the already demanding task of creating and running a public works program. It is, thus, understandable that there are only few of these programs around. In both reviews, McCord and Nino et all, guarantee schemes represented no more than five percent of all public work programs. The paucity of experiences with employment guarantee programs has been recently mitigated by the ambitious Mahatma Gandhi National Rural Employment Act of India. After few years of operation the program provides jobs to a little bit more than 50 million rural households. The program can be an extremely useful source of lessons.
Conditional Cash Transfer Programs

There is also a vast number of studies addressing the major issues confronted by conditional cash transfers programs. Among them, the amount of the transfer, the issue of universal versus targeted selection of beneficiaries, the conditioning or not of the transfer and if conditioned, the decision of which condition to impose, the type of targeting—means tested, regional targeting, community targeting, among others—transfer dependence, and graduation out of the program. To amplify the positive effects of the transfer, there is also an extensive discussion on a host of programs that can accompany the transfer program. Among others, there are discussions of labor training, micro-financing, support micro and small enterprises.

As in the case of public works programs, for conditional cash transfers to significantly contribute to the long term reduction of poverty, the programs need to be sufficiently large to cover most, if not all the poor. A good part of the interest on conditional cash transfer programs owes to the successful experiences of Brazil and Mexico, and a good part of their success owes to their size. These programs are massive. They practically cover the entire poor population, urban and rural, in both countries. However, the conditions that allow these two countries to have massive programs might not be available in other countries—notably, relatively rich, high inequality countries. Not surprisingly, other than Brazil, Mexico and perhaps a few more countries, conditional cash transfer programs are small with a relatively smaller impact on poverty reduction. According to McCord, the practice of restricting transfers to the poorest 10 percent of the population is gaining preeminence among donors and international agencies, main financiers of these programs.

Even if CCTs are sufficiently large, it is not immediately evident that their contribution to the long term reduction of poverty is assured. For one thing, the size of the transfer is typically small. A small transfer goes a long way in helping poor families, and the poorer the family the most welcome the transfer is. But the transfer by itself is not likely to permanently take them out of poverty. The discussion of the links between CCTs and poverty reduction has highlighted,
thus, two other ways in which CCTs can significantly contribute to poverty reduction. The first one argues that the income that is transferred to the poor can have significant multiplier effects, which might then lead to a significant reduction in poverty by generating higher income for a larger group of people. The second channel by which CCTs have been thought to bring a sustained reduction in poverty refers to the improvements in education and health as part of the conditionality brought by the program. The increase in human capital is assumed to break the inter-generational transmission of poverty.

The very transfer of income from the rich to the poor surely generates economic reactions that can further increase the incomes of the poor. For one thing, poor people tend to spend a larger proportion of their incomes on goods that are more likely to be produced by the poor themselves—as in the informal sector. Figuring out the size of the multipliers in the broad economic context, however, it is not a simple task, and more so in relatively sophisticated economies. But the argument is often set forward in the context of local economies. In the case of poor rural localities one can easily expect a significant multiplier effects in the local economy from income transfers to the poor. This is an important local impact that, in our view, deserves further research. Several studies have found evidences of multiplier effects. But the evidence is not always clearly positive. The World Bank review (2008) for example found little evidence of general equilibrium effects. But this is an area where, to our knowledge, there are no systematic studies available.

The idea that CCTs could, by themselves, break the inter-generational transmission of poverty is rarely mentioned nowadays. Once praised as a development silver bullet, it is now widely accepted that CCTs might be an important part of social policies but no more than that. Nevertheless, it is useful to re-visit the previous discussion on this issue. The argument starts with the assumption that the poor under invest in human capital; following by the believe that correcting such under-investment would allow the next generation of a poor family to escape poverty. It follows from there that a change in the incentives determining household’s decisions to invest in human capital will correct the
under-investment. The basic idea is that a temporary intervention increasing human capital can produce a long lasting effect on wellbeing. When the time comes for those now better educated children of poor families to care for themselves, they will be better equipped to join the labor force and lift themselves out of poverty. This is not an unknown story to the poor. But can the story be the main pillar of a successful national policy to reduce poverty?

Conditional cash transfers have been successful in increasing human capital. Among the poor, school attendance has risen and education achievements are now higher, nutrition has improved and the use of health services has gone up. In some cases the simple increase in income explains the improvement in human capital; in others, the conditioning of the transfer is what makes the difference. But the question remains: is more human capital enough to break the inter-generational transmission of poverty? There is substantial empirical evidence about the impact of CCts in improving the lives of beneficiaries, including long term impacts on the wellbeing of the next generation, but it is unlikely that the increases in human capital that CCTs produce will significantly change the poverty landscape. The point is that CCTs transfer small amounts and, by design, they have no impact on many of the variables that would render a significant reduction in poverty. Consider the case of Mexico’s massive CCT. After 13 years of operation, few would agree that the majority of the children of families benefiting from the CCT that are now joining or about to join the labor force will escape poverty in the next few years as a result of their increased endowment of human capital. Despite better human capital, Levy argues that the children of today’s beneficiaries of the program Oportunidades will be likely to remain in low-productivity, informal, jobs and unable to escape poverty. Fewer would agree that a massive CCT in a poorer country will suffice to eradicate poverty in the time span of a generation.

**Going forward: cash transfers or public works**
The extensive experience with public works and (conditional) cash transfer programs demonstrates that it makes sense to re-distribute income to the poor
and that timely assistance is particularly valuable. The choice between these two programs is not straightforward. For example, if policy makers need to implement a program to assist a stricken population or a particularly impoverished region or group of people, the decision in favor of one or the other can only rests on a careful consideration of the specific conditions of the target population. In the next section we will focus attention to rural poverty and we will restrict the discussion of public works to employment guarantee schemes. Once we narrow the focus, the question we want to pose is: what are the general advantages and disadvantages of employment guarantee schemes and conditional cash transfers to reduce long-term rural poverty?

There are two aspects in which employment guarantee schemes will have an important effect on poverty reduction that is absent in conditional cash transfer programs. First, the employment guarantee scheme directly improves employment skills. Second, public works create assets that might result in increase productivity in activities populated by the poor. Furthermore, EGS might have stronger multiplier effects compared to CCTs. While a monetary unit transferred to households has the same multiplier regardless of the origin (wage or cash transfer), the construction of assets of EGSs increases output in the construction sector, which further increases the demand for labor from poor households.\(^7\)

There are three advantages of conditional cash transfers over employment guarantee schemes. While the added income of both programs equally contributes to increase investment in human capital—the income effect, CCTs might induce a larger investment among families that under-invest on their children’s education—the price-incentive effect.\(^8\) Second, the total cost of a transfer of one monetary unit to household is lower in the case of CCTs. Third, the required administrative capacities are also lower in CCTs than in EGS.

But to properly balance out the advantages and disadvantages of work programs and cash transfers one needs to look at the details. In some cases there are studies that have found small negative effects on the supply of labor of beneficiary households Conditional Cash Transfers. The effect of work programs
on labor markets is more nuanced. As discussed, if the program wage rate is adequately high, particularly in the case of guarantee schemes, the work program contributes to the development of labor markets. If the wage rate is unduly high, however, the work program might substitute competitive businesses with program jobs without adding much to social welfare but bulking public expenditures. In those cases, the net benefit to households might be smaller than the program’s wage bill. Estimates of the difference between net and gross benefits to households suggest these might be in the order of 15 to 25 percent (Datt and Ravallion (1994) and Murguia and Ravallion 2005).

A full comparison of work programs and cash transfers needs to take into account immediate impacts and second round economic effects. This is better done with a general equilibrium simulation that can take into account the multiplier effects of the transfer and the multiplier effects of construction activities. It can also estimate the size of the productivity effects of assets created; incorporate the effect of forgone income of work programs; the differences in costs per monetary unit transferred to households, and the distribution impacts of leakages.

**EGS and CCT in a general equilibrium setting**

To illustrate the interplay of these factors we looked at two exercises modeling a national work program for India. Using a national SAM and a CGE model, Narayana, Parikh and Srinivasan (1988) simulated the impact of a national public works program similar to the one proposed in India’s 1985 five year plan. Their main conclusion was that, if well designed and executed, a large public works program could significantly reduce poverty and do so at a moderate cost. They also compare the public works program with a uniform rural transfer and concluded in favor of the public work program. The second exercise we review is Imai (2007) SAM multiplier analysis of the Maharastra’s employment guarantee scheme (EGS) in a poor village. Imai concluded that Maharastra’s EGS had unsatisfactory distributional effects and that its immediate effect on welfare was inferior to a uniform transfer, even after taking into account multiplier effects.
Only if the EGS effectively resulted in productive assets being created and policies were instrumented to ensure proper maintenance of assets, the EGS could result in better welfare effects than a uniform transfer.

Narayana, Parikh and Srinivasan (NPS) run a computable general equilibrium model to assess the impact of a rural public works program (RW) on growth, welfare and poor's income. The simulated program provides 200 person days per year to every household in the bottom 40 percent of the rural income distribution. The program is assumed to operate only in the lean season and to have no effect on agriculture wages. The conclusions of such exercise are strong. First, RW is an effective policy to eliminate hunger. Second, it does so at a modest cost to growth. Third, RW results on poor’s welfare compare favorably with those of a transfer of a similar total budget to everyone. Fourth, if well planned and executed, RW also compares with a uniform transfer.

To arrive to these conclusions NPS use a recursive dynamic model of a ten sector economy, featuring three agents—producers, consumers and government, two places of residence—rural and urban, five expenditure classes, and three factors—capital, natural resources (land and labor), and livestock. The simulation period starts in 1980 and ends in 2000. The basic simulation consists of an increase in income equal to 200 days of work per family in the bottom 2 quintiles of the rural population. The program is assumed to benefit a little over 200 million people, using 1981 population figures, with a transfer of 100 Kg. of wheat per person per year. Valued at target market prices, the RW has a wage of Rs. 6.25 per person, which is only slightly higher than the wage of Rs. 5.33 implicit in the sixth Indian plan. The total wage bill of the program is Rs 132.0 billion per year and other costs are assumed to account for half of the total cost. The simulation assumes that the RW does not exhaust unemployment in the lean season, so no impact on wages or employment in the agriculture sector are taken into account.

Seven variations of the public works program are simulated, determined by the way the program is financed, the wage rate, the effectiveness of the investment in public works, and the degree in which benefits leak out of the
bottom 40 percent poor. The RW transfers either 100 Kg. or 50 Kg. of wheat per person. The RW is financed by the reduction of investment in other programs, so not taxes are fixed. A second variant rises taxes to pay for the cost of the RW (investment rates remain constant). Three possibilities are considered regarding RW investments: a) no investment failure, i.e. RW is as efficient as other investments in the rest of the economy; b) RW fails completely to bring any benefit; c) RW investment is half as efficient as other investments in the economy. The possibility of program leakages is handled by two simulations: program benefits accrue exclusively to the bottom 2 rural quintiles, and 50% of the benefits leak to the upper 3 rural quintiles.

If no investment or leakages failures are incurred and the program is financed with a tax increase, which means other public investments are not reduced, the model suggests that the economy gains 0.13 percent points in the average growth rate between 1980 and 2000, the energy intake of the poorest 20 percent increases by 70 percent, and that of the poorest 40 percent by 40 percent. If tax rates remain constant, the PW has a cost to the economy equivalent to a reduction of -0.25 percent points in the average growth rate, for public investment is reduced, but no damage is done to the re-distributive effects of the program. The year to year simulations suggest that if taxes need to be increased, the additional tax burden is significant only during the first years. By year 2000, the additional tax burden amounts to 2 percent points of GDP, compared to 13 percent points in 1980 and 7 percent points in 1985. Thus, at worst, the program might face temporary financing problems.

Ensuring that PW investments are efficient is crucial for keeping costs low. If the efficiency of PW investments falls to half of the average investment efficiency, the cost increases to -0.47 percent points of the growth rate and to -0.73 percent points if the public works investments are a complete waste. NPS acknowledge that past rural work programs suffered from implementation problems, but argue correctly on our view that these are not arguments against RW per se.
Leakages to the upper 60 percent of the rural population have two effects. First, assuming taxes remain fixed; leakages reduce somewhat the cost of the program, mainly because the leak re-allocates income back to population groups that save more and pay taxes, which gives a boost to the economy. Second, the program looses capacity to reduce hunger as the benefits accruing to the poor shrink more or less in proportion to the magnitude of the leak. Similarly, simulations halving the wage rate or transfer cut by half the benefits received by the poor.

The RW compares well with a uniform transfer of food. Always assuming fixed taxes, the reduction in GDP that follows from a uniform transfer is significantly smaller compared to a badly run RW, but the RW has a more positive impact on poor’s welfare. Comparing the uniform transfer with the best RW scenario results in similar costs, but the RW clearly has superior re-distributive effects. The comparison, thus, makes evident that RW programs are potentially excellent tools to reduce poverty but that they need to be well planned and executed.

Imai (2004) analyses the direct and indirect effects of Maharastra’s EGS in the village of Kanzara. He looks at direct and indirect effects and compares the EGS with an equivalently budgeted uniform transfer. The analysis uses the Kanzara 1984 village SAM that integrates data from the ICRISAT Village Level Studies (VLS) and data collected by Subramanian (1988). Building on Subramanian and Sadoulet (1990) and Subramanian (1996), Imai uses ICRISAT VLS collected over a number of years to define the change exogenous variables that would correspond to the EGS. The village SAM features 6 activities/commodities, three factors (hired male, hired female and farm servants), and 5 households defined by occupation (landless salaried and unsalaried; small, medium and large farmers). The accounts for “Rest of India”, Government and market agriculture are exogenous. The reference scenario includes the jobs created by Maharastra’s EGS.

The simulation exercise consists of sequentially subtracting EGS wage payments in the exogenous factors account (rest of India) and replacing the EGS
with a uniform transfer. The EGS wage shock has two variants, one considering in full all EGS wage payments, i.e. assuming that people taking EGS were all unemployed or inactive; the other assumes that some EGS beneficiaries shifted jobs and therefore it subtracts their forgone income. The inputted forgone income is based on Datt and Ravallion (1994) and Ravallion and Datt (1995) estimates. Finally, the impact of the EGS’ works is assessed by comparing a scenario in which EGS introduces irrigation in some dry lands with a scenario in which EGS effects no change in the quality of land. The total cost of the EGS in this scenario is composed of two thirds in wages and one third in investment. For comparison purposes, Imai also runs a simulation of an equivalently budget uniform transfer.

Imai results suggest that the impact of the full wage bill of Maharastra’s EGS increases village household income by 2.6 percent. Multipliers effects result in an increase of 1.3 percent in total output and 0.9 percent in savings. The distribution effects of the EGS are reasonably good. Households classified as landless unsalaried and small farmers benefit the most, albeit medium farmers make some moderate gain as well. If the effect of the assets created by the EGS is considered, there are clear further increases in household income increases (0.5 percent), village output (0.7 percent), and savings (0.7 percent).

Taking into account foregone income reduces gains from the EGS, so household income only increases by 1.6 percent. Somewhat surprisingly, introducing foregone income into the modeling has no distribution consequences, meaning that the poor and non-poor equally shift out of their jobs to join the EGS.

The results of comparing the EGS with a uniform transfer depend on the size of foregone income and the EGS efficiency to create useful assets. If foregone income is zero, the balance tilts in favor of the EGS. If foregone income has the size suggested by Datt and Ravallion the uniform transfer gives better results. Introducing the effects of the assets created by the EGS program into the analysis and taking into account foregone income makes the two programs comparable. But considering that the creation of assets would have effects spreading over several years, Imai argues that the comparison should favor the EGS.
Imai dwells into the distribution and poverty effects of the programs considered. Most simulations result in higher increases the lower the income. But the income effect of a uniform transfer is more progressive than the income increase that follows from an EGS after taking into account forgone income. This leads Imai to conclude that a uniform transfer is a more efficient way to reduce poverty than an EGS, even after indirect effects are taken into account. However, these results are driven by forgone income. If the comparison is made between a uniform transfer and an EGS with no allowance for foregone income, the EGS has better re-distributive effects. This raises the need to look carefully into the modeling of foregone income. Imai’s results show that the distributive effects of Maharastra’s EGS the assets created by the Maharastra EGS favor primarily large farmers, only secondary small farmers and totally bypass medium size farmers.

Imai concludes that EGS can be an effective way to reduce poverty if assets are adequately created and maintained and if the EGS self-targeting mechanism is supplemented with other targeting instruments. Otherwise, a uniform transfer is a more efficient policy to transfer resources to the poor. To a certain degree, however, the finding that in the short term a uniform transfer is superior to an EGS even after taking into account indirect effects depends on the how big foregone income is assumed to be.

The general equilibrium comparison of cash transfers and public work programs tends to favor public work programs, but only if these programs are well defined and properly implemented. That is, only if public work programs do not incur in high forgone income, avoid large leakages, and effectively create productive assets.

**Implementing national work programs and cash transfers**

Good design and efficient implementation are crucial for both EGS and CCTs. But EGS are more demanding. EGS require stronger capacities, have bigger costs than cash transfers, and make more decisions on sensitive issues. The
definition of the wage rate is a case in point, for the potential negative consequences on labor markets. But the integration of a portfolio of projects ready to be drawn from the shelves is equally critical for the success of any guarantee program. If national capacities are not strong, EGS and work programs can be expensive undertakings. According to Nino et al, work programs have transferred income to households at a cost of six dollars per dollar transferred. The experience of NREGA is encouraging, however. It says that it is possible to massively increase the scale of a guarantee program and keep its costs in check. According to official NREGA data, the program is transferring income at a cost of one dollar per dollar transferred, with most of the cost accounted by construction materials. At those costs, the total program expenses are equivalent to about one percent of GDP.

The Mahatma Gandhi National Rural Employment Guarantee Act started implementation in 2006. That year it provided close to one billion person days of work to 21 million household. By 2009/10, the number of person days of work tripled to almost 3 billion, while the number of households covered doubled to 52 million.\(^9\) This is an impressive record. Yet, the program faces daunting challenges. There are doubts about the quality of the assets it creates. With a strong mandate not to exceed a 60 percent to 40 percent labor to other costs ratio and the explicit prohibition of contractors, to ensure high employment intensity, the durability and adequacy of assets might not be the optimum. Independent evaluations, including program mandated social audits, frequently point to deficiencies in the creation of assets. Yet, Dreze and Kerah (2008), after acknowledging problems with the quality assets, suggests that the return on NREGA investments might not be inferior to the return on many other investments elsewhere in the economy. Moreover, they argue that it is not necessary to change NREGA rules for asset creation and that the quality of assets can greatly be enhanced with affordable, well directed, research and development.
There are questions about the ability of the program to effectively guarantee employment. The Act guarantees a minimum of 100 days per household. As impressive as the expansion of the program is, NREGA is providing an average of 50 days of work per year to households. In some states, average number of work days is very low. Households do not need more work, or are there constrains limiting the provision of jobs? Evaluations suggest that the potential demand for NREGA jobs is large and that many people fail to obtain a job because they ignore they have the right to demand one, because local authorities do not make jobs available, and because poor people often fall trapped in discrimination or corruption. It is likely that the program has not yet reach the needed capacity to effectively guarantee employment and communities have not acquire the necessary empowerment to enforce their rights.

The work facilities, such as the provision of drinking water in work sites, shades for rest periods, and crèches where needed, have reduce the cost of taking the NREGA job to make sufficiently attractive the wage paid by the program are not always there. Their absence is particularly notorious in the case of crèches, which is an alarming deficiency for a program where females provide half of the workers.

India and NREGA need to create the necessary capacities and institutions to effectively guarantee employment and efficiently build productive assets. Administrative, managerial, technical capacities need to be strengthened. Institutions for community participation, democratic decision making, transparency and anti-corruption need to be created and reinforced. Significant resources, efforts and energies will have to be channel to their achievement. Are the investments in these capacities and institutions a waste? Is the process of creation of these capacities and institutions a deviation from the path to poverty reduction and development?

If the benefits of an employment guarantee scheme were short term poverty alleviation, one would better look for an alternative, lower cost, program. A conditional cash transfer program may come handy. If the scheme can reduce long term poverty, then it might be worthwhile consider such higher costs. But the
argument we are trying to make here goes beyond that of taking into consideration higher costs because rewards are bigger. What we are proposing is that when EGS such as NREGA incurs in such high costs it is actually investing in development.

Market forces need individuals that can claim their rights and have the necessary capacities to manage production processes and responsibly take part in the decisions concerning community investments. Markets need institutions that foster community engagement, transparency, and accountability. Market needs institutions that do not tolerate corruption. The capacities and institutions that an EGS needs to operate are also capacities and institutions that markets need to operate efficiently. After so many years of trying to accelerate the development of markets with actions aimed to facilitate the operation of business, with no much success one might say, it is time that governments also invest in building up the social capacities and institutions that are the foundation for good operating markets.

EGS might well be in the right path to development, but are there any other pathways with lower costs? The tragedy of conditional cash transfer programs is that some of the proponents are obsessed with the issue of graduation of the program when the program itself does not create the conditions for beneficiaries to escape from poverty. The fortune of an effective employment guarantee scheme is that it endogenously becomes redundant whenever it succeeds in eliminating poverty. When rural dwellers find advantageous to leave a modest but dignified standard of living for better opportunities and prospects there is automatic graduation from the program. When rural residents opt out of the guarantee scheme to work in farms because wages are better and labor conditions are acceptable, they graduate from the program. These two graduation events occur when markets are flourishing and societies are progressing.
Summary

The paper discussed the advantages and limitations of conditional cash transfer programs and rural employment guaranteed schemes to achieve sustained reductions in poverty. Comparing the two programs, the paper found that CCTs pose less demands on capacities and institutions of implementing countries and operate with lower costs than employment guarantee schemes. In theory, however, CCTs have more limitations than EGS to achieve long term reductions in poverty.

Since the proper comparison of these two programs goes beyond the immediate effects, the paper reviewed two general equilibrium exercises that compare uniform cash transfers with public works programs. The review suggests that EGS generate more positive general equilibrium effects than uniform cash transfers, but that their superiority critically depends on three factors. First, the degree of distortion that EGS can create in labor markets and the size of the forgone income deduction to the benefits that such distortion generates. Second, the degree in which benefits of the public works program leak to the non-poor population. Third, the productivity of the assets public works programs create. Under reasonable assumptions about these three factors, the balance still favors public works programs over uniform transfers.

The paper finally addresses the issues of implementation and the high pressure that EGS exert on national capacities and institutions that have hitherto suggest that the idea of running a continuous and sufficiently large EGS is really unrealistic. The paper argues that the successful rollout of India’s NREGA program shows that it is feasible to implement an effective EGS that can reduce poverty over the long run. That does not mean that NREGA has established the factual possibility. The paper suggests that, along the evidence coming from independent evaluations of NREGA, the program still needs to effectively guarantee employment and improve significantly the quality of the assets it creates. Effectively guaranteeing employment and significantly improving the quality of assets might be a costly endeavor. However, the paper argues that investing to achieve these two goals amounts to investing in long term
development, for the conditions necessary to effectively run an EGS are also required conditions to build properly functioning markets.
References


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1 The report mainly covers programs and studies sponsored by the World Bank.
2 The study is based on 167 programs but data on the length of operation was available for only 125 programs.
3 See, for example, Fieszben and Schady (2009), Sojo (2009).
4 See, for example, the Fieszben and Schady (2009).
5 The literature is vast. See, for example, Fieszben and Schady (2009), ODI (200*), Haliu and Soares (2008), McCord (2009), Poverty In Focus No. 15 (2008), Lal et al (2010).
6 See Berry’s paper to this conference for a discussion of Levy (2008)’s assessment of *Oportunidades*.
7 We might also include the already mentioned flexibility of EGS to provide support during shocks in contrast with the relative rigidity of CCTs to cope with shocks. On this last point see, for example, Soares (2010).
8 Yet, a behavioral conditionality can easily be added to a public works program, as in the case of the *Jefes* program in Argentina. See Galasso and Ravallion (2003).
9 Figures are from NREGA official website. For a discussion of NREGA see Sharma (2010).