SOCIAL AUDITS AND MGNREGA DELIVERY: LESSONS FROM ANDHRA PRADESH

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Motivation

- In 2012, India’s score on Transparency International’s Public Sector Corruption Perceptions Index was 3.6 on a scale of 0 – 10 (highly to least corrupt).

- Corruption in the public sector in India consistently perceived to be worse than in Brazil, China and South Africa in the last decade.

- Potential adverse implications for the quality of public services, private investments and economic growth.
Motivation

Community monitoring perceived as a low-cost and powerful, participatory tool that can raise awareness & strengthen accountability in public programme implementation.
Existing evidence

The likely success of participatory monitoring depends on:

- ease with which stakeholders can comprehend and measure the quality of public service in question (Khemani, 2008; Olken, 2009)

- outcomes that beneficiaries have high stakes in and care deeply about.

- tightness of a mutually accepted contract between service providers and beneficiaries (Bjorkman and Svensson (2009) vs. Banerjee et al. (2010))
This study

- What are the strengths and shortfalls of existing social audits and how can we bolster their effectiveness?

- Quantify the effects of India’s only large-scale community monitoring programme - in Andhra Pradesh (AP).

- Utilize unique panel data from social audit reports in AP during 2006-10, to analyse whether and how irregularities in the implementation of the MG NREGA are affected by the audit process.

- Study malpractices that speak to widespread concerns about the leakages and corruption in public programmes in India.
The genesis of the AP social audit model

- The National Rural Employment Guarantee Act (2005) mandates the conduct of regular audits by local stakeholders or gram sabhas.

- The AP government responded swiftly to this mandate by institutionalizing and ‘inducing’ social audits.

- By November 2007, social audits had been implemented in 400 of APs 650 phase-I sub-districts or mandals.
The AP social audit model

1. Quarterly schedule of social audits drawn up by SSAAT
2. Intimation letters to district officials
3. Formation of social audit teams
4. Training of village social auditors
5. Verification of records
6. Public hearing
7. Decision taken report
8. Action taken report
Data

- Panel data extracted and codified from official and original, social audit reports for **100 randomly sampled mandals across 8 AP districts**.

- **300 gram panchayats**: In each randomly chosen mandal, the mandal headquarter gram panchayat (GP) and two randomly selected GPs.

- Data for sampled mandals and GPs from **2006 to 2010 on more than 700 audits**.
Telangana: Mahbubnagar, Medak, Nizamabad, Warangal, Khammam

Rayalseema: Ananthpur, Kurnool

Coastal: Guntur
Data

- **Labour related irregularities**: The list of complaints filed during the door-to-door verification process by individuals, groups of individuals or by the members of the audit team itself.

- **Materials related irregularities**: Visits by the audit team to project sites to verify expenditures on the materials component of the MGNREGA projects.

- **Verification process**: Each complaint is verified through affidavits and brought up during the public hearing. Scope of frivolous complaints is negligible.
Data

Average number of complaints per audit

- **Audit 1**
  - All complaints: 5
  - Labour complaints: 4
  - Materials complaint: 0
  - Other (facilities) complaints: 0

- **Audit 2**
  - All complaints: 6
  - Labour complaints: 5
  - Materials complaint: 1
  - Other (facilities) complaints: 0

- **Audit 3**
  - All complaints: 6
  - Labour complaints: 5
  - Materials complaint: 1
  - Other (facilities) complaints: 0

Legend:
- Blue: All complaints
- Red: Labour complaints
- Green: Materials complaint
- Orange: Other (facilities) complaints
Data

Mean amount per complaint (in 2006 Rupees)

Notes: Amount per Complaint = Total amount/total complaints;
Amount per labor Complaint = Labor Complaint amount/total labor complaints;
Amount per material Complaint = Material Complaint Amount/total material complaints;
Data conditional on amount being reported;
Conceptual Framework: Stakes, capacity and learning

High Stakes – Labour component
- Sufficient capacity at the outset
- Limited capacity at the outset; capacity improvement through learning
- Easy-to-detect: Non-payment/delay in wages
- Non-availability of work
- Hard-to-detect: Ghost workers
- Bribes

Lows stakes – Material component
- Easy-to-detect: Ghost projects
- Hard-to-detect: Bribes
- Sub-standard quality of materials
- Absence of expenditure records
We focus on ‘impacts’ but recognize the limitations imposed by
  - the non-random roll out of social audits in AP
  - the absence of a baseline comparison

To establish credible associations between social audits and programme leakages we analyse how irregularities in programme implementation are affected by additional audits within the same sub-district over time, while controlling for other factors that could impact programme implementation.
Methodology

Confounding factors:

- Bureaucratic efficiency at the mandal level
  - control for mandal level characteristics and analyse within-mandal variation in outcomes.

- Beneficiary awareness levels and learning by audit teams over time
  - control for audit-year

- Differences in programme characteristics across districts and over time
  - district level audit-year trends
Methodology

\[ \text{Outcome}_{njkl} = a_0 + \sum a_n \text{Audit}_n + a_4 X_{jkl} + a_5 D_k + a_6 \text{Year}_t + \sum b_t (D_l \times \text{Year}_t) + \mu_{njkl} \]

**Outcome}_{njkl**: no. of an irregularity/programme implementation in social audit n in GP j in mandal k in district l in year t

**Audit}_n**: social audit round (relative to round 1)

**X}_{jkl**: characteristics of GP j in mandal k in district l

**D}_k**: mandal dummy

**Year}_t**: audit year dummy or overall trends

**D}_l \times \text{Year}_t**: district level trends
Findings

While total labour related irregularities were more or less unchanged there was a more than 300% increase in materials related irregularities in audit 3 relative to audit 1

<table>
<thead>
<tr>
<th>Audit 2</th>
<th>Total number of irregularities</th>
<th>Total labour related irregularities</th>
<th>Total materials related irregularities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit 3</td>
<td>2.695</td>
<td>1.409</td>
<td>1.345**</td>
</tr>
<tr>
<td>Audit 3 - Audit 2</td>
<td>0.166</td>
<td>-0.330</td>
<td>0.526*</td>
</tr>
</tbody>
</table>

Note: Number of audits is 685. Standard errors clustered at the GP level. ***significant at 1% ** 5% and *10%.
Findings

A significant increase in irregularities related to bribes and absence of expenditure records in materials component.

<table>
<thead>
<tr>
<th>Audit 2</th>
<th>Audit 3</th>
<th>Audit 3 - Audit 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour related irregularities</td>
<td>Material related irregularities</td>
<td></td>
</tr>
<tr>
<td>Non-payment/delay in wage payment</td>
<td>Benami/impersonation</td>
<td>Bribes</td>
</tr>
<tr>
<td>1.118*</td>
<td>0.496</td>
<td>0.235</td>
</tr>
<tr>
<td>1.236</td>
<td>-0.045</td>
<td>0.304</td>
</tr>
<tr>
<td>0.117</td>
<td>-0.541</td>
<td>0.069</td>
</tr>
</tbody>
</table>

Note: Number of audits or observations is 672. Standard errors clustered at the GP level. ***significant at 1% ** 5% and *10%.
## Findings

An **marginally significant decline in the real amount per labour complaint**

<table>
<thead>
<tr>
<th></th>
<th>Amount per complaint</th>
<th>Amount per labour complaint</th>
<th>Amount per material complaint</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit 2</strong></td>
<td>-3458.7</td>
<td>-8291.1</td>
<td>-45926.9</td>
</tr>
<tr>
<td><strong>Audit 3</strong></td>
<td>-59368.2</td>
<td>-73238.9*</td>
<td>-71959.0</td>
</tr>
<tr>
<td><strong>Constant</strong></td>
<td>36466.7</td>
<td>32094.5</td>
<td>456951.0***</td>
</tr>
<tr>
<td><strong>Audit 3 - Audit 2</strong></td>
<td><strong>-55909.47</strong>*</td>
<td><strong>-64947.78</strong>*</td>
<td>-26032.11</td>
</tr>
<tr>
<td><strong>Number of audits</strong></td>
<td>560</td>
<td>536</td>
<td>162</td>
</tr>
</tbody>
</table>

Note: Standard errors clustered at the GP level. ***significant at 1% ** 5% and *10%.
## Findings

**No impact on employment generation**

<table>
<thead>
<tr>
<th>Audit 2</th>
<th>Total real expenditure (in lakh Rs.)</th>
<th>Proportion of rural connectivity works</th>
<th>Total Employment generated in person days</th>
<th>Proportion of SC person days generated</th>
<th>Proportion of ST person days generated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18.73</td>
<td>-0.127*</td>
<td>24581.8</td>
<td>0.020</td>
<td>-0.007</td>
</tr>
<tr>
<td>Constant</td>
<td>17.27</td>
<td>0.0520</td>
<td>39999.9</td>
<td>-0.209</td>
<td>0.213</td>
</tr>
</tbody>
</table>

Note: Standard errors clustered at the GP level. ***significant at 1% ** 5% and *10%.
Robustness of findings

- Frequency of audits could be correlated with existing levels of corruption:
  - Data restricted to only those GPs which had 3 audit rounds.

- Inherent biases of beneficiaries:
  - Irregularities filed by audit team only.

- Differences in trends across mandals
Summary

- We do not detect a significant effect of the social audit process on reducing the aggregate number of complaints.
  - An insignificant effect on the number of labour related irregularities.
  - A significant increase in the number of materials related irregularities.

- We record a startling shift in the anatomy of irregularities and corruption: towards more second-generation and harder to detect material-related irregularities.
While the audit process may have been effective in *detecting* irregularities, the audits were NOT an effective *deterrent* and have thus had only a marginal (if any) impact on *reducing* irregularities.
Policy recommendations

Bolster the credibility of the audit process for greater effectiveness:

- Social audits must culminate in an enforceable and credible ‘contract’ that not only allocates responsibilities but defines time lines and ensures those who have been found guilty of irregularities are punished.
<table>
<thead>
<tr>
<th>District</th>
<th>Total number of irregularities</th>
<th>Total number of irregularities</th>
<th>Number of irregularities for which person(s) held responsible</th>
<th>Type of Disciplinary Action (%)</th>
<th>Irregularity amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Minor</td>
<td>Medium</td>
</tr>
<tr>
<td>Mahbubnagar</td>
<td>9698</td>
<td>9698</td>
<td></td>
<td>25.717</td>
<td>0.711</td>
</tr>
<tr>
<td>Medak</td>
<td>16814</td>
<td>16814</td>
<td></td>
<td>13.173</td>
<td>0.708</td>
</tr>
<tr>
<td>Warangal</td>
<td>11977</td>
<td>11977</td>
<td></td>
<td>11.106</td>
<td>2.230</td>
</tr>
<tr>
<td>Anantpur</td>
<td>10006</td>
<td>10006</td>
<td></td>
<td>45.336</td>
<td>1.550</td>
</tr>
<tr>
<td>Kurnool</td>
<td>11013</td>
<td>11013</td>
<td></td>
<td>19.653</td>
<td>1.308</td>
</tr>
<tr>
<td>Guntur</td>
<td>17833</td>
<td>17833</td>
<td></td>
<td>10.307</td>
<td>2.739</td>
</tr>
<tr>
<td>Nizamabad</td>
<td>12278</td>
<td>12278</td>
<td></td>
<td>7.058</td>
<td>9.742</td>
</tr>
<tr>
<td>Khammam</td>
<td>17768</td>
<td>17768</td>
<td></td>
<td>2.113</td>
<td>0.873</td>
</tr>
<tr>
<td>TOTAL</td>
<td>107387</td>
<td>107387</td>
<td></td>
<td>14.738</td>
<td>2.414</td>
</tr>
</tbody>
</table>

Minor disciplinary actions: censure, fine, stoppage of increments, recovery of irregularity amount and hearing.

Medium disciplinary actions: suspension, show-cause notice, ineligible for contractual work, charge-memo, enquiry committee instituted.

Major disciplinary actions: termination/dismissal/removal, criminal action
(FIR/chargesheet/detention/conviction).
Policy Recommendations

Respond to the changing patterns of corruption in public programmes that may transmute with scrutiny:

- **Bolster capacity and experience based skill accumulation** by core social audit personnel.

- **Technological innovations** to monitor materials expenditures coupled with the **expertise** for reducing second-generation programme leakages.
Policy Recommendations

- Community led social audits cannot materialise spontaneously:
  - Top-down element of the process essential to leverage grass roots participation.
Policy Recommendations

**Built-in programme evaluation and quality of documentation:**

- Our work underlines the need for incorporating rigorous programme evaluation in the roll out of the audits.

- Training and vigilance in documenting social audit findings.
Conclusion

- The AP experience has uniquely benefitted from strong political commitment to the social audit process:
  - Positive externalities: evidence suggestive of increase in beneficiary awareness of entitlements and learning with repeated audits.

- The cost of conducting social audits is 1% of annual MG-NREGA expenditure.
  - Low costs: potential benefits of public programmes are large but the cost of improving delivery through community monitoring is low.