

Policy Brief

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The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS): Boosting Productivity and Agricultural Wages in India

BACKGROUND

70 per cent of the world's 1.4 billion extremely poor live in rural areas.¹ Some are farmers tilling their own plot of land, but at the bottom of the pyramid are landless labourers who subsist on casual agricultural wage labour.²

Whereas enforcing a rural minimum wage rate is unrealistic in most developing countries, public works programmes – which employ large numbers of unskilled workers to improve public infrastructure – constitute a positive shift to labour demand. If large enough, such a shift could push up wages through a knock-on effect, its benefits reaching far beyond those involved in the scheme.

New research is examining the impact of the world's largest public works program – India's Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) – on agricultural wages, analysing monthly data from 250 districts across 19 Indian states. The study highlights the positive effects of the programme not only on agricultural wages and labour demand, but also on productivity, welfare and poverty reduction in rural India.

Together with the Dr. Mihir Shah Committee Report,³ this research has helped to shape the MGNREGA New Operational Guidelines 2013,⁴ which recognises the role of the programme in boosting agricultural wages and reducing rural poverty, and continues to influence the content of subsequent guidelines.

Key findings

- On average, the programme boosts the growth rate of real daily agricultural wages by 4.3% per year (see Figure 1).
- The effect is gender-neutral and mainly benefits those doing unskilled labour, its targeted beneficiaries.
- The effect of the scheme on wages depends both on the intensity with which the scheme is implemented locally and on the initial wage rates in the district.
- The programme positively contributes to agricultural wage growth.
- Using the programme to upgrade rural infrastructure boosts agricultural productivity.

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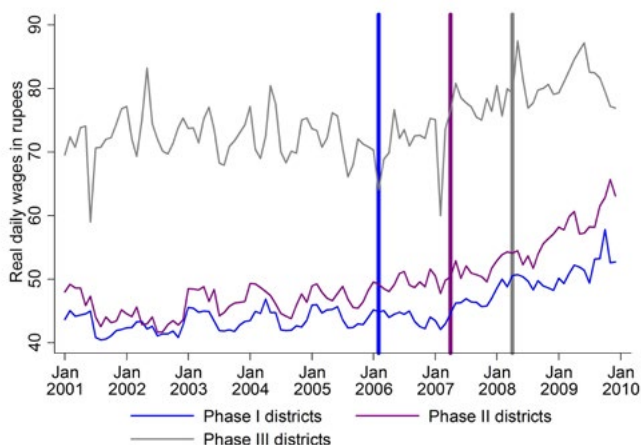
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FIGURE 1. REAL AGRICULTURAL WAGES, BY PHASE



Notes: The figure shows real daily field labor wages in January 2000 prices. For each month, year and phase, the rates are averaged across the field labor sub-categories, gender and districts. The vertical lines show the time of introduction of NREG in each phase.

THE MGNREG SCHEME IN A NUTSHELL

- The objective of the National Rural Employment Guarantee Act (NREGA), passed in 2005, was ‘to provide enhancement of livelihood security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment to every household in unskilled manual work.’ (Ministry of Law and Justice, 2005).
- The MGNREG scheme has been operational since 2006. As part of its employment guarantee, applicants are entitled to an unemployment allowance if the local government fails to provide work within 15 days of application.
- The act requires at least one third of beneficiaries to be women, stipulates that women’s and men’s wage rates should be equal, and that wages cannot be less than minimum wages prescribed by the state government.
- Work projects focus on the rejuvenation of communal natural resources, and are identified and prioritised by Gram Panchayats (GPs) – the only grassroots-level of panchayati raj formalised local self-governance system in India at the village or small-town level. Typical NREG projects include: soil and water conservation, land development, rejuvenation of traditional water bodies, social forestry, flood control and micro-irrigation.
- It is the largest workfare programme in the world, both in terms of volume and coverage. So far, millions of households have obtained employment under the scheme. In the financial year 2010-11, for example, it generated 2.57 billion person-days of employment.

Policy Implications

- Evaluations of small, pilot public works schemes are often criticised on the basis that the observed effects may not be scalable. The scale of the MGNREG programme disproves this critique – lessons learned will be of broad interest, relevance and applicability.
- It is difficult, if not impossible, for developing country governments to enforce statutory minimum wages. Public works programmes provide governments with an additional mechanism with which to influence wage rates in the rural unskilled labour market. Since the link between agricultural wages and poverty rates is well established, if public works can influence agricultural wages then they constitute an attractive policy instrument to reduce poverty.
- The benefits of the programme extend well beyond the participants of the scheme and their wages; the research finds subsequent increases in labour demand and productivity, as well as improved welfare, all of which are contributing factors to poverty reduction.
- Although the scheme’s current focus is on unskilled rural work, similar public works schemes might also be successful in other countries, or within different types or environments of employment, e.g. unskilled urban work.

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