

The effectiveness of minimum wages in developing countries: The case of India

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After years of relative neglect, minimum wages are again perceived as a useful and relevant policy tool which can make a major contribution to social justice by improving the lives of low-paid women and men worldwide. A number of countries around the world have experienced positive changes which have contributed to this change in perception. In the United Kingdom, for example, a survey by political experts¹ has identified the national minimum wage introduced in 1999 as the most successful government policy of the past 30 years. In emerging countries, too, minimum wages are making a strong comeback. In Brazil the reactivation of the national minimum wage since 1995 is widely credited – together with *Bolsa família*, a cash transfer programme – for the recent reduction in poverty and inequality (Berg and Tobin, 2011). In South Africa, wage floors were introduced in 2002 to fight the racial discrimination introduced under apartheid and to support the wages of millions of low-paid farm workers, hospitality workers, domestic workers and others in sectors where unions are weak. In China, new regulations were issued in 2004 in the face of growing concerns about increasing wage inequality. Finally, in Egypt and other countries rejuvenated by the “Arab Spring”, governments have been forced to respond to the demands for minimum wages by young revolutionaries and trade unionists.

In developing countries, however, two questions frequently arise. First, to what extent can minimum wages be enforced in a context characterized by a large number of casual and informal wage earners who operate beyond the reach of understaffed labour inspection services? Second, where minimum wages are implemented, do they benefit the poorest and most vulnerable groups in society or do they merely reinforce the segmentation and inequality between a few fortunate salaried workers and all the others?

Our paper discusses these questions in the context of India, a developing country with a particularly strong minimum wage tradition. India was one of the first developing countries to introduce a minimum wage policy. According to John (1997), the enactment of the Minimum Wages Act in 1948 was the result of both internal and external factors. Internal factors included the increase in the number of factories and wage earners during the first half of the twentieth century, as well as the growing number of industrial unrests and strikes of workers who rebelled against their “starvation wages”. External factors included the adoption by the International Labour Organization (ILO) in 1928 of Convention No. 26 on minimum wage fixing in trades in which no effective collective bargaining takes place or where wages are exceptionally low. The Minimum Wage Act of 1948 is still considered to this day to be one of the most important pieces of labour legislation in India.

1. See http://www.instituteforgovernment.org.uk/pdfs/PSA_survey_results.pdf and <http://www.bbc.co.uk/news/uk-politics-11896971?print=true>.

The first section of the paper describes briefly India's complex system of minimum wages. The second looks at the effectiveness of minimum wages in the country. Using the 2009–10 Employment-Unemployment Survey data, we estimate the proportion of salaried and casual wage earners among India's workers. We then discuss the extent to which the minimum wage is paid for wage earners at all-India level, and also for certain specific schedules of employment. The third section considers who benefits from the various minimum wages in India. Finally, we discuss the role of the National Rural Employment Guarantee Scheme² (NREGS) in enforcing minimum wages.

Minimum wages in India

While India was one of the first developing countries to adopt minimum wages, its system also remains to this day one of the most complicated in the world. The 1948 legislation determines that the “appropriate government” should fix minimum wage rates payable to employees in a number of listed sectors (or “scheduled employments”). In practice, this means that the central Government sets minimum wages in all companies operating under a railway administration or in relation to a mine, oilfield, or major port or any corporation established by the central Government, and that all other rates are essentially set by state governments, who have appointed tripartite Advisory Boards that include representatives of government, employers and workers.

The proportion of workers covered by the minimum wage depends on the number of “scheduled employments” and is decided at the state level. The original Minimum Wage Act of 1948 obliged states to protect workers from 13 scheduled employments that were identified as the sectors uncovered by collective bargaining and therefore most vulnerable to unduly low wages and exploitation (Labour Bureau, 2005). But the Act also empowered state governments to expand this list, so that today there exist more than 300 different sectors that are covered in one or more of the Indian states. While some states such as Tamil Nadu and Orissa have massively expanded coverage, others such as Mizoram and Manipur have left it almost unchanged (see Labour Bureau, 2005).

India is therefore a country with multiple minimum wage rates, which vary across states as well as across jobs within a state. According to the figures for 2009 published on the website of India's Labour Bureau,³ the central Government sets 48 minimum wage rates for different job categories, while

2. The National Rural Employment Guarantee Act (NREGA) was passed in 2005 and later implemented as NREGS in 2006; it was renamed as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2009. We use the term NREGS consistently throughout this paper.

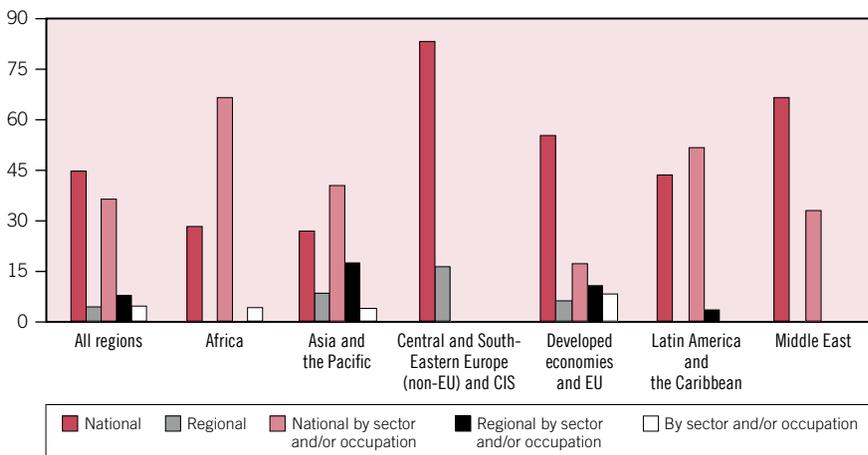
3. See <http://labourbureau.nic.in/wagetab.htm>.

various state governments determine minimum wage rates for 1123 job categories among the sectors “scheduled” in the Act. In other words, there exist 1171 different minimum wage rates in India. To some extent this reflects the enormous size of the country. And, India is not an exception in relying on sectoral and/or occupational minimum wages rather than on a single national minimum wages. Figure 1 from the ILO’s Working Conditions Law Database shows that about half of the countries implement systems with multiple rates which vary by industry and/or occupation. While national minimum wages prevail in developed economies, multiple rates dominate in Africa, Asia and to a lesser extent in Latin America and the Caribbean.

The difference between multiple and single rates can be traced, in part, to historical developments, as the tendency has been for countries to switch from multiple systems to national systems, thereby increasing both the coverage and the simplicity of minimum wages. The United Kingdom, for example, abolished its system of industry-wide trade boards in the 1980s and replaced it in 1999 with a simple national minimum wage. This trend is reflected in the evolution of ILO standards themselves. While ILO Convention No. 26, adopted in 1928, encouraged the adoption of a select system of minimum wages to groups of workers who are in a weak bargaining position in the labour market, the more recent ILO Convention No. 131 of 1970 promotes a more comprehensive approach which covers as many workers as possible.

While both systems are legitimate, international experience has shown that relatively simple systems are more effective⁴ and that the least effective minimum wages institutions are often those that are too complex. The absence of central coordination can lead to chaotic outcomes, where the various

Figure 1. A typology of minimum wage systems (%)



Source: ILO Working Conditions Law Database, 2010 (based on 108 countries).

4. See, for example, ILO (2008a), p. 50.

rates lack overall coherence and appear to be set in an arbitrary fashion. In addition, multiple rates can be difficult to communicate and enforce, particularly when both workers and employers are confused over which rate, if any, is applicable to them. One study therefore concluded that “it is better to design a simple system that is well understood by all, rather than trying to fully address the heterogeneous needs of the labour force” (Cunningham, 2007, p. 4). This has also been put succinctly by Ghose who argues that, in the case of India, having “a plethora of statutory minimum wages, all arbitrarily set, which vary across jobs within a state and across states in the same job” is simply “indefensible” (Ghose, 1997, p. 697).

In India, the Government has taken a number of steps in recent years to improve overall coherence by strengthening the coordination functions ability of the Central Advisory Board to coordinate the work of all the State Advisory Boards and by requesting that states determine minimum wage rates through consultations within five broader regional committees (for the Eastern, North-eastern, Southern, Northern, and Western regions). Further, policy-makers have discussed for years the possibility of simplifying and extending the coverage of minimum wages to the whole labour force. A step was made in 2003 when the Central Advisory Board constituted a Working Group which led to the introduction of an indicative, non-binding national minimum wage floor initially set at Rs 66⁵ (GoI, 2007), and later raised to Rs 80 per day in December 2008, to Rs 100 per day in December 2009 and to Rs 115 per day in April 2011 (corresponding roughly to US\$1.5, US\$2.0 and US\$2.3 per day, respectively).

The effectiveness of minimum wages in India

By definition, minimum wages can only apply to wage earners and it is worth remembering that in developing countries, wage earners often represent a minority of workers compared to the self-employed. In fact, the share of wage earners (or “paid employees”) in total employment varies widely by region and is positively correlated with economic development. According to data from the ILO’s *Key Indicators of Labour Market* (KILM), wage earners represent 86 per cent of all workers in developed economies, but this share goes down to 48 per cent at the global level and to 25 per cent or less in South Asia and in sub-Saharan Africa. What is the proportion of wage earners in India? Table 1 shows the data from the latest Employment-Unemployment survey, which covers all the major Indian states. We see that in 2009–10 there were

5. To arrive at the national minimum wage floor, the working group considered the principles laid down in the of 1957 International Labour Conference and the 1992 Supreme Court judgement. The group then used the NSS 50th Round Consumption Expenditure Survey to calculate the minimum wage.

Table 1. Employment by activity status, all India, 2009–10

		Male	Female	Total
Rural	Self-employed	53.5	55.7	54.2
	Salaried	8.5	4.4	7.3
	Casual	38.0	39.9	38.6
	Total	208426100	94059100	302485200
Urban	Self-employed	41.1	41.1	41.1
	Salaried	41.9	39.3	41.4
	Casual	17.0	19.6	17.5
	Total	79257800	18281200	97538900
Total	Self-employed	50.0	53.3	51.0
	Salaried	17.7	10.1	15.6
	Casual	32.2	36.6	33.5
	Total	287683900	112340300	400024100

Source: Computed from the Employment-Unemployment Survey, 2009–10.

about 400 million persons employed in India,⁶ 51 per cent of whom were self-employed. This leaves a total of about 196 million wage earners (mostly men), roughly two-thirds of them casual workers – many of whom were working in the rural informal economy and for whom minimum wage enforcement is particularly challenging. Urban salaried workers, the population for whom minimum wages are presumably most easily enforced, accounted for no more than 10 per cent of total employment in India.

Given the complexity of the minimum wage system, it is beyond the scope of this paper to estimate the proportion of wage earners who are legally covered by the “employment schedules” of the Minimum Wage Act. What is possible, however, is to obtain an estimate of the proportion of wage workers who are paid less than the indicative national minimum wage floor, or less than the average state-level minimum wage. These proxies for the effectiveness of minimum wages are typically larger in developed than in developing countries. In the United States, for example, a statistical analysis found that 2.6 per cent of all hourly paid workers were paid less than the minimum rate in 2008 (Bureau of Labor Statistics, 2009). Similarly, in the United Kingdom, it was found that about 1.3 per cent of all wage earners – a majority of them women – were paid below the national minimum wage (Metcalf, 2008). By contrast, in developing countries, the proportion of workers who are paid less than the minimum wage can go up to 45 per cent in Latin America (Cunningham, 2007) or even higher for some groups in Asia, such as migrant workers in China, for example.⁷

6. There has been a decline in employment over the last period. According to GoI (2011), the declining trend in labour force participation has been argued to be due to the reduction in subsidiary employment, increase in the level of income in rural areas due to the increase in real wages, and a higher level of participation in education. This decline is observed largely among self-employed women in both rural and urban areas.

7. See ILO (2010), pp. 70–71.

Table 2. Proportion of workers below minimum wage (Rs80) pay, all India

		Male	Female	Total
National minimum wage floor				
Salaried workers	Rural	17.0	49.7	23.0
	Urban	8.1	26.4	11.3
	Total	11.2	34.9	15.4
Casual workers	Rural	35.0	62.4	42.9
	Urban	19.9	59.1	27.4
	Total	32.7	62.1	40.9
State level minimum wages				
Salaried workers	Rural	24.6	58.3	30.8
	Urban	14.0	33.9	17.5
	Total	17.7	42.8	22.2
Casual workers	Rural	42.7	69.4	50.5
	Urban	28.5	66.3	35.7
	Total	40.6	69.2	48.6

Source: Computed from the Employment-Unemployment Survey, 2009–10.

What is the share of wage earners paid less than the minimum wage coverage in India, using either the national or state-level minimum wages? Our most recent computation is shown in table 2. We find that throughout India an estimated 15.4 per cent of salaried workers and 40.9 per cent of casual workers earned less than the indicative national minimum wage of Rs 80 per day, and that these figures increase to 22.2 per cent and 48.6 per cent, respectively, when we use our proxy for state-level minimum wages. Unsurprisingly, female workers and those residing in rural areas are more likely to earn below minimum wages. Overall, these figures indicate that in 2009–10 there were 61.6 million wage workers – equivalent to 33 per cent of all wage workers – who were paid less than the national minimum wage floor. These figures are slightly lower than in 2004–05, when 73 million workers (42 per cent of all wage earners) received wages below the national minimum wage floor (Belser and Rani, 2011). A higher proportion of male casual labourers were paid minimum wages in 2009–10 compared to 2004–05, but the same was not true for female workers. Though payment of the minimum wage has slightly improved the deficits still seem to be quite high. Even if it is not possible for us at this stage to determine the extent to which these high figures are due to the low coverage of “employment schedules” or to pervasive non-compliance, they nevertheless clearly point towards the difficulties in implementing an effective wage floor throughout the Indian economy.

Our next tables illustrate the extent of statutory state-level minimum wage payment for certain specific groups of workers. In table 3, we see the situation of domestic workers who at the time of the 2009–10 Employment-Unemployment Survey were covered in only two Indian states. And where they were covered, only a small proportion of them received minimum wages and most of the workers were usually underpaid. In Andhra Pradesh, for

Table 3. Domestic workers not receiving minimum wages, 2009–10 (%)

	Rural		Urban	
	Male	Female	Male	Female
Andhra Pradesh	100.0	96.9	23.3	90.2
Karnataka	0.0	85.2	1.9	64.4

Source: Computed from the Employment-Unemployment Survey, 2009–10.

Table 4. Proportion of workers in specific schedules of employment paid less than the minimum wages, 2009–10 (%)

State	Construction workers				Agricultural workers				Hospitals, nursing homes and private clinics			
	Rural		Urban		Rural		Urban		Rural		Urban	
	M	F	M	F	M	F	M	F	M	F	M	F
Himachal Pradesh	7.8	4.0	25.6	35.7	0.8	0.6	0.0	0.0				
Chandigarh	0.0	0.0	48.0	66.6	20.8		26.1				20.2	6.0
Uttaranchal	28.9	53.6	14.7	100.0	5.0	1.9	55.9	58.2	0.0		0.0	0.0
Haryana	23.7	28.0	18.9	51.9	11.6	19.3	3.8	88.3	14.7	1.9	18.6	46.6
Delhi	14.5	0.0	22.7		6.0	12.1	0.0	22.3	0.0		1.9	0.0
Rajasthan	25.0	69.1	12.0	23.6	0.1	0.0	0.0	0.0	0.0		0.0	6.0
Arunachal Pradesh	4.5	0.0	3.1	8.5	0.2	0.0	0.0	0.0				
Manipur	22.0	49.1	2.2	45.6	1.3	1.2	1.8	0.6				
Mizoram	4.1	0.0	5.6	13.5	1.7	10.9	0.0	3.3				
Meghalaya	2.6	49.8	0.0	0.0	17.1	29.5	33.3					
Orissa	28.5	40.0	12.5	26.8					67.0	17.4	12.3	34.5
Gujarat	32.9	88.3	36.9	52.3	14.0	36.9	11.6	43.1	5.1	40.7	17.5	44.6
Maharashtra	77.7	70.7	60.2	83.8	39.0	55.5	22.6	60.9	48.9	22.3	21.6	23.3
Andhra Pradesh	63.0	90.9	38.0	82.4	41.1	53.7	29.2	58.7	0.0	86.8	0.0	30.8
Karnataka	33.8	90.3	27.2	82.4	0.0	0.0	6.8					
Kerala	14.0	45.3	11.6	34.6	0.6	5.3	0.0	10.4	36.9	71.7	40.6	57.5
Andaman and Nicobar Islands	18.1	17.6	32.2	4.3	1.2	0.0						

Source: Computed from the Employment-Unemployment Survey, 2009–10.

example, more than 90 per cent of female domestic workers in both urban and rural areas were paid below the minimum wage. In Karnataka, the situation was only slightly better with 85.2 per cent and 64.4 per cent of female domestic workers being underpaid in rural and urban areas, respectively. Here it is hoped that the support of the Indian Government⁸ and social partners to the adoption of a new ILO Convention No. 189 on decent work for domestic workers will bring about in the future an improvement of the situation of this

8. The Government of India has recently set up a task force on a national policy for domestic workers to discuss the issue. See <http://labour.nic.in/dglw/FinalReportTaskForceDomesticWorkers.pdf> for more details.

particularly vulnerable group of workers. Table 4 looks at other groups of low-skilled workers who are explicitly covered by the employment schedules of the states under analysis. We can observe that non-compliance seems especially high in the states of Andhra Pradesh, Karnataka, Gujarat, and Maharashtra. Women are particularly affected. So even for certain schedules of employment where workers are to be paid minimum wages, non-compliance seems to be quite high. These tables are broadly consistent with the results of more refined data analysis which will be presented in the next section.

Who benefits from minimum wages?

The relatively weak effectiveness of minimum wages in India documented in the previous section does not mean that minimum wages have no positive effect. In fact, our earlier analysis of the data for 2004–05 (Belser and Rani, 2011) shows that being paid the minimum wage – and controlling for all personal characteristics – reduces the probability of being poor by about 10 per cent. The same analysis reveals that being paid the minimum wage is the third most important factor in reducing the poverty risk for wage earners after education and geographic location. These findings dispel the stereotype sometimes held among developed-country academics that minimum wages only benefit workers from the formal economy who live in non-poor families. In reality, in India as in other developing countries, a relatively high proportion of the poor are casual wage earners, both in rural and urban areas. Our earlier analysis for 2004–05 showed that about 30 per cent of salaried workers and 40 per cent of casual workers who earn below minimum wages live in poor families, and that among the wage earners living in poor families about 50 per cent earn less than the minimum wage. This confirms the huge potential of minimum wages to contribute to poverty reduction and indicates that making minimum wages more effective is a worthwhile challenge.

Of course, there are a number of other factors that determine the level of pay or who is able to earn minimum wage. Table 5 provides the marginal effects from a probit model⁹ for both national and state-level minimum wages for salaried and casual labour. Our analysis for 2009–10 shows that everything else held constant, there is a marginally higher probability for scheduled tribes and other backward castes to earn below minimum wage compared to upper castes (table 5). But there is a higher probability for salaried workers from scheduled castes to earn minimum wages, though these effects are

9. We employed a simple bivariate probit model for the population in the age group 15–64 years. The dependent variable in the model is “Minimum wages”, which indicates whether a worker receives minimum wages (either national minimum wage floor or statutory state-level minimum wages). The independent variables include a number of employment characteristics of each worker (age, experience, sex, education level, occupation and industry categories, and the size of the firm) and household characteristics of the worker (caste, region).

Table 5. Probit estimates of workers receiving below minimum wages, ages 15–64 years, India, 2009–10

	Salaried		Model 2	
	Model 1		Marginal effects	
Predicted outcome	0.071		0.116	
Age	-0.0135***	(0.001)	-0.018***	(0.001)
Age squared	0.0001***	(0.000)	0.0002***	(0.000)
Sex (male)				
Female	0.185***	(0.006)	0.226***	(0.007)
Living in urban areas	-0.0332***	(0.003)	-0.0548***	(0.004)
Level of education (reference group: above secondary school)				
Illiterate	0.236***	(0.013)	0.249***	(0.0131)
Literate	0.176***	(0.014)	0.173***	(0.014)
Primary school	0.165***	(0.011)	0.172***	(0.0109)
Middle school	0.105***	(0.007)	0.138***	(0.008)
Secondary school	0.0521***	(0.006)	0.0690***	(0.007)
Caste (reference group: forward castes/Hindus)				
Scheduled caste	-0.0115***	(0.082)	-0.047***	(0.005)
Scheduled tribe	0.0295***	(0.005)	0.0342***	(0.006)
Other backward caste	0.0263***	(0.003)	0.0365***	(0.004)
Union membership	-0.0545***	(0.003)	-0.089***	(0.004)
Industry categories (reference group: mining, electricity, gas and water)				
Agriculture	0.0711***	(0.016)	0.107***	(0.02)
Manufacturing	-0.0135**	(0.006)	0.0005	(0.009)
Construction	-0.0482***	(0.005)	-0.042***	(0.0101)
Low-productive services	0.0335***	(0.009)	0.101***	(0.013)
High-productive services	-0.0277***	(0.007)	-0.027***	(0.009)
Occupation categories (reference group: professionals)				
Administration	-0.0024	(0.010)	0.0206	(0.0142)
Clerical	0.0509	(0.012)	0.0850***	(0.0157)
Sales	-0.0071	(0.010)	0.0272*	(0.014)
Service	0.0397***	(0.011)	0.0769***	(0.0155)
Farmers		(0.037)	0.0207	(0.0238)
Production workers	0.0291***	(0.0102)	0.0855***	(0.0138)
Size of enterprise (reference group: large enterprises)				
Tiny				
Small				
Medium				

Notes: Text in parentheses is reference category. Figures in parentheses are standard errors.

* Denotes significance at the 10 per cent level. ** Denotes significance at the 5 per cent level.

*** Denotes significance at the 1 per cent level.

Model 1: National minimum wage floor. Model 2: State-level minimum wages.

Source: Computed from the Employment-Unemployment Survey, 2009–10.

	Casual labour			
	Model 1		Model 2	
	Marginal effects		Marginal effects	
Predicted outcome	0.303		0.393	
Age	-0.015***	(0.001)	-0.016***	(0.001)
Age squared	0.0002***	(0.000)	0.0002**	(0.000)
Sex (male)				
Female	0.0252***	(0.006)	0.260***	(0.006)
Living in urban areas	-0.0017***	(0.006)	0.0068	(0.006)
Level of education (reference group: above secondary school)				
Illiterate	0.110***	(0.0148)	0.0368**	(0.0146)
Literate	0.109***	(0.0165)	0.0304*	(0.0156)
Primary school	0.0694***	(0.0156)	0.0056	(0.0149)
Middle school	0.0464***	(0.0153)	0.0232	(0.0149)
Secondary school	0.0276*	(0.0167)	0.0076	(0.0163)
Caste (reference group: forward castes/Hindus)				
Scheduled caste	0.0818***	(0.009)	0.0072	(0.009)
Scheduled tribe	0.0153*	(0.008)	-0.013	(0.008)
Other backward caste	0.0192**	(0.008)	0.0186**	(0.008)
Union membership	-0.135***	(0.010)	-0.068***	(0.0105)
Industry categories (reference group: mining, electricity, gas and water)				
Agriculture	0.129**	(0.0164)	0.115***	(0.0168)
Manufacturing	0.0438**	(0.0184)	0.0126	(0.185)
Construction	-0.115***	(0.0154)	-0.150***	(0.016)
Low-productive services	0.0928***	(0.0217)	0.0822***	(0.022)
High-productive services	-0.0178	(0.019)	-0.021	(0.022)
Occupation categories (reference group: professionals)				
Administration	-0.0507	(0.0595)	-0.018	(0.068)
Clerical	0.0087	(0.0533)	0.0483	(0.0577)
Sales	0.024	(0.067)	0.0897	(0.0706)
Service	0.0055	(0.029)	0.148***	(0.0336)
Farmers	0.0581**	(0.028)	0.0564	(0.0349)
Production workers	-0.0234	(0.0273)	0.0620**	(0.0275)
Size of enterprise (reference group: large enterprises)				
Tiny				
Small	-0.191*	(0.108)	-0.263**	(0.121)
Medium	0.285**	(0.142)	0.211	(0.142)

reducing over time. This may be because many work in formal enterprises at the lower cadre (Class IV employees), which is to a large extent due to the reservation policy to support such groups. This becomes evident in the case of casual workers, for whom the policy does not apply and who have a higher probability to earn below minimum wages.

The risk of being paid less than the minimum wage increases for workers with no more than middle-level education – and especially for illiterate workers. Being a woman or living in a rural area also increases the chances of receiving less than the minimum wage. Strikingly, for women this difference is not just due to the differential treatment in the market for casual workers but is also evident among salaried workers, where being a woman increases the probability of not receiving the minimum wage by 19 to 23 per cent (table 5). Across industry groups, we observe that for salaried workers the probability of receiving less than the minimum wage is much higher in agriculture and low productive services sector compared to other sectors, while casual workers seem to be particularly at risk in agriculture, manufacturing and low productive services sector. In terms of occupation, clerical, service and production workers are most frequently underpaid, whether they are salaried or casual workers.

Being part of a trade union increases the probability of receiving minimum wages for both salaried and casual workers in the range of 5 to 13 per cent (table 5). The importance of trade union membership is also confirmed in our analysis of the proportion of workers with low pay (for a discussion on the definition of low pay, see Rani and Belser, forthcoming). We found that being part of a union or an association considerably reduces the probability of low pay for both salaried and casual workers. For salaried workers, the probability of low pay for otherwise similar workers falls by 25 per cent in urban areas and by 14 per cent in rural areas. These results indicate that there are large benefits for workers who can become part of trade unions or associations that defend the interests or rights of the workers.

Unfortunately, the overall collective bargaining coverage in India remains relatively limited, with an estimated 24.9 million unionized workers in 2002, representing a union density of 6.3 per cent (Ahn, 2010).¹⁰ While many of the same problems related to fragmented trade unionism in other countries in the region also apply to India (Shyam Sundar, 2010), the case of West Bengal, where an estimated 5 million workers are unionized, is perhaps interesting. One important reason for the relatively high collective bargaining coverage in West Bengal is linked to the increasing inclusion of unorganized

10. Note that these figures are likely to underestimate the true impact of union density as they are based on a Government verification process of unions who are members of the central trade union organization and thus excludes independent unions (Ahn, 2010). Data from the 2009–10 Employment-Unemployment Survey suggest that in total 10.8 per cent of workers are attached to a union or an association which defends their common interest.

sector workers into the ambit of industry-wide collective bargaining. So, for example, many small units in the sponge iron industry, cold storage enterprises, hosiery workers, have been covered as a result of Government facilitating the signing of agreements in industries hitherto uncovered by collective agreements (Sen, 2009). At the same time, there is also a perceived need for a paradigm shift in the trade union movement in India which should evolve from “political unionism” to a “services-based trade unionism” more suitable for developing industrial relations (Cunniah in Ahn, 2010).

Enforcement and the role of employment guarantee schemes

As observed earlier, although many of the working poor in India are self-employed, a substantial fraction of poor workers are also casual wage earners. There is thus an urgent need to improve the effectiveness of minimum wages in India. As already observed by others, “simply legislating a minimum wage will not make it happen” (Murgai and Ravallion, 2005, p. 2). This is also evident from tables 3 and 4 of the sectoral analysis in the earlier section which shows substantial non-compliance even for certain schedules of employment where the minimum wages are applicable.

Ensuring a high rate of compliance normally requires a coherent enforcement strategy based on provision of information, effective labour inspections and sanctions in case of violations. Lack of clear information available to employers and workers about the level of minimum wages, and about possible sanctions in case of violation, also reduces the likelihood of compliance.¹¹ Another mechanism could be greater involvement of workers’ organizations and NGOs to ensure that the implementation machinery is effective (see Labour Bureau, 2005).

But perhaps the most effective enforcement mechanism in a developing country context is coherence with the pay provided through employment guarantee schemes. Murgai and Ravallion (2005) suggest that minimum wage legislation in poor countries can only be made really effective if the government acts as the “employer of last resort” and commits to employ the entire excess supply of unskilled workers at the stipulated minimum wage rate. Indeed, from the perspective of workers, the supply of labour at a wage below the minimum depends on whether a better alternative is available. If no minimum wage jobs are available, labour will continue to be supplied at sub-minimum wages. In this section we try to assess to what extent

11. In this context, it is interesting to note that a recent evaluation study on the implementation of the Minimum Wages Act, 1948, in the stone-breaking and stone-crushing industry in Karnataka in 2007–08 found that, among employers, only 30 per cent reported awareness of the Minimum Wage Act and 27 per cent were aware of the prescribed/statutory minimum wages paid to the workers. Among workers, only 8.4 per cent stated awareness of the Minimum Wage Act and 18.5 per cent were aware of any inspection authority (GoI, 2009).

programmes such as those under the 2006 NREGS can play a key role in fostering compliance with a mandatory minimum wage. The key questions are whether NREGS can increase employment, raise wages, and reduce poverty, in the rural areas. We discuss the employment and wage issues in this section.

The NREGS which was introduced in 200 districts in 2005–06 was extended to the entire country covering 619 districts in 2009–10. The programme seeks to provide a guarantee of up to 100 days of employment per household in the rural areas. All rural households are willing to supply labour are required to register with their village council (*gram panchayats*) and are issued with a job card. After receiving the job card, a household can demand work at anytime and will be provided employment within 15 days of expressing demand, otherwise they will be compensated with a daily unemployment allowance. The employment will be provided within a 5-kilometre radius of the village where the applicant resides. Under this scheme only productive work is to be undertaken, which includes developing and maintaining community assets like community land, basic infrastructure, land improvements, water harvesting, and so on (GoI, 2008). The scheme also allows for land improvement and provision of irrigation facilities in private land belonging to lower caste and backward communities. The programme provides legal entitlement not only to work on demand but also to be paid minimum wages. Wages under NREGS were initially linked to statutory state-level minimum wages for agricultural labourers,¹² and later to the national minimum wage floor. The Act also stipulates that both men and women be paid similar wages, which is a significant policy change from earlier employment guarantee schemes. An important aspect of NREGS is that the Right to Information (RTI) and Social Audits are made an integral part of the Act, which we address later.

Data show that in 2009–10 about 52 million households in 619 districts were provided employment, with an average of 65 person days per household (see www.nrega.nic.in). Our analysis of the 2009–10 Employment-Unemployment Survey data shows that in rural areas about 37 per cent of men and 45 per cent of women possess a NREGS job card. Across the employment status categories, a comparatively higher proportion of casual labour and self-employed households are seeking such employment compared to the salaried workers. More than 70 per cent of those with job cards were able to access employment under NREGS, and of the total employment generated under the programme, the share of employment created for women was 32 per cent. About 50 per cent of the participating households belonged to the socially marginalized communities of scheduled castes (30 per cent) and scheduled tribes (18 per cent) (see table 6). The higher participation of socially marginalized communities is also reflected in field-based studies (Mehrotra, 2008; Jeyarajan, 2011; Azam, 2011).

12. As observed earlier, even though agriculture is part of the schedule of employment, a large proportion of workers are not paid the statutory state-level minimum wages.

Table 6. Beneficiaries of national rural employment guarantee scheme, rural India, 2009–10 (%)

	Self-employed	Salaried	Casual labour	Total
Having a NREGS job card				
Male	30.6	19.2	50.1	37.1
Female	40.2	22.8	54.1	45.4
Beneficiaries of NREGS work				
Male	67.1	79.0	68.2	68.1
Female	32.9	21.0	31.8	31.9
Scheduled caste	19.1	34.8	36.1	30.4
Scheduled tribes	22.3	13.8	18.7	18.4
Other backward caste	42.0	36.8	34.1	36.2
Upper caste	16.5	14.6	11.1	14.9

Source: Computed from the Employment-Unemployment Survey, 2009–10.

For many poor rural communities NREGS seems to be the lifeline in the absence of any other employment opportunities. In some states like Andhra Pradesh, the programme is said to have created jobs when there were few or no alternative work opportunities (Johnson, 2009). There is some evidence that NREGS participants are able to reinvest some of the earnings into farms, increase agricultural productivity and reduce their underemployment, especially among poor households (Saraswat, 2011). The additional employment created under this programme has reduced underemployment and increased total incomes of the households in rural areas, which is a remarkable feature of the programme. As the scheme provides an alternative source of employment, it might also lead to a reduction in the pool of workers migrating to urban areas for work and lead to a rise in wages in urban areas.

While NREGS has clearly been an effective tool to provide income security and enhance productivity of existing work opportunities, does government acting as the “employer of last resort” alone ensure effectiveness in the provision of minimum wages? Initially some of the states were evidently paying less than the statutory minimum wage, in violation of the Act (Drèze and Oldiges, 2007). One of these was Rajasthan, which was initially commended for the implementation of NREGS, especially as it propagated the right to work and information. However, NGOs raised the issue of low wages and organized protests against this blatant violation of law. Public pressure and regular monitoring of the civil society efforts ensured that the payment process was streamlined. As a result, in Rajasthan it increased the wage negotiation capacity of the workers and also seems to have increased the bargaining power of the working class in the private sector (Menon, 2008).

Some nine states in 2008–09 had NREGS average wages just below Rs 80 and all other states had higher wages (Johnson and Tannirkulam, 2009). However, in all these states NREGS wages were higher than the market wages. For example, in Chhattisgarh it was found that “before NREGS agricultural labourers or casual labourers in brick kilns worked for

Rs 25 or Rs 30 per day, but under NREGS they receive Rs 62 to 64 per day, more than double even though it is below minimum wage” (Jandu, 2010, p. 4). Even in Maharashtra the wages offered under NREGS were higher than the existing agricultural wages but they were lower than the minimum wages prescribed initially. However there is a trend towards wage increases offered under NREGS over the years. Some have argued that the low wages paid under NREGS could be due to the improper methods of measurement of productivity; lack of information to the workers about the wages rates for different kinds of work; lack of bargaining power of the workers; and fudging of muster rolls (Shah and Mohanty, 2010; Reddy et al., 2011).

What has made the functioning of NREGS efficient is that it has provided a space that allows non-governmental local groups to be participants in the implementation and outreach work and not just watchdogs (Sudarshan, Bhattacharya and Fernandez, 2010). The point here is that the government alone cannot ensure that minimum wages are being paid to all. The role of civil society is very important to ensure that the rights of the workers are met. Social audits¹³ in particular have played a very important role in ensuring that wages were paid for the work done. Article 17(2) of the NREGA says that “the *gram sabha* shall conduct regular social audits for all projects under the scheme taken up within the *gram panchayat*”. Even the Central Operational Guidelines issued by the Union Ministry of Rural Development clearly mention continuous social audit as well as monthly social audit through the *gram sabha*.

The concept of social audit is a powerful tool for ensuring transparency and accountability and the various civil society groups – activists, academics and policy-makers – are able to use this tool effectively to ensure social justice for the workers (Burra, 2008; Lakha, 2011). For example in Andhra Pradesh, “volunteers, officials, civil society activists and journalists from across the country inspected the villages and went from work-site to work-site looking at muster rolls and asking wage-seekers whether they had been given work on demand, whether equal wages for equal work had been paid to men and women” (Burra, 2008, p. 6). In many of the villages “village social auditors” belonging to employment-seeking households were identified and trained by NGOs to ensure that work was done according to rules and full payment of wages was made. Social audits and public hearings played an important role in reducing corruption and ensuring enforcement of minimum wages in many of the NREGS districts in Andhra Pradesh (Burra, 2008). There is no doubt a need for partnership between civil society and state to make social audits effective, and this has proved so in states like Rajasthan, Chhattisgarh, Jharkhand and Tamil Nadu in ensuring rightful payment of wages.

13. “Social audits involve, for example, checking the number of works completed; the quality of works undertaken; examining the expenses incurred on projects; ensuring that appropriate facilities are offered at worksites; and making sure that the payment of wages corresponds to attendance of work by the labourers” (Afridi, 2008 cited in Lakha, 2011).

Table 7. Mechanisms of wage payment under NREGS, all India, 2009–10 (%)

	Scheduled tribe	Scheduled caste	Other backward castes	Upper caste	Total
Directly into post office account	34.5	30.7	38.5	37.9	35.3
Directly into bank account	35.5	40.1	33.3	36.3	36.2
In a <i>gram sabha</i> meeting	6.6	6.3	3.9	5.3	5.3
By the field assistant	11.0	12.4	13.9	12.0	12.6
By an SHG member	0.7	0.4	0.3	0.7	0.5
Through a smartcard	1.2	0.1	0.3	0.2	0.4
Not yet paid	4.5	3.5	4.2	3.7	4.0
Others	6.0	6.5	5.6	3.9	5.7

Source: Computed from the Employment-Unemployment Survey, 2009–10.

Using the 2007–08 Employment-Unemployment Survey of India, Azam (2011) finds that NREGS has made a difference in terms of wages for male and female casual workers. Using the difference-in-difference estimates he finds that overall casual workers in NREGS districts experience a 5 per cent increase in real wages compared to non-NREGS districts. These effects are found to be much more pronounced for females (8.3 per cent) compared to males (3.8 per cent). The socially backward communities (SC and ST) also experience a larger increase in wages in NREGS districts. Banerjee (2011) also notes that wage rates have been enhanced by 17 to 30 per cent over the past few years in the rural areas.

A number of evaluations have pointed out that in many states there have been delays in the payment of wages (ISWSD, 2007; Drèze and Khera, 2009; Dey and Bedi, 2010). To infuse transparency in wage payments and so as to separate payments agencies from placement agencies, the Government of India decided that wages are to be paid through the workers' accounts in banks or post-offices.¹⁴ This system was introduced in September 2008. An analysis of the mechanisms of wage payments under NREGS based on 2009–10 Employment-Unemployment Survey data shows that about 70 per cent of the wage payments have been made directly into bank accounts or post office accounts; the proportions are similar across castes (table 7). The extent of wage payments through field assistants, which was one of the sources for leakages, fell to 12.6 per cent. Through this mechanism the programme has been quite successful in developing a link between financial institutions and the previously financially excluded poor population.

What has been the impact of NREGS on the wages in rural areas? The average wage paid to workers under NREGS has been systematically raised over the years, from Rs 65 in 2005–06 to Rs 93 in 2009–10, adjusting for the cost of living. There is enough evidence to suggest that in many rural areas where NREGS has been operational, it has helped to raise the agricultural wage rates (Mehrotra, 2008; Drèze and Khera, 2009; Banerjee, 2011). In Tamil

14. There is also an effort towards making biometric payments in the future.

Nadu, NREGS wages were higher than the market wage rate and in many of the villages it was observed that workers “demanded to be paid on par with NREGS wages to be enticed back into agriculture”, which led to a doubling of wages (Jeyarajan, 2011, p. 68). In many of the villages there was a cascading effect of NREGS in terms of increased agriculture wages, which resulted in a doubling of wage income for women in agriculture, in addition to the wage income from NREGS (Jeyarajan, 2011; Dasgupta and Sudarshan, 2011). Actually this brings out the issue of empowerment too as NREGS has allowed workers to fight for their rights. The improvement in wages has also led to an increase in consumption of both food and non-food consumables in some states like Andhra Pradesh (Ravi and Engler, 2009; Liu and Deininger, 2010).

NREGSs intervention in the rural labour market has also created labour shortages and raised wages paid by farmers to agricultural labourers (Roy, 2010). In Kerala, NREGS work exacerbated agriculture labour shortages, and this had an added effect on pushing up wages in the agricultural sector, moving slowly towards the NREGS wage rate (Nair, Sreedharan and Anoopkumar, 2009). In Kerala the wage rate for women in agricultural work increased from Rs 80 to Rs 110. The scheme was successful enough in raising the level of employment and income of the rural households, thereby enhancing their purchasing power. The NREGS income has been a substantial supplement to other sources of irregular earnings. Sudarshan, Bhattacharya and Fernandez (2010) also find that NREGS has led to an upward movement of female unskilled wages. The shortage of female workers for agricultural work has also led to an increase in wages in the rubber and coconut plantations.

A major contribution of this programme for the poor and the weaker sections of the society has been the governance system – transparency and accountability – which has made for its efficient functioning (Menon, 2008; Sudarshan, Bhattacharya and Fernandez, 2010). In addition, with payment of better wages under the programme, the bargaining power of the poor or the weakest has gone up. However, some have argued that the rise in wages is not just due to “collective bargaining in certain pockets of the country” but also to the fact that the Central Government pays the wage bill and therefore “state governments have an incentive to raise the minimum wages” (Banerjee, 2011, p. 18). Roy and Dey (2009) argue that the programme actually shows how “the Right to Information (RTI) Act can be woven into the fabric of the delivery system and the whole legal and governance and legal paradigm”.

Conclusion

In India, the Minimum Wages Act of 1948 is of great importance, particularly to the unorganized casual workers who account for two-thirds of all wage earners and a total number of 133 million workers, a majority of whom are males. In this paper we show that about 33 per cent of the wage

workers – that is, 61.6 million wage workers – were paid less than the national minimum wage floor. Our analysis for certain sectors – domestic work, construction, agricultural workers and hospital, nursing homes and private clinics – clearly brings out that the effectiveness of the minimum wage coverage is mixed. In none of the states is there full compliance, and non-compliance seems to be particularly high in the states of Andhra Pradesh, Karnataka, Gujarat and Maharashtra, all of which are highly developed and industrialized states. So enforcement seems to be a major issue even for sectors which are covered under the schedules of employment.

Yet there has been a slight improvement in the situation compared to 2004–05, when we found that 73 million wage workers – equivalent to 42 per cent of wage workers – were paid below the national wage floor (Belser and Rani, 2011). What explains this improvement? Even though the reasons for the improvement are not completely obvious and straightforward, we attempted in this paper to look at what role NREGS might have played in improving enforcement of minimum wages. There is no doubt that the impacts and achievements of NREGS have varied across the different states, largely depending on the commitment of the local leadership at the village council level, the level of institutional preparedness and governance capacities (Reddy et al., 2010). Nonetheless, it seems probable that NREGS – despite having some teething problems – has been able to provide wages at the minimum wage level or at least above the prevailing market wage rate. This has benefited a large proportion of casual workers in the rural areas. Here the role of civil society – activists, academics, media, and policy-makers – has been essential in ensuring effective implementation of the programme, and social justice for the workers through the governance system. The role of social audits in particular has been very important to ensure that wages were paid for the work done.

In a number of states, the higher NREGS wages have also clearly led to higher market wages – especially for agricultural workers – through two different but related mechanisms. First, NREGS has indirectly empowered workers to fight for their rights and provided a space for collective bargaining, especially among the unorganized workers. Banerjee argues that NREGS has managed to improve agricultural wages by “providing labour a basis to ask for higher wages” (Banerjee, 2011, p. 18). Second, by attracting a number of low-paid workers into the programme, NREGS led to a shortage of labour for regular agricultural work in some places. This has allowed workers to demand better wages for agricultural work, which clearly resulted in improving their incomes.

However, the road towards full compliance with the minimum wage is still a long one and changes will take time. While there are deficiencies in some NREGS entitlements and a number of institutional improvements need to be made, the programme is clearly a step in the right direction. This is crucial not only for ensuring better wages but also to tackle poverty. At the same

time, NREGS alone will not be enough. There is no doubt that to ensure a high rate of minimum wage compliance throughout the country there is a need for a coherent enforcement strategy based on provision of information, effective labour inspections and sanctions in case of violations. Also, as long as the national minimum wage floor remains indicative and non-binding on all states, it will remain difficult to enforce for those who are not covered by state-level legislation. In addition, one needs to keep in mind that when casual workers are involved in different types of work, it is possible for them to receive minimum wages on certain days when they work for NREGS but not on the other days. This might on an average bring them below the minimum wage threshold. One important lesson learned from NREGS, though, is the crucial role of civil society in ensuring compliance with laws and regulations. This suggests that greater involvement of civil society in ensuring compliance with the Minimum Wages Act beyond NREGS might also help to further raise the overall effectiveness of minimum wages in India.

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