

Strengthening Rural and Urban Employment: The Future of India's Workforce Policy

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Executive Summary

Indian employment policies have a significant impact on being able to stabilise the economy, reduce poverty, and improve social equality. One of the most critical programs in this realm is the Mahatma Gandhi National Rural Employment Guarantee Act 2005. The program offers 100 days of Wage Employment per year to every rural household that is willing to provide unskilled manual work.

One of the huge success stories on rural employment is MGNREGA, as the scheme offers wage employment to vulnerable sections of the society with a safety net, which reduces seasonal migration and does well for household income.

Alongside the above reasons, MGNREGA has also had major effects in rural employment, displacing seasonal migration and providing a safety net for vulnerable populations, resulting in a higher percentage of women workforce involvement and a speedy increase when compared with the rest of Latin America. The program also significantly contributes to gender equality because millions more women are now working! Beyond this, the program has built key rural infrastructure, e.g., roads, water conservation systems, and irrigation facilities, which ultimately increase agricultural productivity along with rural development.

However, MGNREGA is not without its difficulties. Delays in wage payment have militated against participation, inefficiency due to fund misappropriation has been found, and corruption at many levels has hindered its overall impact. Furthermore, as MGNREGA is an unskilled labor-oriented scheme that restricts workers' long-term economic empowerment.

This policy brief seeks to address these barriers through the use of digital methods that can contribute to wage transparency and reduce corruption. It also suggests providing skill development programs alongside MGNREGA for better employment sustainability. Also, unsuppressed urbanisation means that expanding employment guarantee schemes can help reduce rapidly rising unemployment in the cities. More effective monitoring and evaluation mechanisms are key to ensuring funds are channelled where they have the greatest impact, with immediate access to payments for beneficiaries.

Introduction

Employment is one of the primary components of economic security, social welfare, and nation-building. In countries like India, where a vast chunk of the workforce feeds on daily wages or informal sector jobs, the need for robust employment-oriented policies cannot be overemphasized. One of the most ambitious employment schemes that was started in India is the Mahatma Gandhi National Rural Employment Guarantee Act, enacted in 2005.

A program under this scheme provides 100 days of wage employment annually to every rural household willing to receive unskilled manual labor. MGNREGA has been providing financial relief to millions over the years, it has curbed seasonal migration to cities, women's participation in the workforce has increased with a magnanimity, and on the flip side, the development of rural infrastructure in the form of roads-water conservation projects, agri-assets, etc.

Nevertheless, despite its achievements, MGNREGA has met with several challenges: delayed wage payments; corruption; poorly managed funds; lack of skill in employment opportunities, etc. Examples of these

limitations show the employment policy requirement for the next phase and evolution that not only addresses immediate economic distress but also long-term job creation.

India is in immediate need of employment policy reform for fairly diverse reasons. One, rural distress and economic volatility require that employment opportunities must be regular, well-paid, and sustainable. Rural workers continue to suffer from long waiting periods for wage payment under MGNREGA, resulting in financial insecurity and reduced participation. [2] Second, there is a growing urban unemployment rate and no nationwide urban job guarantee program at present. The spread of COVID-19 was yet another economic calamity that exposed the weaknesses of informal laborers: with it, many more lost jobs with no safety net.

Moreover, skill development and job diversification backed employment is crucial for India's competitive evolution in a constantly changing economy, as India's workforce. Even though successful in much of the short-term job creation, MGNREGA hardly prepares workers for those jobs that will allow their transition out of poverty into something more stable and better-paid. A growing requirement for vocational training programs that convert workers to match with new industry requirements and make them not only employable, but also job seekers moving up the income ladder.

This policy brief seeks to address several crucial questions:

1. How effective has MGNREGA been in reducing unemployment and providing financial security to rural households?
2. What are the primary challenges limiting the potential of MGNREGA, and how can they be addressed?
3. How can digital technology reforms improve the efficiency of employment schemes?
4. Should India introduce an urban employment guarantee scheme similar to MGNREGA?
5. What role does skill development play in employment policies, and how can MGNREGA be integrated with vocational training initiatives?
6. How can employment policies be reformed to ensure long-term workforce resilience and economic sustainability?

The policy brief intends to present a detailed examination of India's employment-oriented policies, learning from MGNREGA, in order to analyse successes and failures alike. Based on a study of the operational nature of the scheme, its accomplishments, and remaining problems, this research tries to further identify where its policy reforms could make a difference in terms of improving efficiency, transparency, and effectiveness. The major objective is the leap-ladder market inefficiency, like delay in wages, fund leakage, and corruption, which have hampered the success of this program. In addition, the brief examines the use of digital payment systems and fund tracking in real-time as well as biometric verification to increase transparency & accountability in employment programmes. A second important part of this research challenge is to invest in skills-enhancing programs in tandem with job creation efforts to provide people with viable pathways from temporary work into lower-impact and lower-paying jobs. It also suggests that the scope of employment guarantee schemes must be extended to urban centers as one way to begin tackling increasing urban unemployment. Lastly, this policy brief provides insights with actionable policy recommendations so that the response employment policy can be both reactive and progressive; cognizant of economic stratum, socially equity minded and job creation friendly for neighborhood workforce evolution.

Research Overview

This study used a mixed-methods approach to assess the efficiency and bottlenecks of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in India. Information was drawn from multiple means, including government reports, independent research, and media releases. Important data sources are the Ministry of Rural Development's MGNREGA Management Information System (MIS), CPNR reports, and studies by think-tanks like the Azim Premji University. These were used to pull statistics on employment, wages, and budget spent from various sources in order to offer a broad examination. Qualitative data from field surveys and interviews of different stakeholders were also cross-referenced to understand on-ground realities of MGNREGA implementation.

Issues affecting the implementation of the scheme:-

Even though every household got a provision of 100 days of employment per annum, the average people's days of work that this scheme has generated has been well below what it should have done per household. Between the FY18-19 to till date, only 41 person-days per household were generated by December 31, 2018, in a State. Some of the poorest states like Odisha, UP, Bihar, and Punjab (average below 33 person-days but somewhere 50), followed by other states (36-40).

Timely wage payments are a huge blind spot. 32% of all wage payments made in the FY 17-18 were made after 15 days. As of Jan 2025, there were additional unpaid wages of ₹974.38 crore, reflecting unabated delays, which continue — unjust for workers. Sources and allocations for MGNREGA are never adequate. In 2024-25, the government put ₹8.6 lakh crore for the programme as against the previous year unchanged, down 4% merely from the actual expenditure in the last 2023-24. The lack of funds led to a stalled demand from the needy and low numbers of labourers.

A study in the eight blocks across the four states found that over 39% of job cardholders did not get any work, despite their interest in September 2020-21, approximately. For all those who were able to get employed, there was still a demand of 64 days unmet on average, indicating a huge mismatch between the demand for labour and supply. MGNREGA funds have often been distributed in an arbitrary manner between states. Specifically, in 2014-15, high-poverty states like Bihar spent much less on the program compared to low-poverty states like Tamil Nadu, owing to very different levels of rural poor, but also despite higher alternative usage by richer states, such as thus spending much over three times more despite having fewer rural poor.

The emphasis of the program on short-term job creation, however, has often translated into durable and productive assets. The absence of a well-defined quality monitoring system has resulted will suboptimal long-term contributions to objectives like soil and water conservation, drought-proofing, etc. This highlights the necessity for systemic changes in how MGNREGA is implemented to ensure that it not only generates reliable employment but also fulfils its role for sustainable rural development.

Analysis

The study sheds light on various structural and operational hurdles within India's employment policy, especially regarding the execution of MGNREGA. Although the scheme has been vital in providing jobs for millions, it's plagued by systemic inefficiencies, funding issues, and governance problems that restrict its true potential. Tackling these challenges is essential for creating a sustainable and resilient employment framework in India. The research uncovered one of the largest problems being the consistent shortfall between the employment promised under MGNREGA and the actual jobs delivered. The scheme props up to 100 days of work per household every year, but everyday data shows that the average household in many states does not receive this [three pegged as a benchmark]. In some states, households could receive as low as 41 average workdays in 2018-19. The gap points that MGNREGA is not able to address rural job requirements in its entirety, leaving many casual laborers jobless.

Funding shortfalls, approval delays, and poor administration at the field level contribute to the shortfall in workdays, though project sanctioning inefficiencies reduce the number of such opportunities available to those in need of work. A number of project approvals are shrinking even more so due to bureaucratic inefficiency in approving the projects. The lack of a steady and convenient labor provider forces many rural workers into the informal, unstable, and exploitative world of nondescript labor, more often than not on distressed migration to urban cities. Current employment policy has one huge hitch — the continued delay in wage payments under MGNREGA has been a chronic problem. The scheme prescribes payment within 15 days for work done, and the funds from the center are late in reaching state governments. This requirement is rarely met, with the workers not getting paid on time, as in the scheme of things.

As per 2017-18, only 32% of wage payments were on time, and outstanding unpaid wages have gone to Rs 974.38 crores as of March 2024-25. This leads to severe dependence on MGNREGA as a social safety net, since late wage payments make those who convert their work into income unreliable because workers cannot quickly rely on earnings to pay for daily needs. The problem is further compounded by financial mishandling

and obstacles in the bureaucratic path for funds. A few workers have discussed being forced into paying high-interest loans as they wait for their due without generating enough funds to get out of financial straits.

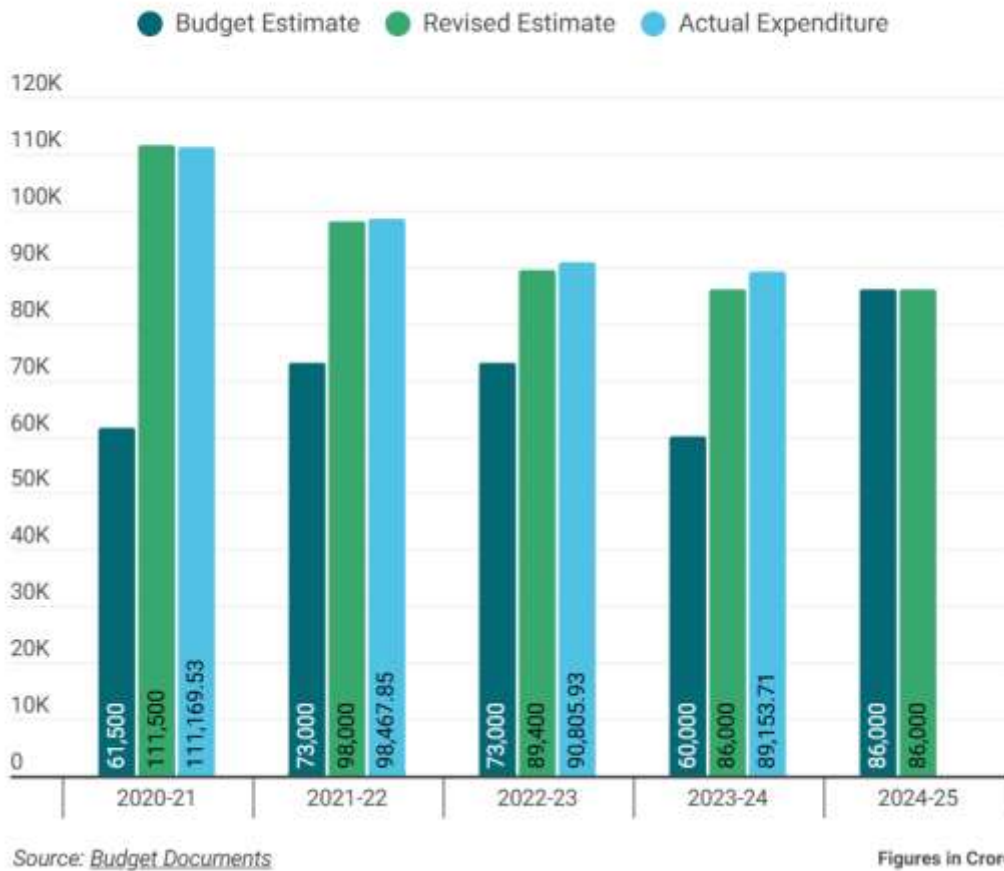
MGNREGA has consistently faced financial shortages to meet the spiraling demand in multiples of what is required. The 2024-25 budget of ₹86,000 crore in ₹89,153 is 4% lower than the actual spend of 2023-24, i.e., highlighting scant funding. Being a demand-driven program, capping the budget of MGNREGA artificially suppresses demand in all states, forcing failure roles instead of full employment for registered work seekers. Also, the last, the ineffectual means of distributing funding to states. The MGNREGA funds have been used very effectively in states like Tamil Nadu (wealthier and better administered), but have not been utilised to the full extent by poorer states like Bihar or Uttar Pradesh that have a larger need for employment.

Though a demand-based scheme, MGNREGA has not been able to reach all who seek work under this scheme. 39% of job card holding registered households in the study, conducted in eight states, did not receive any day of work in the 2020–21 fiscal, said a study released by the Ujjawala dashboard. It goes without saying, the work that did exist was still short by an average of nearly 64 workdays per beneficiary to satisfy demand, again underscoring the huge discrepancy between incoming customers and arriving sellers. Exclusion of beneficiaries is mostly driven by corruption, poor functioning of bureaucratic mechanisms, and rural workers' unawareness of their right to social security under the program. Frequently, local-level bureaucrats will restrict job availability to ensure they are not obliged to provide full 100-day employment on the books by limiting reported demand.

The study also indicates large variations in the manner MGNREGA funding is shared and channelled by states. States like Tamil Nadu and Rajasthan have always spent more of their shares as a percentage, while the poorer sections of states such as Bihar and Uttar Pradesh get to spend less both on themselves and on generating work. This variation demonstrates the governance void, where states with better institutional capacity garner a larger share of centrally funded transfers than those with weaker governance systems. Put it another way, the areas that need employment programs are being paid for due to systemic inefficiencies in how this system is structured.

One of the key problems is that MGNREGA has been able to provide basic rural infrastructure, but with assets produced with the back of the scheme often low-quality and unsustainable. The program really focuses on employment generation over wider economic development, and that results in some really non-optimal use of funds that simply aren't working that hard to lift local economies. Furthermore, the kind of work provided under MGNREGA is mostly unskilled and temporary, and hence, no help in creating pathways for workers to move towards steady decent jobs of higher earnings. MGNREGA will not help in moving economic migrants from low-income rural jobs to higher-income jobs without skill development components.

MGNREGA Spending Exceeds Budget Allocation Every Year



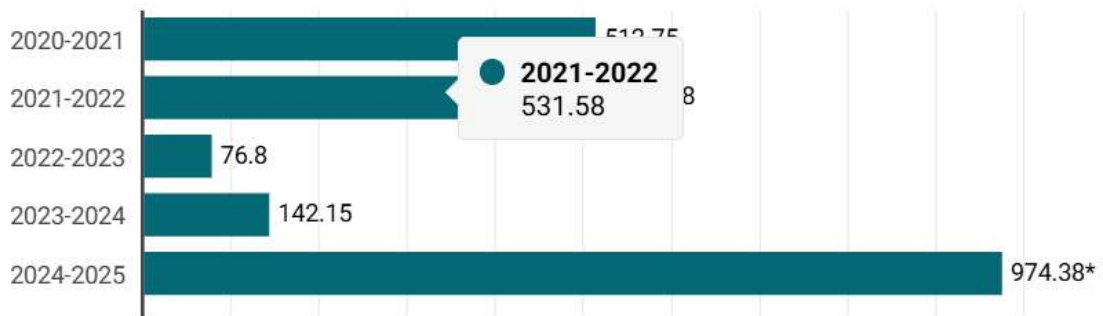
MGNREGA outlays always going above the initial budgeted amount (2020-21 to 2024-25) as depicted by the graph. The actual expenditure invariably exceeds both budget and revised estimate, pointing out to systemic underestimation of the cost of the scheme as per expenditure Integrated with logic model. Not surprisingly, the demand for MGNREGA work continues to outrun planning over the years, and as this is an upward trend, it could mean perhaps forecast failure or fiscal incompetence. The sharp variance between Budget estimates and actual expenditure, especially in initial years, gives a concern about the financial planning as well as resource allocation for such a wide project. Since this overspending is routine, one needs to take a harder look at the forces that perpetuate this gap in order to ensure a sustainable and effective program for the long term.

Year-wise Pending Wages and Net Balance Under MGNREGA



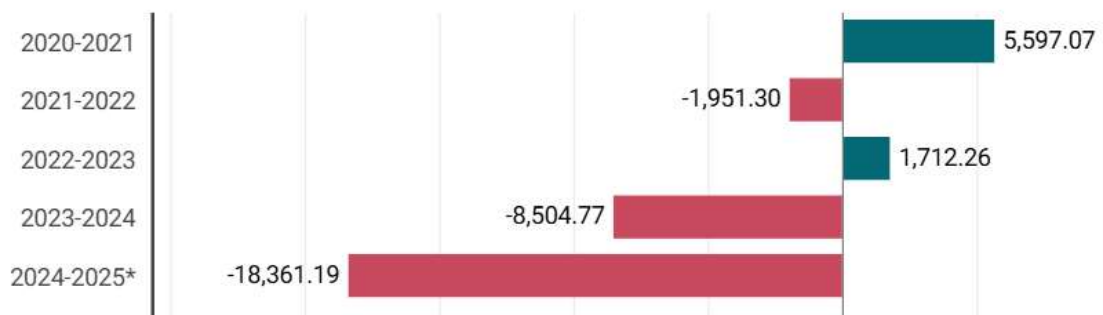
Pending Wages:

Figures in Crore



Net Balance:

Figures in Crore

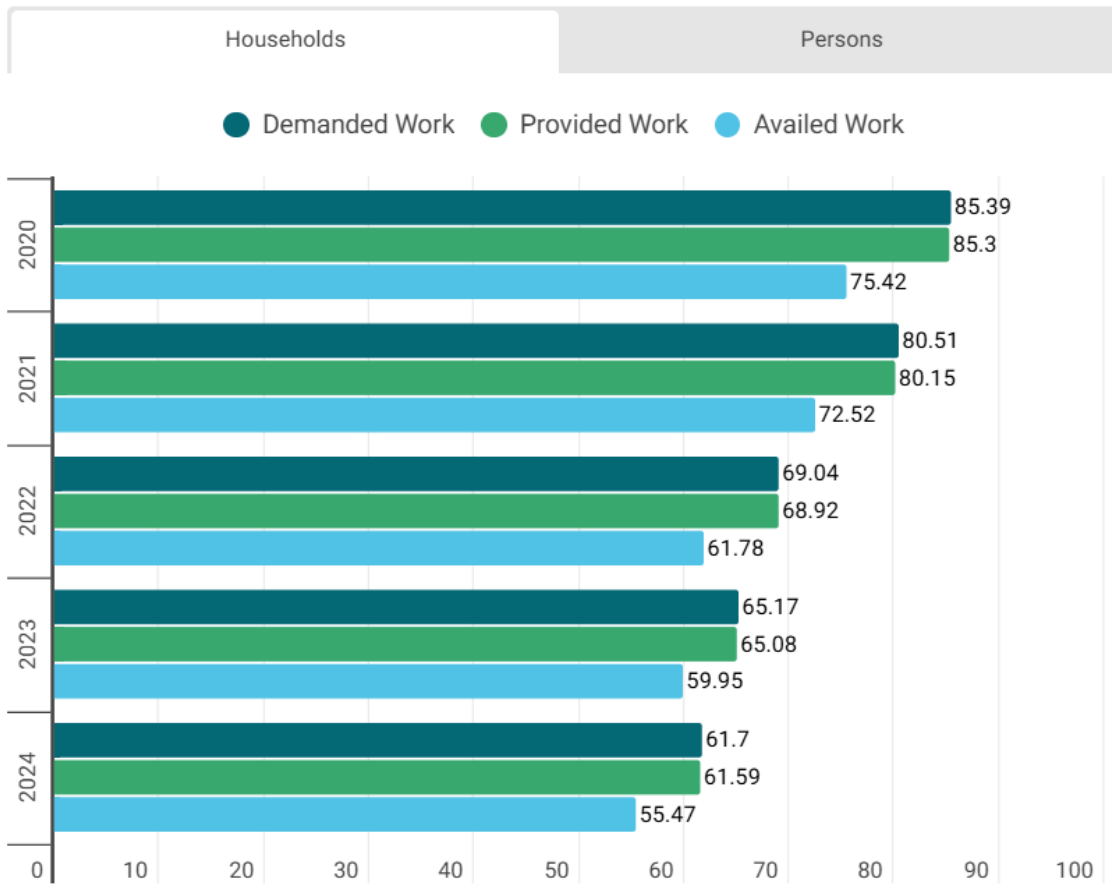


Source: MIS Report

Data for 2024-25 are as on March 2, 2025

The trends unveiled through data are cause for alarm on the increasing financial burden of the MGNREGA scheme. This could be seen to some extent in the last few years where wage pendency had less amplitude, but then 2024-25 saw a sharp rise mirroring a sudden jump in net financial deficit. This indicates a probable widening of the channel between allocated funds to expenditure actually and can lead to delays in wage payments adversely affecting the rural workforce. The deep negative net balance speaks volumes to the need for a quick bandage on the financial problems this scheme is experiencing in order for it not to collapse.

Work Demand, Provision, and Work Availed for Households and Persons

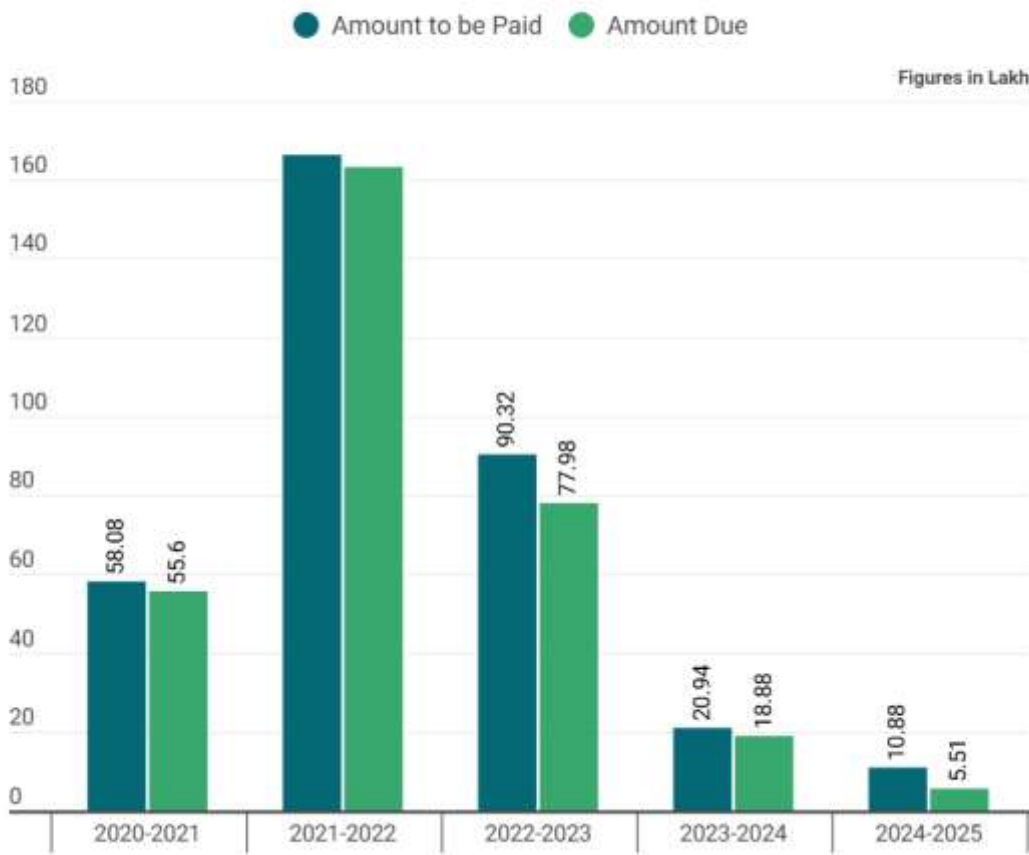


Source: *MIS Report*

Figures in Million

The graph shows the work demand, provision, and actual work taken up under MGNREGA, measured in millions for both households and individuals, from 2020 to 2024. It's interesting to note that the "Provided Work" tends to closely match the "Demanded Work" for all the years, which points to a solid response to work requests. On the other hand, the "Availed Work" has consistently been lower than both the demand and the provision, highlighting a gap between what's offered and what beneficiaries actually engage with. This difference could stem from reasons like a lack of interest among beneficiaries, better job opportunities elsewhere, or some administrative challenges that prevent them from making full use of the available work. Additionally, there's a noticeable downward trend in all three areas over the years, which raises questions about why this decline is happening and what it means for the effectiveness of the program.

Unemployment Allowance Backlog



Source: MIS Report

The graph illustrates the "Unemployment Allowance Backlog" in Lakhs (where 1 Lakh equals 100,000) for the period from 2020-2021 to 2024-2025. It compares the "Amount to be Paid" against the "Amount Due." A notable backlog stands out in 2021-2022, with both figures surpassing 160 Lakhs. Throughout all the years, the "Amount to be Paid" is consistently greater than the "Amount Due," which shows some positive movement in disbursing the payments. Still, a backlog persists. Interestingly, this backlog has been on a downward trend over the years, indicating that there might be improvements in processing pending allowances. Yet, the existence of an ongoing "Amount Due" underscores continuous hurdles in timely payments, which could affect those who depend on these allowances. The significant backlog noted in 2021-2022 calls for a closer look at what might have caused such a spike.

Highest Pending Wages and Net Balance in 2024-25



Note: Net Balance includes wages, material, and admin cost

Source: *MIS Report*

The graph presents the "Highest Pending Wages" (in Crores of Rupees) and the "Net Balance" for the year 2024-25 across five Indian states. Notably, only "Wages Due" is depicted, with the "Net Balance" section being empty. Maharashtra exhibits a significantly higher pending wage amount of 379.98 Crores compared to other states, indicating a substantial delay in wage disbursement. Manipur follows with 96.02 Crores, while Bihar and Himachal Pradesh have similar amounts around 66 Crores. Tamil Nadu shows the lowest pending wages at 34.37 Crores. The absence of "Net Balance" data limits a comprehensive financial analysis, but the substantial "Wages Due" in Maharashtra suggests potential financial or administrative challenges within the state's MGNREGA implementation. The significant disparity in pending wages across states highlights the need for a focused approach to address the specific issues contributing to these delays.

Policy Recommendations

The research findings exposed severe limitations of MGNREGA implementation in India, especially with respect to the efficiency of employment-related policies. Making employment policies sustainable and growth-oriented, we need to move past underemployment, financial accountability, timely wage payment & coverage for greater employment opportunities with higher quality of jobs. Reforms that will not only bring in more jobs but also ensure employment initiatives lead to real gains in economic growth and poverty reduction. The problem close to the bone is the yawning chasm between the guaranteed and perceived statutory MGNREGA workdays, that even households eligible to get at least 100 workdays per year in practice receive less.

This underemployment is fueled by a funding gap, bureaucratic bottlenecks, and artificial rationing of work. Here, the government is mandated to show jobs being made by ensuring that all registered households get 100 workdays, which will provide an additional income support to millions of rural workers. Especially, offering

a digital match-the-end-demand for jobs will help in rescinding work rationing and ensure availability of jobs anytime and wherever needed.

A further primary reform is to make wage payments timely, which is another big disincentive for labour to MGNREGA workers. Wage delays, which are frequently at least or more than twice the 15 days prescribed, leave workers with no other choice than to go for alternative, usually exploitative jobs. To avoid this, a real-time digital payment system must be made a part of MGNREGA administration so that wages are disbursement on the day of the work. Decentralized the fund disbursement, allowing states to tap into rolling funds so as to reduce delays and make wage payments predictable come closer. Independent audits and social accountability mechanisms can improve the financial accountability of funds to workers, ensuring that they are traceable to the actual recipient.

One of the major limitations in MGNREGA is the heavily constrained budget allotted to it, which fails to meet real demand. The program should follow a demand-driven funding approach, in which actual and not protected job estimates feed the financial allocations, e.g., not when determining budget limits at the time of every fiscal year commencement. This will ensure allocation of plenty of resources in order to effectively bolster the employment creation. Moreover, the provision that state governments can co-finance employment programmes will increase local ownership and allow states to match the creation of jobs to their needs.

With a spike in unemployment in urban areas, spreading it to urban areas, MGNREGA is the only solution to provide city low-income employed with some form of security. A UESG can create work for cities and villages in infrastructure, waste disposal, solar energy, and other renewable sources of power-digital sectors by providing steady employment to urban labor. Beyond that, it would drive a greater number of rural people into the city — another windfall amid rising migration to urban slums that again regularly results in low-wage/semi-informal jobs.

Reform in reducing regional disparities: another key area that needs to be worked out is lowering regional disparities for MGNREGA implementation. Program funds have been efficiently used in the states with better governance indicators like Tamil Nadu and Rajasthan; it seldom happens in poorer states like Bihar or Uttar Pradesh, where fund utilisation is very low while the programme implementation is non-existent.

So, to tackle this disparity, the Government ought to adopt up cost-effective model of performance-based funding wherein the implementation of states is implemented and supported only by the eligible States that get some further support & encouragement. They should also conduct third-party due diligence and be independently audited to verify that funds are being appropriately disbursed and used in the interest of all regions, NOT just one set of district boundaries.

Agree that MGNREGA has successfully provided short-term work, but what it is working on is unskilled, and there is zero potential for long-term development. Ensuring that skilled job opportunities like construction or MGNREGS for renewable energy projects, digital literacy courses, and farming in a sustainable way are more integrated within the mainstream of employment policies is needed for employment. It would enable workers to learn transferable skills and create pathways to better-paying and more permanent jobs. Moreover, connecting the dots between vocational training and job creation schemes can make workers shift to a profession from low-wage, manual labor to a skilled occupation, providing mobility of earnings rather than just subsistence.

Also, to maximise a long-term economic result from employment programs under MGNREGA, more needs to be done to enhance the quality and sustainability of assets. The implementation of projects under MGNREGA, such as road construction, irrigation works & water conservancy, is in many cases poorly implemented and lacks any long-term planning. Developing a well thought-out monitoring and evaluation strategy to measure quality of work on completed projects by focusing this on public funds best use in creating enduring assets that support rural development.

Conclusion

MGNREGA, as a central plank in India's employment policy, has been instrumental in protecting millions of rural workers through a safety net. But our work has demonstrated that structural weaknesses, interminable

wage arrears, and poor economic inclusivity remain to be resolved even as the program waits for a more transformative reboot. Not a mere administrative imperative, tackling these needs to be done in urgent economic and social terms. The existing policy framework has lacked a clear vision for the vulnerable workers who are neither employed nor part of any organized or stable livelihood. Should action not be taken now, then the employment security as promised will remain unfulfilled, and millions will remain mired in a trap of poverty and economic vulnerability.

Research has illustrated that rethinking employment policy is not a short-term fix and must be extensive beyond just the component of immediate job creation. It should prioritise actualizing full 100-day jobs with wage in hand as a standard for delivery, undertake a live returns system for the wages paid to enable urban employment, and tie skills development with EWS. A demand-based funding model will obliterate the fairy tale of job rationing and performance-based funding, with governance will allow finally resources to reach the most vulnerable. By connecting employment to broader long-term objectives for economic growth in India, it can move from relief-based to a workforce strategy that is transformative and future-ready.

Employment programs at the end of the day should not merely offer jobs but rather provide pathways to economic self-sufficiency. Through the adoption of ambitious data-driven and inclusive policy reforms, India can transform employment into a potent engine of social justice for an economy that is sustainable rather than ad-hoc. This is now or never — the failure to reform employment policies is not just offering a tailspin in economic growth but also implies a deeper social divide and economic insecurity. An updated employment strategy that should be baked into the DNA of all policy action undertaken now can set no worker aside and decide India's prosperity through employment policies in the long run.

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