

There's a Need to Reimagine MGNREGA for a Modern Economy

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- Sonalde Desai

The year 2025 marks the 20th anniversary of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA). The programme design, resulting from a unique collaboration between bureaucrats and civil society, reflects a rights-based approach where 100 days of manual labour are to be provided to any rural household. It is the largest government programme with its budget reflecting 17% of the total budget for centrally sponsored schemes.

By ensuring equal wages for men and women and work close to home, it provided employment to women whose other options are limited. By expanding definition of acceptable activities such as construction of sheds for livestock and improvement of farmland for individuals, it improved entrepreneurial opportunities. MGNREGA emerged as a powerful safety mechanism during crises such as the covid-19.

Nonetheless, the two decades since the passage of the act have seen tremendous changes in India's economic and social landscape and some cracks in the programme structure have become increasingly evident.

First, under both UPA and NDA governments, budgetary allocations have never been sufficient to provide 100 days of work to all rural households. In spite of spending nearly 100% of its budgetary allocation, the act has only been able to provide 45-55 days of work for participating households.

Second, it was designed to be naturally targeting with an expectation that only poor households will seek manual work. However, as India Human Development Survey of 2022-24 shows, MGNREGA participation is concentrated in households in the middle of the income distribution. Much of this comes from greater utilisation of MGNREGA funds by the southern states which have lower poverty. Ironically, the states that ostensibly perform well on MGNREGA utilization are also trapped in a vicious cycle where they must keep using funds to ensure next year's allocation, irrespective of demand for employment.

Third, the programme was designed to ensure that funds designated for wages are not siphoned off by equipment and materials and hence, a ratio of 60% wages to 40% materials was mandated. With perennial funds shortage, central government has been faster in releasing wage expenditure to states while delaying release of funds for materials resulting in prioritization of works with low materials component. Sometimes, this results in make-work where the same unpaved road is built and rebuilt. The alternative solution seems to be to rely on contractors to fudge labour-equipment ratio to carry out infrastructure projects.

Fourth, wage rates for MGNREGA have emerged as major bone of contention. In 2024, they ranged from Rs ₹234 in Arunachal to ₹374 in Haryana. These can be lower than state minimum wages and often lower than prevalent agricultural labour rates. This leaves many district officers struggling as they face a requirement from the state to implement MGNREGA projects but find it hard to get workers. Combined with delays in materials payment, this has allowed contractor raj

to creep in where district officials rely on contractors to manage these contradictions with any means at their disposal.

Fifth, the act limits work under MGNREGA to manual labour. This limits skill development, critical as education expands and new workers seek skilled work.

It is time to reimagine the program to create new opportunities for a changing economy and workforce. What would this entail? First, practical budgetary realities are that available funds will inevitably be rationed, and initial allocation sets the stage for funds states ultimately receive. Past utilization is an important component of the initial allocation. This allows states that have succeeded in managing the system to gain greater access to the limited pool. Removing past utilization as a criterion and focusing only on poverty and deprivation in the state in initial allocation may redress this.

Second, the act's focus on limiting work to manual labour and not allowing the inclusion of any regularly staffed positions under labour budget is shortsighted. For example, a creche developed under the Palna scheme may not use MNREGA workers for the fear of replacing regular workers. However, if a rotating group of women is used to staff the creche, that will provide employment without additional materials requirement and be in keeping with the spirit of the act. By subsidizing construction for MSME, successful implementation of individual works (e.g., construction of individually owned livestock sheds) could be extended to help bring small manufacturing to rural areas.

It is time to reexamine the details of the act and its implementation to ensure that it remains faithful to its spirit of generating rural employment and serving the poor while being mindful of changing conditions.

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