CHAPTER 3

MGNREGS: A WAY FOR FINANCIAL INCLUSION
This chapter gives an overview of Mahatma Gandhi National Rural Employment Scheme (MGNREGS) and how has the scheme contributed towards financial inclusion of India. The chapter covers various aspects which have linked MGNREGS and financial inclusion of the country. The motivation behind writing this chapter is to express the role of MGNREGS and diffusion of money in the financial system keeping in mind employment and social security of the individuals. The chapter also covers a vista of studies which indicate the contribution of MGNREGS towards various aspects of financial inclusion.

3.1 Overview of MGNREGS

India is a country which has its 74% of its population residing in 6,38,365 villages (Census, 2011). The source of income of most of them is agriculture and other allied activities. Sources also reveal that most of them lay below the poverty line as well which is an alarming signal. There have been multiple schemes launched by Government of India to alleviate the socio-economic status of them. The scheme varies from giving subsidies in agriculture to the distribution of grains at as low as Re 1/kg. The schemes also vary from enhancing their literacy to giving employment to them. In other words, the agenda of such schemes is to address the socio-economic needs of the people keeping in mind the development of rural sector of India. The schemes cover multiple dimensions of rural development i.e. social security, self-employment, building rural infrastructure, direct employment etc. The central theme of such scheme has been usually poverty alleviation. As discussed, the scheme tends to target a multi-faceted dimension. The Mahatma Gandhi National Rural Employment Scheme (MGNREGS) is one such scheme which aims at ensuring employment as a legal right (Das, 2012). It is observed to the largest ever public policy program visualized in human history (Sameeksha, 2006). This scheme ensures guarantee of job thereby leading to both social and economic protection of the enrolled worker.

The scheme ensures in enhancing livelihood security in rural areas of India. The salient feature of the scheme is providing 100 days of guarantee wage-employment in a financial year to every household whose adult members volunteer to do unskilled manual work at a statutory minimum wage rate. Another feature which is worthwhile to note is that it ensures a guarantee of
providing the work within 15 days of application received by a wage seeker enrolled under this scheme. The job seekers are engaged in public work as defined in the scheme (Sameeksha, 2006).

The aim of this scheme is to create a short-term casual employment in the rural areas thereby creating a sustainable livelihood for the rural people in India. The inclusion of banks and non-banking financial companies for distribution of wages also makes this scheme a tool for enhancing financial inclusion (Tiwari et al., 2011, Vij, 2011). The scheme, therefore, gives a dual advantage of solving the problem of poverty alleviation and financial inclusion. A third perspective of the scheme is the development of infrastructure. Thus, the scheme works 360 degrees towards sustainable development (Pelliserry and Jalan, 2011; Ghose, 2011). Unique features of the Act include, time bound employment guarantee, and incentive disincentive structure to the State Governments for providing employment as 90 per cent of the cost for employment provided is borne by the Centre or payment of unemployment allowance at their own cost and emphasis on labor intensive works prohibiting the use of contractors and machinery.

The roots of this scheme were laid 30 years before its existence when its precursor started its operation under Maharashtra Employment Guarantee Act where there was no record where an unemployed sector of society was guaranteed employment. On the contrary, MGNREGS covers the basic lacunae of its predecessor. The scheme covers a major portion of its operation in the rural India which results in the social inclusion as well. The act also mandates 33% women participation as workers. Thus, it aims to cover the basic issue of disparity in gender and income in the country. The scheme gives an added advantage in covering add sections of the society whether they belong to any caste, creed, gender, and place of residence. Thus, the scheme attempts to upscale the development of the country.

With more than six decades after India’s independence, almost 80% people suffer from problems of malnutrition and social disparity (Esteves et al., 2013). The concern becomes double folded as the urban sector does not invest in rural areas due to a low rate of return and lesser efficiency. The rural India, therefore, needs solace from scheme like MGNREGS which would target only in that section of society. The uniformity in the application of the scheme also process to an added advantage in enhancing the quality of life of rural India (Singh, 2012; Das,
With these benefits in line, MGNREGS has an immense potential to change the rural scenario and face of the country. There are numerous studies which have reflected the bright and the dark side of the scheme. On one side, where the scheme attempts to include willing workers to be a part of employment force and helping them monetarily, the flip side showcases corruption in the scheme. The studies have also pointed that illiteracy and unawareness of workers were used as tools for the stakeholders to fudge data and earn money out of the scheme (Kanungo, 2012).

### 3.2 Study of various aspects of MGNREGS and Financial Inclusion

#### 3.2.1 Enhanced Wage Earning and Financial Inclusion

MGNREGS has contributed towards a sustainable income source to the rural households. The scheme provides employment to 5 crore households approximately, annually which can be equated to about one quarter rural population of India. Another success story of the MGNREGA can be stated as its ability to have created 1575 crore person-days of employment since its launch. The scheme has distributed an enormous sum as wages of about 1,54,000 crores which makes up 70% of its expenditure between a time frame of April 2006 to December 2013. The wage rate for the works has seen a constant soaring trend across all Indian States. It began with distributing Rs. 65 per person per day and has almost doubled by the end of 2013. The rate of payment has not only added to additional income for these workers but also ensures 100 days of the job thus, helping the rural poor to hone their skills. It has also acted as a single source of guaranteed income ensuring monthly per capita expenditure, greater food security, savings etc. for the agrarian economy of India which is paralyzed with seasonal employment. The same has been confirmed by the way of a panel survey conducted by NSSO in Rajasthan, Andhra Pradesh and Madhya Pradesh confirm the same (Roy, 2014; Dutta, 2015; Rengaswamy and Kumar, 2011).
Results of the MK group study indicate that spending in the rural areas outpaced the spending in the urban areas consecutively for two years (2009-10, 2011-12) which has never been observed before.

In the Pre- MGNREGS era, infrastructural development was being controlled by contractors who hired a specific set of labors which led to the violation of the principle of equity. The scheme has therefore helped in bridging the gap between the poor and the needy while, paving a way for inclusive growth in the Indian Economy.

3.2.2 Payment through Banks and Post Offices and Financial Inclusion

MGNREGS is public policy program which ensures minimum 100 days of employment and the wages are paid using bank channels or post offices. Government of India (GoI) mandated that the payment of wages should be routed through either of the two channels in order to maintain transparency. The directions from GoI clearly states that all wages will be deposited in the accounts held either in banks or post offices unless exempted by MoRD. This has resulted in an infusion of more than 10 crores in the banking system. The figure corresponds to more than 80% of the transactions routed through these formal channels. The inclusion of poor people in the formal sector is an achievement in itself and thus MGNREGS has been contributing towards financial inclusion as well (Narayan and Das, 2014; Chabra et. al, 2010). The growth in the number of accounts and continuous inflow and outflow of cash from the accounts has included a major portion of the unbaked class into the bankable sector. The scheme solves the double problem of employment and financial inclusion of the country simultaneously. It is worthwhile to note that the behavioral intention towards using these formal channels is an area which needs to be explored. Also, the rate of diffusion of usage of technologies and awareness about bank accounts is a weak link, but strategizing these two aspects can cause wonders (Patidar and Gupta, 2012; Reddy and Reddy, 2014).
3.2.3 **Inclusive Growth**

MGNREGS is in its third phase of implementation and in the past decade, it has contributed towards the inclusive growth of the country. The scheme has not only contributed towards employment aspect but also has included all social caste and gender into the scheme. The scheme has given employment to socially weaker class and women as well. Thus, social inclusion is also taken into account while functioning of the policy is taking place (Krishnan and Balakrishnan, 2012).

The scheme has benefited the marginalized class as the scheme includes work carried out in private lands. The scheme has given shelter to more than 10 lakh households by employing them. Researches have shown that MGNREGS has contributed towards the four pillars of the rural society (Farooquee, 2013; Sarkar and Kumar, 2011). It has contributed towards the increment in the household income and simultaneously improved the intensity of cropping. The scheme has also helped the farmers to raise their holding from small to marginal class and improved the quality of assets held by them. The scheme has therefore not only helped them towards the financial stability but also paved them a path towards completely sustainable development.

The scheme has offered a secondary source of income to the farmers at a competitive wage as offered by labours in cities. The trade off of this extra income is carefully taken care by the government of India. The rural households enrolled under the scheme can now contribute towards the extra income. The absence of this scheme forced all the family members to work in the fields and small farms never required such a high capacity of workers in it. The launch of this scheme has given an option and choice to the rural households to decide and work in their fields or under the scheme (Sarkar and Kumar, 2011).

3.2.4 **Livelihood and Income Security**

Poverty is a vicious circle that has been choking the growth of the country. The earlier section of this chapter has pointed out that there were several schemes before the launch of
MGNREGS which aimed at addressing the issue of poverty using various viewpoints. MGNREGS is also one such policy which has been aiming the same. The angle and viewpoint of this scheme are through employment. This section of the chapter gives a glimpse of how the scheme has contributed towards eradicating poverty thereby contributing towards a sustainable socio-economic and poverty ridden sector.

Studies have proved that MGNREGS has contributed towards the poverty alleviation of the country (Sarkar and Kumar, 2011, Sameeksha, 2012). The scheme includes rural workers which are enrolled to work. The scheme, therefore, contributes towards the successful usage of manpower to eradicate the problem of poverty. The scheme also ensures a security of 100 days of income, when enrolled. The distinction is not done on the basis of gender or social status. Therefore, it gives an equal opportunity to every individual to be a part of the scheme and earn money for their work.

The scheme has contributed towards improving the conditions of the workers and their families. Studies have also observed that the rural men do not shift to cities for work. The concern for them was to manage their family in the rural area while the male member was working in the city. The security of their family and their livelihood is also taken care by the scheme. Therefore, the scheme has helped the families towards the growth and stopped the migration of labours from rural to urban areas.

3.2.5 Household Income

The scheme has contributed towards the household income of the workers. It is observed that the male members of the family used to work in their fields during agriculture season and migrate to a city during the off season. In this process, the source of income is still the male member. The counterpart has the responsibility to take care of the family. The scheme allows the better half of the family to work and contribute to an extra 100 days of income in the house. This income initially acted as a bonus income for the household, but slowly has transformed into savings of the family.
This extra income becomes a source of starting a small venture by the family or acts as an investment towards the betterment of the state of living of the family. In a survey conducted for more than 1500 households in three states of India, it was found out that the income earned through MGNREGS had a significant contribution in the family income of the household (Kelkar, 2011; Prasad, 2012). The results showcase that Andhra Pradesh reflected 17 percent household income through MGNREGS followed by Rajasthan and Maharashtra with 10% and 7% respectively. Although the study took a sample of the state, but the results in general point out a role of income from the scheme as a secondary source of income for families. In an another survey in the Medak district in Andhra Pradesh, 12 percent of the households indicated that their household income had increased as more members of the same household were not employed. Some of the interesting results from the survey conducted in Birbhum district of West Bengal indicated that MGNREGS has played a key role in rural entrepreneurship. The results indicate that 17 percent of the respondents highlighted the fact that the money earned from the scheme was utilized to start, grow or run a small to medium scale of rural business. Therefore, MGNREGS has also proved to be a mini bank which could act like finance for their small and marginal farmers and their household to encourage them to be a startup.

3.2.6 Alternate Employment Options (AEO) and Opportunity Cost of Time

Research studies have suggested the need to deduct the opportunity cost of time from MGNREGA (cost of the next best alternative foregone) in order to estimate MGNREGA’s impact on income more accurately (Verma, 2011; Nair et. al, 2013). In Rajasthan, among female-headed households, the share of MGNREGA earnings was found to be nearly 15 per cent of household income; that is slightly higher than twice as that of male-headed household. This particular result implies the substantial importance of this source of income for the female-headed households. In contrast, the shares are high for both male- and female-headed households in Andhra Pradesh (19 per cent and 16 per cent, respectively). Using the same measure, among landless households, the share is 20 per cent in Andhra Pradesh, followed by Maharashtra and Rajasthan with a nearly equal share of about 7 per cent.
A parallel measure to estimate the viability of MGNREGS is to evaluate and assess alternate employment opportunities. The basic function of demand and supply and managing a trade-off between them is important. The basic understanding process that availability of lucrative and accessible AEO would diminish the relevance of MGNREGS as it would prove to be a competitor for the scheme. Results derived from National Sample Survey Organization (NSSO) 65th round indicate that the study conducted in three states have a marginal availability of alternate sources of income. It was found that not more than 14 percent respondents from Rajasthan reported availability and accessibility to such options. The numbers were comparatively very less in Andhra Pradesh with 6 percent respondents and Madhya Pradesh with 2 percent.

An important viewpoint is to calculate and evaluate a number of work days available to the workers other than MGNREGS. The results from Andhra Pradesh indicate that an average worker had an opportunity to work for 16 days @ Rs. 74/day or for 20 days @ Rs. 89/day. Similar results were found in Rajasthan and Madhya Pradesh where per day wage under MGNREGS was higher than the other options available. Also, the number of work days a worker can be enrolled under this scheme was higher than the other alternatives (Lakha, 2011).

The results from NSSO confirmed the earlier studies conducted in Medak district which shows that more than two-third of the respondents were relying on MGNREGS as their alternate source of income. The reasons could be guaranteed work and stabilized wage structures. Another important reason could be the accessibility of work in close proximity of their house which saves their time to commute as well.

### 3.2.7 Monthly Per Capita Expenditure

A fresh dimension to study the impact of MGNREGS on the level of poverty in India is calculating monthly per capita expenditure. The relationship shows a linear graph between the impact of scheme and increase in expenditure on food and basic necessities because of increase income. Thus, a household which is engaged in the scheme and has an extra source of income tends to spend more.
Studies indicate that states like Rajasthan, Gujarat and Maharashtra has experienced a growth in per capita consumption to the tune of minimum 10 percent each due to high enrollments and work undertaken under MGNREGS (Sudarshan, 2010). The distribution of expenditure has seen a significant increase in non-food items and other consumables by around 23 percent. Rajasthan exceptionally saw investment and expenditure in education, clothing and health care which has not been experienced in any other state. The results also act as a proxy for understanding the relation between consistent source of income and investment/expenditure pattern of the rural households. The results were tested in Andhra Pradesh as well and the difference in pattern of expenditure was seen from 2004 to 2010. The results derived from data collected from more than 2500 households confirm the results attained from Rajasthan as well. MGNREGA seems to provide poor households the ability to withstand economic shocks and deal with inflation. In a study conducted in Chhattisgarh, Jharkhand and Odisha, most sample households reported that had MGNREGA not been implemented in the study areas, most of the households would not have had the capacity to purchase enough food grains (Prasad, 2012; Sameeksha, 2012).

### 3.2.8 Inter-State Variations

The launch of MGNREGS in India also accounted for a different wage structure for every state. The difference in it had justified reasons while the inter-state variations in participation of women are a concern which is raised in this section. Kerala over the years has witnessed the highest rate of women participation which is closer to 90 percent followed by Tamil Nadu and Rajasthan with 75 percent and 68 percent respectively. The arrangement of the states in their descending order of their women participation indicates that nine states had lesser than one third of their women participants under the scheme (Narayanan and Das, 2014; Das, 2012).

The results are skewed towards the southern half of the country while the northern half does not have high rate of enrollment of women in the scheme. Some of the prominent and possible reasons responsible for their skewed result could be:
1. Existence and operations of Self Help Groups
2. Wage difference between private sector and MGNREGS. The scheme offers better wage rate which adds to a reason of their loyalty.
3. Acceptance of culture among the female workers enrolled under MGNREGS.
4. Awareness and effective institution applied by the local and state government to promote female workers.
5. Higher rationing in poorer states such that there are still a higher percentage of women in casual wage.

Rationing could also be due to a lack of awareness in the poorer states, or also due to a high demand and limited supply of work opportunities wherein women are forced to compete with men for employment, and the latter are usually favored for manual labor. However, in places where the market wages are higher than MGNREGA, men undertake jobs in the market and women seek employment under the Scheme. (Sameeksha, 2012).

3.3 Governance and Process Challenges

MGNREGS marks a change in the functioning of employment programs in terms of balance between demand and supply and designing a legal framework. The scheme however, has faced own set of challenges in governance and policy related matters. As the application of the scheme in each state is different, the degree of intervention by local governance is different.

The quality of governance in each state and in each block to be precise plays an important role in implementation of MGNREGS. This results in difference in performance of states and indirectly the wages of the people. Demand in any state is driven by the available resources and feebly by actions taken by local governance. It is seen that poorer states tends to have a greater degree of demand under MGNREGS. On a parallel track, observations also confirm that greater unmet demand and higher rationing rates prove to be key highlights of the scheme. The reason could be the less efficiency of state government to implement the scheme. The difference in demand and supply in the states causes a deficit in the level of performance.
Studies have also indicated a set of other policy related issues like low capacity of Gram panchayat, lesser participation of women, low quality and durability of assets, lesser completion rate of work, delay in payment of wages, delay in opening of accounts and fake filling of muster roll leading to corruption issues (Sameeksha, 2012; Sameeksha, 2006; Ahuja et. al, 2011; Sarbavidya and Karforma, 2012). Thus, auditing the scheme on a regular basis is important and plays a crucial role in the efficiency. Comptroller Auditor General (CAG) of India undertakes audits but the frequency of the audit varies close to 3 to 4 years. The time period of such audit weakens the argument of successful deployment of governance practices in the state and the central government.

The reports submitted by CAG impacted the performance of the states as well. Some of the states took the results seriously and introduced preventive measures to undertake and promote transparency in the scheme. In a study conducted for six states – Rajasthan, West Bengal, Jharkhand, Maharashtra, Bihar and Uttar Pradesh; it was found improvements in record maintenance for a study undertaken for a month. Record management plays a vital role in enhancing the level of transparency and helps reduce the level of corruption.

The audit reports have impacted the performance of the states and initiatives have been taken by the state to modify the practices undertaken under the scheme. The launch of Management Information System (MIS) and collating data through it was one of the ways to reduce the flaw in fudging of the data. Deployment of Smart Cards which were linked with the AADHAR card and their job cards were also introduced to enhance the transparency in payment. GIS is also launched to keep a track of work and therefore analyzing the quality of work.

3.4 Awareness and Planning

This is one the areas which government is lacking and it’s importance even known is not been acted upon. The workers enrolled in the scheme are unaware of the facilities provided to them. This limited sharing of information leads to corruption and malpractices. It is also found out that infrequent meetings and limited participation by the members of Gram Sabha also leads
to delay in work and reduces the efficiency as well. The planning and monitoring of work hand in hand, but MGNREGS lacks this coordination as well.

3.4.1 Awareness about the Act

Awareness of the scheme is one of the prime areas which are one of the central ideas of this research. The parameters of awareness are not restricted to awareness among the workers enrolled in the scheme. The requirement for awareness is equally important for potential workers as well. It is been seen that the level of awareness among the potential workers is relatively low which affects the number of enrollments for the scheme. People are not aware of the benefits and process of enrollment in the scheme.

The results found from National Sample Survey Organization (NSSO) panel survey on MGNREGA conducted in Madhya Pradesh, Rajasthan and Andhra Pradesh are:

- **Low degree of awareness about unemployment allowance:**

  The results revealed that in Madhya Pradesh, more than 18 percent households did not know about the legal provisions for unemployment. The results were less than 12 percent for both Rajasthan and Andhra Pradesh. The results are an indicator of the fact that the people enrolled under the scheme are either not told about the provisions or they do not know about the exactness of the provisions.

- **Low awareness about work on demand:**

  MGNREGS has a provision about offering job to people who are enrolled under the scheme within 15 days on their enrollment. The results from study indicate that close to 72 percent people in Rajasthan were aware of this fact and the fact that they can demand work at any time of the year. The number was drastically low for Madhya Pradesh and Andhra Pradesh where hardly 47 percent and 29 percent workers knew about their right of demanding work. The results are a proxy of the fact that there is no such awareness campaign held by the government.
or MGNREGS officials to make the workers understand their rights and benefits. The initiative is also not taken at the Gram Panchayat level.

- **Low awareness about grievance redressal mechanisms:**

  The survey also asked questions related to grievance redressal mechanism in these states and the results indicate that more than 35 percent workers in Andhra Pradesh had no clue regarding the process and option of lodging a complain in case of any trouble. The numbers were 28 percent and 16 percent for Madhya Pradesh and Rajasthan respectively. The results also indicate that workers were not motivated to lodge a complaint. On the contrary, they are given verbal assurance that it would be resolved rather than following the exact channel.

### 3.5 Planning at the Gram Sabha

The Act mandates that the selection and prioritization of works to be taken up during a Financial Year (FY) under the Scheme, be done by the GS. Planning and prioritization of the works by the GS ensures that the development needs of each village are addressed through active participation of the villagers. The Act also prescribes that works be allotted in a way that at least 50 per cent of the total works (in terms of costs) be undertaken by the GPs. This is to provide the GPs a substantive role in the implementation of works.

However, field studies identify some constraints in the process, viz.

- GSs are held infrequently,
- There is low participation at GSs for selection and prioritization of works,
- Sometimes work selection is not done according to the priorities or demand of the GS,
- The proportion of the work undertaken by the GP was less than 50 per cent of the total cost of the scheme in the district.

At the planning stage, the CAG audit10 found that:

- Around 80 GSs had not been convened across 12 states including, Andhra Pradesh, Assam, Chhattisgarh, Jharkhand, Karnataka, Madhya Pradesh, Odisha.
• In 11 of the surveyed districts in eight states including Himachal Pradesh, Jharkhand, Odisha, Tamil Nadu, Uttar Pradesh less than 50 per cent of the total works (in terms of costs) were executed by GPs.

Other field studies had similar findings. A study in five districts of Uttar Pradesh found that for selecting the works to be undertaken, only 45 per cent of the 784 respondents (beneficiaries and non-beneficiaries) said that meetings of the GS were held and only 42 per cent respondents reported that the selection of works was done according to priorities of the GS.

This percentage was found to be high (as noted in awareness levels above as well) in the case of states like Maharashtra. Out of 200 respondents interviewed in two districts of Maharashtra, 83 per cent in Thane and 60 per cent in Akola reported that GSs were held to discuss MGNREGA.

This chapter gives a holistic overview of contribution of MGNREGS towards enhancing financial inclusion of India. In a short span of 10 years, MGNREGS has focused not only towards employment, but also contributed towards including a large portion of the unbanked people in the financial sector. The scheme has helped the workers operate a bank account of a post office account which has made them connected to the financial sector and simultaneously helped them in understanding the importance of saving through proper awareness.