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## FINANCIAL INCLUSION OF THE EMPLOYEES OF MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (MGNREGS) IN THE ROAD MAP VILLAGES OF KANNUR DISTRICT

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**Abstract:** Even though financial inclusion is started in India in the year 2005, the initiatives taken place from 1969 onwards through the nationalization of fourteen major commercial Banks. However, a sizeable section of the population, particularly the vulnerable groups, such as weaker sections and low income groups, continue to remain excluded from even the most basic opportunities and services provided by the financial sector. Financial Inclusion should not be seen as a social responsibility of the Governments and the banking system, but it is a potentially viable business proposition today which provides the poor with opportunities to build savings make investments and get credit.

**Keywords:** Financial inclusion, MGNREGS, beneficiaries, asset creation, income generation and employment generation

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**Introduction:** MGNREGA stands for Mahatma Gandhi National Rural Employment Guarantee Act. The Act is an Indian job guarantee scheme, enacted by legislation on 25<sup>th</sup> August 2005. The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work at the statutory minimum wage of 120 rupees per day in 2009 prices. The Central government outlay for the scheme is 40,000 crore rupees (US\$8.8 billion) in Financial Year 2010–11. This act was introduced with an aim of improving the purchasing power of the rural people, primarily semi or un-skilled work to people living in rural India, whether or not they are below the poverty line. Around one-third of the stipulated work force is women. The law was initially called the National Rural Employment Guarantee Act (NREGA).

Kerala stands unique among other states of the country in the human development index for the last few decades. State Level Bankers Committee identified 120 unbanked villages in Kerala. Unbanked villages are those villages having population more than 2000, and in that area there is no formal Bank. Out of fourteen Districts of Kerala, Kannur District occupies seventh Rank in the Human Development Index. Therefore, the present study focusing on the financial inclusion of the employees of Mahatma Gandhi National Rural Employment Guarantee Scheme in the Kannur district of Kerala

**Significance of the study:** Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) opens platform for the financial inclusion programme by making their payments through banks. According to the RBI guidelines, banks in India should implement financial inclusion policy to enter vulnerable groups, by providing

adequate financial services as well as through mobilizing their small savings. Thus, there is a need for a better understanding of the micro-level effects of financial inclusion through MGNREGS.

**Objective:** Objective of the present study is to understand the role played by the MGNREGS in the successful implementation of financial inclusion programme.

**Design/ Methodology-** This study comprised an examination of the role of MGNREGS in the financial inclusion programme by using both secondary sources of data and the primary source. The secondary data for the study were collected from books, journals, periodicals, publication of various banks, RBI website, NABARD website, SLBC website, SEBI website, government publications and websites of various institutions like Skoch, IIMK, and SSRN etc. Population frame of the study is Kannur District. The sample size of the study is 60 individual employees of MGNREGS. Primary data were collected using interview schedule.

**Review of literature:** Srinivasan N (2012)[1] in his article '*Financial Inclusion framework-is it inclusive?*' questions the current Bank led financial inclusion model pursued in India. He also discusses the RBI's interventions in terms of product, process, institution, and policy levels in pursuit of Financial Inclusion solution for the people. He argues inclusion goes beyond mere access and for including institutions such as Post Offices, Co-operatives, SHGs and MFIs, that provide appropriate and adequate services to the vulnerable people in the inclusion framework. Banerjee (2011)<sup>[2]</sup>, in his paper, "Inclusive India financial inclusion: A viable option for inclusive growth" conducted the study to understand the inter-relation between financial inclusion and its overall contribution to economic growth and the

impediments to financial inclusion in Indian scenario and what needs to be done to encompass all those drive across the country will require additional financial support to nurture them with pressure for credit delivery will need to mobilize additional resources from a wider deposit base. Dr.Swamy and Dr.Vijayalakshmi (2010)[3] in their article, "Role of financial inclusion for inclusive growth in India-issues and challenges" claimed that importance of financial inclusion arises from the problem of financial exclusion of nearly three billion people from the formal financial services across the world. India has 135 million financially excluded households, the second highest number after China. Through graduated credit, the attempt must be to lift the poor from one level to another, so that they come out of poverty. There is a need for co-ordinated action between the government and others to facilitate access to bank accounts among the financially excluded. Agarwal (2008)[4] in his research paper "the need for financial inclusion with an Indian perspective" points out various policies adopted in India to increase financial inclusion. He found out that financial inclusion has far reaching consequences, which can help many people come out of abject poverty conditions. The financial markets must act responsibly and ensure that the spirit of financial inclusion is not breached in the future.

From the review of earlier studies summarizes above it can be concluded that financial inclusion is integral to the inclusive growth process and for the sustainable development of the country. However, the financial inclusion models that banks come up with should be replicable and viable across the country. From the various schemes of financial inclusion, it is understood that, MGNREGS has the good role to play.

**Financial inclusion through MGNREGS:**

Payment of wages through cheque ensures safety of the workers as well as it is a step towards financial inclusion. Workers are forced to go banks for collecting their payments and they are aware of

financially excluded into the fold of inclusive class. He claimed that with sudden burst in entrepreneur banking and financial services. It is a good way forward. However, it is up to the State Government to decide the amount of unemployment allowance, subject to the stipulation that it not be less than one by fourth of the minimum wage for the first thirty days, and not less than one-half of the minimum wages thereafter. Hundred days of employment (or unemployment allowance) per household must be provided to able and willing workers every financial year. Under the MGNREGA the Central Government meets the cost towards the payment of wage, three by fourth of material cost and some percentage of administrative cost. State Governments meet the cost of unemployment allowance, one by fourth of material cost and administrative cost of State council. Since the State Governments pay the unemployment allowance, they are heavily incentivized to offer employment to workers.

It might happen that by holding a bank account and transacting in it, a household becomes aware of various government schemes on savings and credit or feel confident about working with bank systems. So, there are reasons to believe that holding an account to receive government transfer benefits might increase their chances of getting a formal credit from bank. Through MGNREGS beneficiaries of financial inclusion has earned additional employment, asset creation and also they generate additional income.

Type of asset	Numbers	Percent
Long-term	14	23
Medium-term	28	47
Short-term	18	30

Source: Field survey

It is clear from the table 1.1 that, out of the total credit holders, only 23 per cent respondents had purchased long-term assets. Majority of the respondents purchased medium-term assets for their work related matters. 30 per cent of the respondents purchased short-term assets.

Additional employment (Days in a year)	Amount of loan availed (Rs)					Total
	Below 15000	15000-20000	20000-25000	25000-30000	Above 30000	
Up to 15 days a year	2	3	15	23	1	44
15-30 days a year	1	1	2	7	5	16
Total	3	4	17	30	6	60

Source: Field survey

As part of MGNREGS respondents took loan from formal financial sector and they got additional employment in their own fields.

Above table shows that as a result of the credit disbursement in relation with financial inclusion, the number of days worked has increased. Here the

researcher considers additional employment generated through borrowings. Out of 30 respondents, (who availed loan of Rs.25000-Rs.30000) 23 respondents created an additional employment below 15 days in a year, and 7 respondents created 15-30 days in a year. Therefore, additional employment generated by 60 respondents are divided on the basis of loan amount availed. It is clear from the above table, that majority of the respondents (44 respondents) created up to 15 days in a year, 16 respondents created 15- 30 days a year.

The above analysis reveals that in the road map villages of Kannur District, the growth of poor people and weaker section is possible through the financial inclusion of MGNREGS employees.

**Findings:** The socio-economic status of the (employees of MGNREGS) beneficiaries of financial inclusion programme in the road map villages of Kannur District has been improved. Important finding from the study is financial inclusion of MGNREGS employees is found to be success.

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- Majority of the respondents have changed their personal financial management practices only because they have opened an account as part of financial inclusion through MGNREGS. They have income generation, asset creation, and additional employment opportunities. What the policy intend, is achieved here with the MGNREGS programme in the process of financial inclusion.
- Suggestions:** In course of the study a large number of drawbacks, shortcomings and problems have come to light.
- Financial inclusion through MGNREGS will be beneficial only it focuses more on BPL families.
- Since most of the rural poor are not aware of the formal financial services, the help of SHGs have to be taken and the product design must be easily understood by them and lastly it is not only the responsibility of the public sectors banks but private banks must also take initiatives for the development of the rural financial infrastructure.
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