Employment Guarantee in Action: Insights from India

Jean Drèze

EDI Note

April 1, 2022

Employment Guarantee in Action: Insights from India

Jean Drèze
Ranchi University, India

India's National Rural Employment Guarantee Act 2005 (NREGA) is an experiment of major significance. It has demonstrated the soundness, feasibility and sustainability of employment guarantee over an extended period.

NREGA provides a legal guarantee of employment on demand to all adults in rural areas, subject to a maximum of 100 days of work per household per year. Employment is provided on local public works identified through participatory planning at the village level.

Aside from employment on demand, NREGA workers have other entitlements such as (1) unemployment allowance (if employment is not provided within 15 days), (2) payment of wages within 15 days, (3) basic worksite facilities, (4) compensation in the event of accident. Initially, workers were also entitled to the statutory minimum wage applicable to agricultural labourers in the area. Later on, however, the Indian government reserved the right to prescribe NREGA wages, state-wise. These have stagnated in real terms ever since.

How does NREGA work? Each *gram panchayat* (village council) prepares an annual "shelf of projects" within the list of permissible works. Works are sanctioned by the local administration (mainly at the Block or District levels) as and when there is a demand for work. Aside from gram panchayats, implementing agencies also include government departments.

Permissible NREGA works are mainly concerned with water conservation (ponds, wells, checkdams, trenches, etc.), land improvement, approach roads, environmental protection, horticulture and related activities. Some works, such as digging wells and land levelling, may be carried out on private land. At least 60% of NREGA funds are to be spent on wages.

NREGA is a major source of fallback employment in rural India. During the last five years (ending 2021-22), NREGA generated 3 billion person-days of work per year on average: 50 days per household (on average) for 60 million households. In individual terms, NREGA employed 90 million workers per year on average in the same period, with a peak of 110 million in 2020-21, the first year of the Covid-19 crisis. These are official figures, probably overestimating actual employment because "muster rolls" (worksite attendance records) tend to be inflated. Still.

A special feature of NREGA is the high share of women in total employment: more than 50%, year after year. This is particularly significant considering that Indian women have very restricted access to paid employment in the economy as a whole. Further, nearly 40% of NREGA employment goes to households from a "scheduled caste" (SC) or "scheduled tribe" (ST) – marginalised groups with a share of 25% in the population as a whole. Thus, NREGA makes an important contribution to social equity, whether in terms of gender, caste, or class.

What does this cost? NREGA expenditure peaked at a little over 1 trillion (1 lakh crore) Indian rupees in 2020-21, or US$ 13 billion at the current exchange rate. That's about 0.5% of India's GDP – a modest price to pay for such a far-reaching initiative.

So far, so good. It goes without saying that this monumental employment programme has its share of hurdles, mistakes and failures. The main problem with NREGA is that it is a pro-worker law implemented by an anti-worker system – a system steeped in indifference if not hostility towards working people. Three manifestations of this problem have caused much damage: delays in wage payments, the stagnation of real wages, and resilient corruption.

NREGA workers have a legal right to payment within 15 days, but in practice, wages are routinely delayed for weeks or months. Reasons for this include administrative foot-dragging, unreliable payment technologies, and under-funding of NREGA. To make things worse, NREGA wages have stagnated in real terms for more than 10 years, even as market wages increased. Low wages and payment delays have a destructive effect on the entire programme, because they sap workers' interest in it. The good health of NREGA rests on the active participation of workers at every stage – project selection, work applications, asset creation, social audits, and more.

Corruption has been – and remains – a major challenge for NREGA. The programme has set a shining example of transparency, with all records pro-actively displayed on a public data portal. It also pioneered a range of anti-corruption measures including "social audits". Yet, corrupt middlemen are constantly trying to milk the programme, often with the connivance of political leaders. In recent years, over-reliance on digital technology has also undermined some of the earlier, more participatory safeguards against corruption. In 2011-12, about 90% of NREGA wage expenditure was reflected in household data from the independent Indian Human Development Survey, but leakages are likely to be larger today.

Despite its flaws and uneven record, NREGA is a lifeline for millions of poor households in rural India. It has also made major contributions to asset creation, environmental protection, women's empowerment, and local democracy. NREGA has not worked so well as a springboard for workers' organisations in rural areas. However, some organisational efforts did happen and there are likely to be more in the future.

NREGA is still a learning experience, especially in India's poorer and poorly-governed states. But it has already achieved a lot. This demonstration of the possibility of employment guarantee is an important example for the whole world.

Jean Drèze is Visiting Professor in the Department of Economics at Ranchi University, India.