MGNREGS Spending Cap: Centre's Rationale and the Legal Backlash

June 16, 2025 • vajiramandravi.com

MGNREGS Spending Cap Latest News

- The Union Finance Ministry has, for the first time, capped MGNREGS spending at 60% of its annual budget for the first half of FY 2025-26.
- Previously exempt due to its demand-driven nature, the scheme has now been brought under the Monthly/Quarterly Expenditure Plan (MEP/QEP), a spending control mechanism introduced in 2017.
    - MEP/QEP is a financial tool used by government ministries and departments to track and manage their spending against allocated budgets.
    - It helps in forecasting cash flow, monitoring expenditure, and ensuring that spending aligns with budgetary provisions.

Finance Ministry's Rationale Behind MGNREGS Spending Cap

- **Chronic Budget Overruns**

- Historically, over 70% of the MGNREGS budget gets exhausted by September, prompting supplementary allocations in December, which are usually depleted by January.

- **Mounting Pending Dues**
  - In the past five years, year-end pending dues have ranged between ₹15,000 crore and ₹25,000 crore.
  - On average, 20% of the next year’s budget goes toward clearing these dues.
- **Objective of the Spending Cap**
  - The Finance Ministry aims to regulate cash flow through the MEP/QEP mechanism to prevent early exhaustion of funds and avoid mid-year supplementary allocations.
- **Current Financial Snapshot (FY 2025-26)**
  - Budget: ₹86,000 crore
  - Released so far: 28%
  - Pending dues from FY 25: ₹19,200 crore
  - Pending dues from FY 26 (as on June 12): ₹3,262 crore
  - Nearly 50% of the budget may go toward clearing past dues alone.

Key Issues with MGNREGS Spending Cap

- **Fluctuating Rural Work Demand Ignored**
  - MGNREGS demand varies due to agricultural cycles and weather. Work peaks in April–June and post-Kharif in September.
  - However, climate anomalies—like delayed rains or droughts—can increase demand unpredictably.
  - Example: In 2023, low rainfall caused a 20% spike in demand in July–August.
    - Karnataka spent over 70% of its budget within six months due to severe drought.
  - The fixed expenditure cap fails to account for such contingencies, undermining the scheme’s role as a rural safety net.
- **Legal Concerns over Statutory Rights**
  - MGNREGS is not a discretionary welfare scheme; it is backed by law (**MGNREG Act, 2005**) and guarantees employment as a legal right.
  - Unlike schemes such as PM-KISAN, which can be altered by governments, rights-based programmes limit executive discretion.
  - Capping expenditure limits the state’s ability to honour a legal guarantee of work on demand, violating the core mandate of the Act.
- **Constitutional and Judicial Safeguards**
  - Courts have consistently held that financial constraints cannot be used to justify non-fulfilment of statutory or constitutional obligations.
- **Key judgments**
  - Swaraj Abhiyan v Union of India (2016)
  - Municipal Council, Ratlam v Vardhichand (1980)

    - Paschim Banga Khet Mazdoor Samity v State of W.B. (1996)
    - These rulings reinforce the principle that the government cannot evade its duties—especially in welfare laws—on the grounds of budgetary limitations.

Lack of Clarity and Legal Risks in MGNREGS Spending Cap

- **No Clarity Post-Spending Cap**
    - The government has not specified what will happen once the 60% ceiling is reached. This creates two problematic possibilities:
        - States may deny employment despite genuine demand.
        - Workers may continue working but face indefinite wage delays.
        - Both scenarios risk violating statutory provisions of the MGNREG Act.
- **Violation of Legal Entitlements**
    - The cap risks breaching key rights under the law:
        - Section 3: Right to employment within 15 days of demand.
        - Schedule II, Para 29: Right to receive wages within 15 days of work completion.
- **Ongoing Issues Already Exist**
    - Wage delays, non-payment of unemployment allowance, and inadequate compensation for delays are already common in MGNREGS.
    - The Supreme Court has noted these systemic failures.
    - The spending cap may worsen these problems rather than resolve them.
- **Undermining the Act's Purpose**
    - While aiming to manage fiscal pressure, the Finance Ministry's move weakens the core intent of the MGNREG Act — to provide timely, legally guaranteed employment and payment during rural distress.

Source: IE | ET
