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Kundu, AMIT

Department of Economics, Jadavpur University, Kolkata, West
Bengal, India

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An Evaluation of Financial Inclusion through Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP)

AMIT KUNDU*

**Associate Professor, Department of Economics, Jadavpur University
Kolkata, West Bengal, India, Pin-700032
E-mail: akundu1970@gmail.com, akundu29@gmail.com
Phone No. 9830505312**

- Dr. Amit Kundu is now Associate Professor in the Department of Economics, Jadavpur University, Kolkata, West Bengal, India. His research experience is 19 years (from 1994 to till date). His area of research interest is development economics and has already published 45 papers (both theoretical and empirical) in different National and International Journals. He is also one of the Editorial Board members in two National Journals.

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Abstract:

The government of India had initiated bank payments of wages under Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP). This initiative is undoubtedly a big financial inclusion drive particularly among the rural poor of India. This paper has tried to evaluate this financial inclusion drive through MGNREGP in Mandir Bazar block of South 24 Parganas district of West Bengal on the basis of field survey. The picture came out from field research is very encouraging. It is established that a large section of rural poor now have a bank account which they can operate individually without taking much assistance from local panchayat officials or bank officials or any middleman. It is also identified that the women job card holders of the households are deprived to become literate about banking services. This initiative of the government also encourages few participating households to initiate some savings of their wage income.

Key words: Mahatma Gandhi National Rural Employment Guarantee Programme, Wage Payment System, Financial Inclusion, Savings.

JEL Classifications: G28, J33, J38, R28.

Introduction:

‘Financial inclusion’ is participation of the vast section of low income-group households in banking services at affordable cost. As banking services are in the nature of public good, it is essential that availability of banking and payment services for the entire population without discrimination should be a prime obligation at any public policy. Most poor people in the world lack access to sustainable financial services, whether it is savings or credit. The United Nations defines financial inclusion as to get access in a safe financial institution governed by some regulations at low cost at which all the poor households can get full range of financial services’, including savings or deposit services, payment and transfer services.

Government of India had initiated Mahatma Gandhi National Rural Employment Guarantee Programme (MGNREGP) in 2005. The basic objective of this programme is to provide 100 person-days of guaranteed wage employment to every rural household, whose adult members seek unskilled manual work at government decided piece rate. The success of MGNREGP

depends on whether the participants of this programme are getting their entire earned wage income without facing many hazards. So the government of India has shifted from Cash payment of wages to bank payments under MGNREGP. Now payment of wage is mandatorily done through the individual/joint bank/post office beneficiary account. This has been initiated to give the participating labourers total control over wages.

Before the introduction of this system, MGNREGP wage was paid through cash on the basis of the entries in master roll (the attendance sheet). 'Muster roll' was generally prepared in every week and it records total number of man-days a laborer worked and his (her) wages due. After submission of 'muster roll' in the block office, funds in terms of total wage bill were transferred to 'gram panchayat' account. Money was then withdrawn by panchayat to make direct cash transfer to the labourers. In that system, the local panchayat used to control the entire payment procedure i.e. from preparation of 'muster roll' to giving money to the labourers. That might make mismanagement of funds easier because there was a possibility that the money from fake muster roll entries made by a corrupt official could come into his own hands¹. It was expected that by paying workers directly through the bank account, the mismanagement of funds can be minimized and more transparency can be brought in Record-keeping, as banks generally maintain fairly good records. Another most important aspect of this payment system is to make the workers familiar with the organized banking sector which can also help them to generate savings habit. Adikari and Bhatia (2010) had mentioned that the system of bank payment might not give proper protection against corruption particularly when most of the MGNREGP workers are expected to be illiterate and not to be at all familiar with the banking system. According to them, the new system is far from fool proof. It also raised doubt on emergence of manipulation of the savings accounts of the beneficiary by the third person just asking them to give sign or thumb impression in the withdrawal slip or extorting money from workers after they withdraw money from the bank. So evaluation of this new payment system in MGNREGP is required which is still not yet been done. The basic objective of this paper is to evaluate whether this payment strategy is effective to enhance financial inclusion among the MGNREGP participants and whether the participants can utilize the benefit of this financial inclusion efficiently. To evaluate this financial inclusion, we have to depend on field survey.

¹ No proper study was done on this type of 'wage payment corruption'. But it is obvious that the possibility of 'wage corruption' in this payment system was very high.

Field Survey method:

In our field investigation, Mandir Bazar Block of South 24 Parganas district of West Bengal, India was chosen which itself is an economically backward district. From that Block, three gram panchayats, Krishnapur, Anchona and Gabberia were chosen randomly. We know that under each gram panchayat, there are certain numbers of gram sangshads or villages. In Krishnapur Block, the chosen villages are Kelerampur, Krishnapur, Dophahat and Kashipur, in Anchona gram panchayat, the chosen villages are Bidyadharpur, Anchona and Tetulberia and in Gabberia gram panchayat, the chosen gram sangshads are Uttar Gabberia, Dakhin Gabberia, Raghunathpur, Madhusudanpur, Tejpur, Srinagar and Bhagabatipur. Now from official website of MGNREGP, the households from the entire above mentioned gram sangshads who got work through MGNREGP in the financial year 2011-12 were initially identified. The sample households were chosen randomly from the above list. It should also be noted that most of our sample households own job card from the financial year 2010-11. But in that financial year most of them have failed to secure more than 20 man-days of employment under MGNREGP. This employment policy was expanded in the survey regions in the financial year 2011-12. So my concern time period was in the financial year 2011-12. It was a micro level survey where the sample size was only 264. The field survey was done between June 2012 to September 2012. There was heterogeneity among the households during the time of securing job through MGNREGP in the same block. As MGNREGP is offered household wise, household as unit was considered during the time of this field investigation.

Socio-Economic Status of the Sample households:

Planners consider MGNREGP as a new life line for the poor and marginalized communities such as the Scheduled Castes (SCs) and Scheduled Tribes (STs) of the rural population (Ministry of Rural Development, Government of India, 2012). This employment generation program confers a universal right to work and it is not intended to focus exclusively on the poor. Actually participation of the non-poor in the MGNREGP is not a problem as all the rural households are legally entitled to work through this program. Liu and Barrett (2013) had shown that in the presence of self-selection mechanism, mainly the poorer and SC/ST households want to work through MGNREGP but the administered rationing of MGNREGP jobs is not pro-poor rather exhibits a sort of middle-class bias mainly among the households who are just below or above

the poverty line. But in our survey regions no such ‘administered rationing’ in MGNREGP job was observed. The drawn sample shows that MGNREGP is able to reach to the SCs communities in our survey region. Table-1 indicates the claim.

Table-1 : Profile of the Sample Households:

General	154 (58%)
SC	110 (42%)
Total	264 (100%)

Source: Data collected through field survey.

The Table-1 shows that out of total 264 households near about 58% belongs to general category and remaining 42% belongs to SC category. Due to lack of presence of the households belongs to Scheduled Tribe category in the survey area; total absence of this category is observed.

To investigate the ‘targeting efficiency’ of this program, the economic back ground of the participating rural households in the survey region should be considered. The rural development department of the Government of India formulated a set of guidelines for identifying BPL households for the purpose of eligibility under various poverty alleviation programs including public distribution system. There are 13 different indicators. The state government during the time of determining poverty has to follow the indicators and to adopt a score based ranking methodology. Each family is to be classified in a scale for 1 to 5 based on actual states. Since the household’s overall status is determined on the basis of total score, if it is observed that the score is below 33 then we can identify that household as Below Poverty Line (BPL) household. Table-2 shows the economic status of the sample households

Table-2: Economic Status of the Sample Households:

BPL	247 (93.5%)
APL	17 (6.5%)
Total	264 (100%)

Source: Data collected on the basis of primary survey

The above table shows 93.5% of the sample households come from Below Poverty Line (BPL) category. The above table establishes two facts:

- (i) Economic near- homogeneity of the sample households
- (ii) MGNREGP program is able to reach among the poorer section of the rural household in our study regions.

In rural society, ownership of land always plays an important role during the time of identifying the economic solvency of a rural household. Jha, Bhattachartya, Ghaia and Sankar(2009), on the basis of their village level data of Rajasthan and Andhra Pradesh had shown that size of land holdings is a negative predictor of participation on MGNREGP. Our field survey also supports the same observation which is presented in Table- 3.

Table-3: Land ownership of the Sample households:

	Households
No	243 (92%)
Yes	21 (8%)
Total	264 (100%)

Source: Information collected through field survey

Table-3 shows that most of the sample households are landless. They are either farm or non-farm labour households. Very few own land and all of them are marginal farmers.

Next, we want to focus on the income status of the sample households. Table-4 can clearly explain the monthly income status of the sample households² where average monthly income³ of the sample households is here considered.

Table-4 Average Monthly Income of the Sample Households:

MINCOME(Rs.)	Number of Households
< 1500	1 (0.3%)
1501 – 3000	56 (21.3%)
3001– 4500	103 (39%)
4501– 6000	78 (29.6%)
6000 – 6500	26 (9.8%)
Total	264 (100%)

² In most of the households total adult equivalent members never crossed 5

³ The earning member(s) of each household was/were requested to give details of their sources of earnings from different sources mainly as farm and non-farm labourer considering last 365 days as reference period. For a marginal farmer household, his net earnings from cultivation were considered. The annual income of a sample household is the addition of all sources of income. Dividing that by 12, one can get the figure of average monthly income of that household.

Source: Calculated by author on the basis of information collected through field survey.

So from the above tables it is observed that financial condition of the sample households is heterogeneous in nature. But none of them are economically affluent. It is obvious because income sources of most of the sample households are from different types of unskilled work in the unorganized sector either in the rural area or in the nearby urban area in which the wage rate is not generally low.

Education is necessary to become literate in banking services i.e. to learn about how bank works. Actually some basic level of education can help a person to utilize the benefit of financial inclusion properly without taking much help from the outsiders. Table-5 shows the education level of the head of the participating sample households of MGNREGP. In most of the sample households this 'head' is a male member.

Table-5 : Education level of the head (male/female) of the sample households whose name should also be present in the job card of that household:

Level of Education:	Number
Illiterate	12 (4.6%)
Can write his/her name (can sign his/her name)	131 (49.6%)
Up to primary level (up to class IV)	83 (31.4%)
More than primary level	38 (14.4%)
Total	264 (100%)

Source: Calculated by author on the basis of information collected through field survey

Hence from Table-5 we can say that problem of illiteracy is not so prominent among our sample households. Rather, a large percentage of MGNREGP participants can at least sign his name during the time of opening and operating their bank accounts.

So, Table-1 to Table-5 indicates that MGNREGP is playing a significant role in our study region to include mostly the economically and socially backward rural households.

Evaluation of Financial Inclusion:

The main problem generally faced by the rural poor of India is lack of access to the formal financial system, lack of perception about the financial system, and lack of information about

different products and services of the financial system. Financial inclusion can provide all the necessary financial information to this neglected part of the society. In India, the level of financial literacy among the rural poor is very low. One aspect of MGNREGP which is not yet properly studied is ‘financial inclusion’. Table-6 shows that the payment system of MGNREGP wage through commercial bank can play an important role to include large section of the rural poor in a banking network.

Table- 6: Holding of Bank Account: (Before & after joining MGNREGP)

	Yes	No	Total
Before joining MGNREGP	11 (4%)	253 (96%)	264 (100%)
After joining MGNREGP	264 (100%)	00	264 (100%)

Source: Information collected through field survey

According to Table-6, before joining MGNREGP, 96% of the sample households did not hold any bank account⁴. But after joining in this employment programme, all the households have got their own bank account. This is an interesting aspect of India’s MGNREGP which indicates that it has improved outreach to poor people living in rural areas through the introduction of government to person wage payment using a bank account. In the survey regions, the savings accounts were opened systematically by gram panchayat and bank officials. Most of the times, gram panchayat officials accompanied the new job card holders at the time of opening this ‘zero balance’ savings bank account. The account for each household is a joint account which includes the name of the household members mentioned in the job card not solely in the name of the male head job card holder of the family. It came out from our field investigation that only 2 sample households were unaware about the opening of their bank account. Table-7 reflects this fact. The table shows that, in almost all situations, the male heads of the households are at least aware about details of their bank account under MGNREGP. The female members in most of the situations are not properly aware about their savings bank account though it is not hard for them to collect and keep their own wages. It is also observed that still now, the male head member of

⁴ In the Krishnapur gram panchayat, all the MGNREGP participants had to open savings account at nearby United Bank of India, and MGNREGP participants of Achonna gram panchayat and Gabberia grampanchayat had to open their savings bank account at local Central Bank branch and Allahabad Bank respectively.

the rural households mainly controls the entire financial activities of his family. Actually in our survey area, the female job card holders of the sample households fail to improve their ‘empowerment’ level i.e. still now their intra-household decision making power is low.

Table- 7: Information about their bank account of MGNREGP:

Male		Female		Total
Yes	No	Yes	No	
262	2	13	259	264

Source: Information collected through field survey

It is true that most of the banks in the rural areas are scattered and as a consequences, workers have to travel a lot to collect their wages which may increase their time span of getting MGNREGP wage payment. But in our survey regions, all the sample households live within 5 km. from bank and all of them expressed their preference for bank payment over cash payment though most of them (90% of the sample households) have little idea about the loopholes of the previous direct cash payment procedure because before 2008, no sample households in our survey area had any opportunity to participate in the MGNREGP programme and got wage directly through cash transfer system⁵. Workers due to lack of proper literacy, generally cannot operate their own account. Filling withdrawal slip is also a problem for their illiterate beneficiaries. But in our survey area that was not an acute problem⁶. The workers reported that most of the times, the bank officials helped them to fill the withdrawal slip (which can be filled in Bengali, the native language of the workers) and also help them to withdraw the necessary amount. This ensures transparency in wage payment and prevents misappropriation of MGNREGP wage funds. Table-8 shows that out of the total 264 sample households, 256 households are operating their own bank account without taking help from any outside members or middle men. Most of the situations that was done by the male members of the household and only very few situations, the female job card holders of the sample household had to go to bank to draw the MGNREGP wage on behalf of her family.

It was mentioned by Adhikari and Bhatia (2010) that bank payment system might bring uncertainty for the labourers as they may not know when the wages are credited into their

⁵ Most of the MGNREGP workers are also using bank account for the first time.

⁶ There was no proper existence of any middleman who collects workers and escorts them to the bank to collect wages.

accounts. It was also thought that this payment system would increase the delay of wage payment. But that is not happening here. Local panchayat members or officials usually inform them when their wages are credited and the beneficiaries can withdraw their wage within 10 days after completion of task though all of them want to get that more quickly. Even no beneficiary has complained about ‘percentage cut’ (when different government officials and elected representatives share a percentage of the labourer’s wages) during the time of withdrawing the wage bill.

Table – 8: Involvement of the households during the time of withdrawing MGNREGP wage from bank.

Withdrawing wage by the Male head member	Withdrawing wage by the Female or any other family member	Taking help of an Outsider/Middle man	Total
249 (94.32%)	7 (2.65%)	8 (3.03%)	264 (100%)

Source: Information collected through field survey

Table-8 shows that near about 97% of the sample households are drawing their own MGNREGP wage from bank. It is also observed that mainly the male head members of the family are doing this banking activity. This is another positive side of financial inclusion drive of this MGNREGP. Only 8 out of the total sample 264 households had to depend on outsiders or ‘middlemen’ during the time of withdrawing their MGNREGP wage from bank. The possible causes behind that are mentioned in Table-9. The table shows that out of only 8 households, 6 households had expressed their inability to draw their wage income individually. So they had to depend on an outsider (who does not belong to his family) to do that. That individual after taking the thumb impression of the account holder in the withdrawal slip of the bank collects wage on behalf of the member household. So still some awareness drive is required for the MGNREGP workers so that they can able to operate their own account without being exploited. For the remaining two households, the head male member said that he is not interested to go to collect wage individually because to do that, he may lose one man day work. It is also revealed that in all the situations they have to remunerate the outsiders (Table- 10), though the amount is very small and within Rs.30. So we can say, still now some awareness drive is required for the MGNREGP workers so that they can able to operate their own account without depending on outsiders.

Table-9 : Causes behind dependence on an outsider at the time of withdrawing MGNREGP wage from bank.

Causes	Number of households
Cannot draw money from bank	6
Time taking	0
Have to lose one man-day wage	2
Total	8

Source: Information collected through field survey

Table-10 : Amount spent when outsider brings MGNREGP Wage from bank

Amount spent in Rs	Number of households
Less than Rs 20	6
From Rs 20 to Rs 30	2

Source: Information collected through field survey

On the basis of the above tables (Table-6 to Table-10) one can observe the emergence of a positive picture, whereby majority of the workers want to bank on their own and have become familiar with the banking system. Even their passbooks are updated at the time of drawing wages.

The move of separating the implementation and payment agencies can counter corruption such as siphoning of funds. But some new type of embezzlement can be emerged i.e. one type of exploitation may arise when the genuine workers withdraw their wage individually but are forced to handover part of the money to any panchayat representative on a pre-decided deal. We know that it is difficult to counter this type of embezzlement. But in our survey region no such type of corruption was reported by the beneficiary households. Actually in our survey region, banks are working quite well and this is ensured because of the honesty of the banking staffs and political will. The participating households can spend their entire wage income according to their will. Table-11 shows different heads under which the MGNREGP wage income is spent by the benefitted households.

Table-11: Utilization of MGNREGP wage:

Expenditure under Different Heads	Number of Households out of total 264 sample households
For purchasing foods	95 (36%)
For education of the children	201 (76%)
For health purposes	56 (21%)
For entertainment purposes	42 (16%)
For repaying old debts	96 (36%)
For purchasing household items	260 (98%)
Savings	104 (39%)

Source: Information collected through field survey

The lower income households have been always living in a vulnerable situation mainly because of the absence of savings. Their financial inclusion can play an important role to inculcate their habit to save. If we look at the spending pattern of the wage earned under MGNREGP, it is observed from Table-11 that 98% of the sample respondents spent the wage income earned through doing job under MGNREGP mainly for household expenses, education for the children (76%) and repaying old debt (36%). As the wages are paid through bank accounts, the habit of thrift has been developed among the participating households. So it is observed that 39% of the sample households have kept their MGNREGP income for savings purposes in their bank and average monthly savings of the respondent households range from Rs.50 to Rs.100. If we look at the values of their savings propensity i.e. average monthly savings kept in the bank as a percentage of average monthly income, the value is very low and around .03⁷. Still now a large section of the sample households used to withdraw their entire wage income from bank as soon as they learnt that their accounts had been credited. It is also came out from the field survey that the households who secured more than 50 annual days of employment in the financial year 2011-12 could save some portion of their MGNREGP wage income.

So it is observed that MGNREGP now not only help the poor rural households to become familiar with the banking service but also encourage them to save some fraction of their wage income. Some beneficiary households now gradually become habituated to keep some amount of their earned income for savings purposes in the commercial bank in which their hard earned

⁷ Before joining this programme, the value of the savings propensity of the most of the sample households was zero.

money will be kept with full security. This is another success of financial inclusion through MGNREGP.

Conclusions:

Over a period of time, various methods have been taken to enhance financial inclusion among the most vulnerable groups of people living mainly in the rural areas. Reserve Bank of India has also taken the initiative to educate the rural unbanked people about various financial products of the formal financial sector. The new payment system of MGNREGP has increased the financial literacy among the vast section of rural participating households, most of whom are poor. The opening of bank account has brought the poor into organized financial sector. So the introduction of new payment system of this programme can be considered the largest financial inclusion drive in rural India in recent times. This policy ensures transparency in wage payments and prevents misappropriations of funds. So 'wage corruption' can be minimized. When wages are paid through bank/post office account, the possible way through which a corrupt official can get a share is only through 'extortion'. In our field survey area that did not happen. Thanks are also due to the corruption free local panchayat officials without whose assistance the success of this programme can not be realized. Most of the beneficiaries had welcomed this move. Lack of financial literacy in banking services is a common problem in our rural society particularly among the rural poor. But the beneficiary households reported that due to this policy they can now have their own bank account which was not before participating in MGNREGP. As the survey areas are not remote and the disbursing Commercial bank locates within 5 Km., so there is no hardship faced by the participants during the time of withdrawing their wage bill. Most of the times they are managing their own bank account. Another positive aspect of this financial inclusion is a section of the participating households have started to keep some fraction of their wage income as savings whose importance in this world's largest financial inclusion scheme cannot be ignored.

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