

Financial Inclusion Index through MGNREGS in Virudhunagar District

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Abstract - Financial inclusion is the delivery of financial services through receipt of transfer payments, savings, loans, insurance, short term credit and remittance at affordable costs to sections of disadvantaged and low income segments of society. It is argued that availability of banking and payments services to the entire population without discrimination is the prime objective of public policy. Therefore, having a savings account is the only a starting point of financial inclusion. MGNREGA, the flagship programme of the UPA government, was revolutionary in its promise of inclusive growth and financial inclusion, the right to work and the dignity of labour and a rational, participatory relationship with the State. While the importance of financial inclusion is widely recognized, the literature lacks a comprehensive measure that can be used to measure the extent of financial inclusion across economies. This paper attempts to find out Financial Inclusion Index(FII) through MGNREGS. The FII is a multi-dimensional index that captures information on various dimensions of financial inclusion in one single digit lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion.

Keywords: Financial inclusion, MGNREGS, Financial Inclusion Index, Banking.

I. INTRODUCTION

Access to finance for those belonging to poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. The financial inclusion is the process of ensuring delivery of financial services to vulnerable groups which is timely, adequate and at an affordable cost. The various financial services include credit, savings, insurance and payments and remittance facilities. MGNREGA, the flagship programme revolutionary in its promise of inclusive growth and financial inclusion, the right to work and the dignity of labour and a rational, participatory relationship with the state. With a view to infusing transparency and enhancing the integrity of wage payment under MGNREGA, and also to encourage savings among the rural poor, Schedule II of MGNREGA Act has been amended to make wage disbursement to MGNREGA workers through institutional accounts in banks or post offices a statutory requirement. Wage payments through MGNREGA have initiated the biggest “financial inclusion” drive, with the requirement that all wage payments be made through banks and post offices.

Payment of wages to workers employed under MGNREGA works can be done with speed, reliability, low transaction costs and leakages, if each worker has a bank account in which wages are transferred periodically. Now with the implementation of MGNREGA large flow of funds is occurring from government to the rural households which open up a new chapter in the history of rural development in India.

II. REVIEW OF RELATED LITERATURE

1. Jawed Akhtar et al.() have published an article entitled “INDEX OF FINANCIAL INCLUSION THROUGH MGNREGS: A SPECIAL REFERENCE TO KERALA ”. The authors ascertain index of financial through MGNREGS. They are constructing the Index of financial inclusion where several indicators have been used to assess the extent of financial inclusion through the implementation of MGNREGS. The researchers framing three dimension for calculating index of financial inclusion. The factors are number of bank where MGNREGS wage transaction are take place to measure the availability dimensions, considering the number of MGNREGS workers who have bank accounts as an indicator of banking penetration and take the amount of MGNREGS wage disbursed through the bank account as an indicator of banking disbursement.
2. Gupta and Fearooz Ahmed (2014) have published an article entitled “MGNREGA & FINANCIAL INCLUSION- A CASE STUDY”. The author describe that some constraints faced by banks and post offices in accelerating the speed of financial inclusion. And has been tremendous growth in opening of bank accounts in the study area. We also suggests that more and more awareness camps should be organized in villages to make full awareness of basic banking services among rural people in villages.
3. Nagaraju (2015) have published an article entitled “FINANCIAL INCLUSION AND MGNREGA” .The researchers said that the MGNREG scheme contributed to perhaps the largest financial inclusion drive in rural India in recent times. Workers with individual MGNREGA bank accounts are highest in Kerala(73%) followed by Andhra Pradesh(61%), Tamil nadu(49%), and Himachal pradesh(39%). We believe that financial inclusion drives when linked to social security schemes such as MGNREGA can increase the financial inclusion.

- Ashish Kumar Mishra and Manisha Dudey (2015) have published an article entitled "FINANCIAL INCLUSION AMONG MGNREGA WORKERS IN CHHATTISGARH". The authors concluded that majority of the MGNREGA workers are opening bank account after joining the MGNREGA scheme. While MGNREGA played an important role regarding the financial inclusion of rural people of Chhattisgarh and findings indicated that MGNREGA has changed the scenario of financial inclusion in rural area but as for concern insurance, it increased marginally.

III. OBJECTIVES OF THE STUDY

- To ascertain Financial Inclusion Index through MGNREGS.
- To list out recent measure taken by Government of India for enhancing Financial Inclusion.
- To offer suitable recommendations based on the findings of the study.

IV. SOURCE OF DATA

The study is purely based on the secondary data. The data required for the study are collected from books, journals, articles, newspapers, internet, record from Ministry of Rural Development and MGNREGA website (www.mgnrega.nic.in)

V. PROFILE OF THE STUDY AREA

The study has been carried out in Virudhunagar district in which MGNREGA was notified in the Year 2008. As per 2011 census the district is having 11 blocks with 450 Panchayats and with a total population of 1286543 in which 315796 is SC population and 1197 is ST population and remaining are others. There are 644952 numbers of beneficiaries/ workers working under MGNREGA scheme in the year 2015-16. The number of people who have been connected to banks & post offices in relation to MGNREGA payments has been 470731 in the year 2015-16 which is 73%.

A. Financial Inclusion Index (Ifi) Through Mgnregs

For constructing the Financial Inclusion Index (FII) several indicators have been used to assess the extent of financial inclusion through the implementation of MGNREGS. The most commonly used indicator is availability of banking services, banking penetration and banking disbursement. A comprehensive measure of financial inclusion should be able to incorporate information on several aspects (dimensions) of financial inclusion, preferably in one single number. Such a measure can be used to compare the levels of financial inclusion across economies and across states/provinces within countries at a particular time point. It can be used to monitor the progress of MGNREGS wage payment for financial inclusion in a country over a period of time. The various dimensions of FII are follows:

B. Availability of Banking Services (Dimension D₁)

The services of an inclusive financial system should be easily available to its users. Availability of services can be indicated by the number of bank outlets and/or by the number of ATM per 1000 people, or the number of bank employees per customer. In the absence of comparable data on the number of ATMs and number of bank staff for a large number of states, we use the number of bank where MGNREGS wage transactions take place to measure the availability dimension. There are about 376 banks working across the countries where banking services are available to the MGNREGS workers.

C. Banking Penetration (Dimension D₂)

An inclusive financial system should have as many users as possible, that is, an inclusive financial system should penetrate widely amongst its users. The size of the "banked" population, i.e. number of people having a bank account is a measure of the banking penetration of the system. Thus, if every person in an economy has a bank account, then the value of this measure would be 1. Here we are considering the number of MGNREGS workers who have bank accounts as an indicator of this dimension.

D. Banking Disbursement (Dimension D₃)

The wage payments through banks make millions of people habit of banking and inclusion to the financial system. We are considering here the amount of MGNREGS wage disbursed through the bank account. With the number of accounts of 2.51 crore for MGNREGA workers this becomes largest financial inclusion scheme of the rural poor by which wages are disbursed through this account. The proposed FII takes values between 0 and 1, zero indicating lowest financial inclusion (complete financial exclusion) and 1 indicating complete financial inclusion. Such an index, in our view, will be most useful for policy makers and academic researchers. The dimension index for the ith dimension, d_i, is computed by the following formula.

$$D_i = \frac{A_i - m_i}{M_i - m_i} \quad (1)$$

Where

A_i = Actual value of dimension i

m_i = Minimum value of dimension i

M_i = Maximum value of dimension i

Thus, considering the above three dimensions – number of banks, number of bank accounts under MGNREGS and amount of wage disbursed through bank-we can represent a state *i* by a point (*d*₁, *d*₂, *d*₃) in the three dimensional Cartesian space, such that 0 < *d*₁, *d*₂, *d*₃<1, where *d*₁, *d*₂ and *d*₃ denote the dimension indices for country *i* computed using above formula. In the three dimensional Cartesian space, the point (0,0,0) indicates the worst situation (complete financial exclusion) and the point (1,1,1) indicates the best or ideal situation (complete financial inclusion). The FII for the block *i* is measured by the normalized inverse Euclidean distance of the point (*d*₁, *d*₂, *d*₃) from the ideal point (1,1,1). Algebraically,

$$FII=1-\sqrt{((1 - D1)^2 + (1 - D2)^2 + (1 - D3)^2) / 3} \quad (2)$$

While computing an index such as the one proposed here, availability of data is an important challenge. We find that the latest year for which some data are available for a reasonable number of block is 2015-16 financial year. Using data on all three dimensions for 11 block in virudhunagar district for the year 2015-16, FII values have been computed. The FII values computed for various blocks are presented in Table 2. Depending on the value of FII, blocks are categorized into three categories, viz...

1. 0.5 < FII < 1 - high financial inclusion
2. 0.3 < FII < 0.5 - medium financial inclusion
3. 0 < FII < 0.3 - low financial inclusion.

TABLE 1 BLOCK WISE DATA ON 3 DIMENSIONS OF FINANCIAL INCLUSION (2015-16)

| S.No | Block | No of banks | No of workers with accounts | Amount of wage disbursed through bank account (in lakhs) |
|------|----------------|-------------|-----------------------------|--|
| 1 | Aruppukottai | 9 | 18606 | 822.47 |
| 2 | Virudhunagar | 10 | 21893 | 723.06 |
| 3 | Kariapatti | 8 | 22664 | 808.36 |
| 4 | Tiruchuli | 8 | 23065 | 1089.68 |
| 5 | Narikudi | 3 | 21932 | 683.84 |
| 6 | Rajapalayam | 18 | 18687 | 720.65 |
| 7 | Srivilliputhur | 7 | 19886 | 606.09 |
| 8 | Watrap | 7 | 22287 | 671.09 |
| 9 | Sivakasi | 27 | 20737 | 724.6 |
| 10 | Vembakottai | 8 | 20374 | 623.75 |
| 11 | Sattur | 9 | 19359 | 780.32 |

Source : www.mgnrega.nic.in

As shown in table 1, the number of banks highest in Sivakasi block followed by Rajapalayam, Virudhunagar blocks. However if we look at the number of MGNREGS workers who have bank account Tiruchuli block ranks the highest followed by Kariapatti, Watrap and Narikudi blocks.

Looking at another dimensions of an inclusive banking system that is amount of MGNREGS wage disbursed through bank account, Tiruculi block having highest followed by Aruppukottai, Kariapatti, and Sattur blocks

TABLE 2 FINANCIAL INCLUSION INDEX FOR 11 BLOCKS OF VIRUDHUNAGAR DISTRICT.

| S.No | Block | D1 | D2 | D3 | FII | Rank |
|------|----------------|---------|---------|---------|----------|------|
| 1 | Aruppukottai | 0.25 | 0 | 0.42650 | 0.454899 | 4 |
| 2 | Virudhunagar | 0.29167 | 0.73716 | 0.21314 | 0.370194 | 7 |
| 3 | Kariapatti | 0.20833 | 0.91007 | 0.39622 | 0.422829 | 6 |
| 4 | Tiruchuli | 0.20833 | 1 | 1 | 0.542929 | 1 |
| 5 | Narikudi | 0 | 0.75263 | 0.12897 | 0.477224 | 2 |
| 6 | Rajapalayam | 0.625 | 0.01817 | 0.20797 | 0.240193 | 10 |
| 7 | srivilliputhur | 0.1667 | 0.28706 | 0.03790 | 0.157719 | 11 |
| 8 | Watrap | 0.1667 | 0.82552 | 0.10160 | 0.285401 | 8 |
| 9 | Sivakasi | 1 | 0.47791 | 0.21645 | 0.456392 | 3 |
| 10 | Vembakottai | 0.20833 | 0.39650 | 0 | 0.425267 | 5 |
| 11 | Sattur | 0.25 | 0.16886 | 0.33604 | 0.248530 | 9 |

Source : Calculation on the basis of equation 2

In the group of 11 blocks from Virudhunagar districts for which a 3 dimensional FII has been estimated by using data on 3 dimensions of financial inclusion. Tiruchuli (0.543) leads with the highest value of FII followed by Arupukottai (0.455), Kariapatti (0.423), Narikudi (0.477), Virudhunagar (0.371), Sivakasi (0.456), Vembakottai (0.425). All other blocks have a low FII values, lying between 0 to 0.3.

TABLE 3 LEVEL OF FINANCIAL INCLUSION

| High level of Financial Inclusion | Medium level of Financial inclusion | Low level of Financial Inclusion |
|-----------------------------------|--|---|
| Tiruchuli | Aruppu kottai Kariapatti Narikudi Virudhunagar Sivakasi Vembakottai | Rajapalayam Srivilliputhur Watrap Sattur |

From the above table 3 clearly said that Tiruchuli block comes to the category of High level of Financial Inclusion. Arupukottai, Kariapatti, Narikudi, Virudhunagar, Sivakasi, Vembakottai blocks are belongs to the category of Medium level of Financial Inclusion. Rajapalayam, Srivilliputhur, Watrap, Sattur blocks are belongs to the group of Low level of Financial Inclusion.

VI. INITIATIVES TAKEN BY BANKS, OTHER REGULATORY BODIES AND GOVERNMENT FOR ENHANCING FINANCIAL INCLUSION

In India different regulatory bodies have taken various measures for financial inclusion. RBI has come out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population.

- No Frills Accounts (NFAs):** This concept was introduced by RBI in November 2005 to provide access to basic banking services by financially excluded peoples. Under this approach banks open accounts with zero balance or very minimum balance requirement for the under-privileged. In 2012, the banks under RBI guidelines came-up with a better version of the no-frill accounts where they would open Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with the facility of debit card, cheque book, internet banking, overdraft limits at minimal charges.
- Relaxation on KYC norms:** In order to ensure that people belonging to the low income groups, both in urban and rural areas, do not face difficulties in opening bank accounts, the KYC (Know Your Customer) procedure for opening accounts is simplified for those accounts with balances not exceeding Rs. 50000 and credits thereto not exceeding Rs. 100000 in a year.
- Introduction of GCC:** In 2005 Reserve bank of India, issue guidelines to banks that to provide General

Purpose Credit Card (GCC) which facilitate credit up to Rs.25000/- without any collateral requirement for rural and semi urban people based on assessment of household cash flows. Now as per the revised guidelines in Dec. 2013 under this approach bank also fulfil Non- farm entrepreneurial credit requirement of individuals (e.g. Artisan Credit card, Laghu Udyami Card, Swarojgar Credit Card, Weavers' Card etc) There will be no ceiling on the loan amount as long as the loan is for the purpose of non-farm entrepreneurial activity and is otherwise eligible for classification as priority sector. Security norms will be applicable as per Reserve Bank guidelines on collateral free lending for micro and small units issued from time to time.

- Business Correspondents (BCs) and Business Facilitators (BFs) Model:** The Reserve Bank permitted banks to engage BCs and BFAs as intermediaries for providing financial and banking services. The BC model ensures a closer relationship between poor people and organised financial system.
- Use of Information technology:** Banks have been advised to make effective use of Information and Communication technology (ICT) to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in banking.
- EBT through Banks:** The Reserve Bank is in consultation with state government has adopted Electronic Benefit Transfer (EBT) by banks to direct transfer of cash benefit/subsidy to the needy people. As per government is concerned, financial inclusion ends with EBT, which means that all its subsidy such as LPG, Fertilisers, wages for MGNREGA workers and other financial benefits payments are transferred electronically into beneficiary account.
- Creation of Funds for Financial Inclusion:** Central Government has created Financial Inclusion Fund and financial Inclusion Technology Development fund for meeting the costs of development, and promotional and technology interventions. A fund of Rs. 5000 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.
- Consolidation of RRBs:** The Regional Rural banks are consolidated by the Central Government.
- Parameters for performance appraisal of bank staff:** RBI has advised to the banks to integrate board-approved FIPs with their business plan and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

VII. SUGGESTIONS

- Without adequate employment participation we can't achieve better financial inclusion. So the government of india and rural ministry should taken proper measure for enhancing employment participation.

2. If possible the government of India will increase the employment days from 100 to 150. Due to this way the workers get more wages through banks. This helps to increase the financial inclusion
3. Wage payments under MGNREGA scheme should be increased so that more and more people are ready to do work under the scheme which may result in greater financial inclusion.
4. It is recommended that more and more MGNREGA workers should be motivated to make regular operations in their accounts as it will lead to inculcating of savings habits among them.

VIII. CONCLUSION

Financial inclusion is a process to include the people who can have access to formal financial services. The direct transfer of wages through bank and post office accounts of the beneficiaries introduced a paradigm shift and has resulted to speed up greater financial inclusion to the rural poor. Thus, MGNREGS provides a greater opportunity to the government for financial inclusion and inclusive growth. The wage payment through banks and post office lead to the greater transparency and reliability for payment and increase banking habit among rural people of India. However, even though increase in branches is not a solution to the financial inclusion as large number of rural poor unable to get financial facilities, which results in appropriate innovation and introduction of various technology which

work as a facilitator and business correspondent. Even today financial inclusion of mass rural people for inclusive growth is a greater challenge for policy makers, planners and economic elites. region endowed with higher active worker participation in MGNREGS resulting in secure upper position on the ladder of financial sector participation. Thus MGNREGA scheme has resulted in the spread of greater financial inclusion in Virudhunagar district.

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