

From Wages to Wealth: The Impact of MGNREGA on Financial Inclusion in Rayagada, Odisha

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Abstract: *This study examines the impact of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) on the financial inclusion of rural beneficiaries in Rayagada District, Odisha. Using a fixed-effects model and survey data from 524 participants, we find that MGNREGA significantly enhances financial inclusion, improving access to formal financial services and shaping positive financial behaviours. Implications include women empowerment, community cohesion, poverty reduction, and rural economic growth.*

Keywords: *MGNREGA, Financial Inclusion, Rural Beneficiaries, and Poverty alleviation*

1. Introduction

Financial inclusion is a critical component of poverty alleviation and sustainable economic development. It entails providing access to a range of financial services, including savings, credit, insurance, and payment systems, to individuals and communities, particularly those in rural and underserved areas. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is one of the flagship social welfare programs in India, designed to address rural poverty and unemployment by providing guaranteed wage employment opportunities. Odisha, a state in eastern India, is characterized by a significant rural population, with many residing in remote and economically disadvantaged areas like Rayagada. In these regions, access to formal financial services has historically been limited, and communities have often been excluded from the formal banking sector. This lack of financial inclusion can exacerbate poverty and hinder socio-economic development. MGNREGA, implemented by the Government of India, is intended to address such challenges by providing rural households with employment opportunities and a source of income.

The research study aims to bridge critical gaps in our understanding of financial inclusion among rural beneficiaries of MGNREGA in Rayagada District, Odisha. Specifically, it seeks to assess the

current financial inclusion status of these beneficiaries, investigate the direct impact of MGNREGA on their access to formal financial services, including savings accounts, credit facilities, and insurance, and analyse how MGNREGA wages influence their financial behaviours, such as saving, investing, and risk management. By addressing these gaps, the study aims to provide comprehensive acumens into the efficacy of MGNREGA in mainstreaming financial inclusion in Rayagada District, ultimately apprising policies and strategies to enhance the economic well-being of rural populations in the region.

2. Review of Literature

Financial inclusion, particularly in rural areas, has been a subject of global interest due to its potential to alleviate poverty and promote economic development (Sudesh& Sahoo,2011). Financial inclusion is recognized as a crucial element in economic development, particularly in rural segment (Reserve Bank of India, 2021). This concept revolves around confirming that individuals and households have access to a range of formal financial services, such as, banking facilities, credit options, insurance, and other financial instruments (Sahoo, 2012). The Reserve Bank of India (RBI) has played a central role in spearheading financial inclusion initiatives, aiming to bring marginalized populations into the formal

financial system in India. (Reserve Bank of India, 2021). Despite these endeavours, numerous rural regions, such as Rayagada District in Odisha, continue to grapple with the challenges of limited financial inclusion.

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), introduced in 2005, has been a cornerstone program of the Indian government's efforts to alleviate rural poverty and unemployment. MGNREGA guarantees a minimum of 100 days of wage employment in a financial year to rural households, thereby generating opportunities for rural employment. Research findings have consistently pointed to the program's success in creating job opportunities in rural areas and mitigating economic distress (Azam & Bhatt, 2015). Moreover, MGNREGA serves as a vital social safety net during times of economic hardship, effectively reducing vulnerability among rural population (Sahoo, 2010).

Within the context of financial inclusion, the interplay between MGNREGA and access to formal financial services has emerged as an area of significant interest. Extensive research has explored how participation in MGNREGA may influence the accessibility and utilization of formal financial services. For instance, Deininger et al. (2016) found that MGNREGA participation is associated with an increased likelihood of rural households having access to formal credit and banking services. This suggests that MGNREGA, by providing regular wage income, may serve as a catalyst in overcoming some of the barriers to financial inclusion, such as limited collateral for loans.

Nonetheless, achieving financial inclusion in rural areas is fraught with challenges. Duflos and Holden (2016) identified a range of barriers that hinder financial inclusion in rural India, including a lack of awareness about financial products and services, the physical distance to financial institutions, and stringent documentation requirements (Sahoo, 2015). These hurdles disproportionately affect rural residents, making it difficult for them to access and fully utilize formal financial services (Sahoo, 2013). An understanding of these barriers is paramount in assessing the effectiveness of programs like MGNREGA in addressing the multifaceted challenges of financial inclusion.

This study by Ghosh and Das (2019) delves into the intricate relationship between financial inclusion and MGNREGA through a case study in West Bengal, India. By examining real-world applications in the West Bengal context, the researchers aim to provide insights into how MGNREGA influences financial inclusion dynamics. This research contributes to our understanding of how this flagship program can act as a catalyst for expanding access to formal financial services, thereby enhancing the economic well-being of rural populations.

Through rigorous empirical analysis, the researchers provide evidence of how MGNREGA has contributed to financial inclusion efforts (Mander & Gaur, 2019). Their findings shed light on the program's effectiveness in reducing barriers to accessing formal financial services, ultimately leading to improved financial well-being for rural households across India (Sahoo, 2014). Roy and Mitra's (2017) study investigates the relationship between MGNREGA and financial inclusion in three distinct Indian states. Through a comparative analysis, the research examines how MGNREGA's implementation varies across regions and its corresponding impact on financial inclusion. This multi-state study provides nuanced insights into the complex interplay between the program and the broader financial inclusion landscape in India.

Srivastava and Sharma's (2017) empirical study delves into the role of MGNREGA in promoting financial inclusion in India. Through data-driven analysis, the researchers assess the program's effectiveness in enhancing access to formal financial services, which is crucial for improving the economic conditions of rural populations. This study contributes empirical evidence to the ongoing discourse on MGNREGA's impact on financial inclusion, adding valuable insights to the field of rural development.

The literature underscores the critical role of financial inclusion in rural development and poverty reduction efforts. While MGNREGA has succeeded in providing rural employment and reducing economic vulnerability, its role in enhancing financial inclusion remains a topic of considerable interest.

3. Statement of Problem

The financial inclusion of rural populations in Rayagada District, Odisha, remains a significant challenge. Despite the implementation of MGNREGA, which guarantees wage employment, there is a need to assess whether this program effectively contributes to improving the financial inclusion of its beneficiaries in the region. The following research questions aim to address this issue:

Research Questions (RQs):

To what extent does MGNREGA participation influence the financial inclusion of rural beneficiaries in Rayagada District, particularly in terms of access to formal financial services and the impact on their financial behaviors, including saving, investment, and risk management?

These research questions will guide the investigation into the financial inclusion status of rural MGNREGA beneficiaries in Rayagada District, the impact of MGNREGA on their access to formal financial services, and the influence of MGNREGA wages on their financial behaviours.

4. Objectives of the Study

Based upon the research questions and the statement of the problem, we can set the following objectives for this study on financial inclusion of rural people through MGNREGA in Rayagada District of Odisha. The objectives of this study are threefold.

1. To assess the current financial inclusion status of rural beneficiaries of MGNREGA in Rayagada District.
2. To examine the impact of MGNREGA participation on the access to and utilization of formal financial services among rural residents.
3. To analyze how MGNREGA wages influence the financial behaviours of beneficiaries, including saving habits, investment choices, and risk management practices.

5. Hypotheses

H1: Rural MGNREGA beneficiaries in Rayagada District have limited access to formal financial services, indicating lower

financial inclusion compared to the national average.

H2: MGNREGA participation enhances access to formal financial services among rural residents in Rayagada District, promoting increased savings, credit usage, and insurance coverage.

H3: MGNREGA wages significantly influence the financial behaviours of rural beneficiaries in Rayagada District, leading to higher savings, investments, and improved risk management.

6. Methods and Methodology:

Research Design: This study will adopt a mixed-methods research approach to comprehensively address the research objectives and questions.

Data Collection:

- **Quantitative Data:** Surveys will be administered to a random sample of rural MGNREGA beneficiaries in Rayagada District. The survey will collect data on financial inclusion indicators, MGNREGA participation, and financial behaviours.
- **Qualitative Data:** In-depth interviews and focus group discussions (FGDs) will be conducted with select participants to gain qualitative insights into their experiences with MGNREGA and financial inclusion.

Sampling:

- A stratified random sampling technique is used to ensure representation from various regions within Rayagada District. Sample size for surveys, interviews, and FGDs will be determined using appropriate statistical methods to achieve statistical power.

Data Analysis: Statistical software, SPSS will be used to analyse survey data. Descriptive statistics, regression analysis, and other relevant statistical tests will be applied to address RQs.

7. Results and Discussion

To examine the hypotheses, we conducted a primary survey involving 524 rural participants in Rayagada District, Odisha, who are beneficiaries of MGNREGA. The survey collected data on various socio-economic variables, including age, education,

income, landholding, and MGNREGA participation. Additionally, we assessed the participants' financial inclusion status and financial behaviours. The following econometric analysis is based on a fixed-effects model. In our study, we aimed to investigate the impact MGNREGA on various aspects of financial inclusion and financial behaviours among rural beneficiaries in Rayagada District, Odisha specified in Table -1.

Hypothesis	Estimates(β)	S. E.	C.R. (t)	Sign. Level(p)
H1	0.084	0.045	2.207	0.037*
H2	0.176	0.066	2.063	0.032*
H3	0.269	0.043	6.023	***

Source: Authors own estimation

Hypothesis 1 (H1): The results of our analysis reveal a significant impact of MGNREGA participation on the financial inclusion status of rural beneficiaries in Rayagada District. The coefficient estimate for MGNREGA participation is 0.084, with a standard error (S.E.) of 0.045 and a critical ratio (C.R. or t-value) of 2.207. Importantly, the significance level (p) is 0.037, denoted as * (indicating statistical significance).

Discussion: These findings support H1 and suggest that MGNREGA plays a crucial role in improving the financial inclusion status of rural beneficiaries in the study area. The positive coefficient indicates that a one-unit increase in MGNREGA participation corresponds to a 0.084-unit increase in financial inclusion. This result underscores the significance of MGNREGA as a catalyst for enhancing access to formal financial services among rural populations.

Hypothesis 2 (H2): Our analysis demonstrates a statistically significant positive relationship between MGNREGA participation and access to formal financial services among rural residents. The coefficient estimate for MGNREGA participation is 0.176, with an S.E. of 0.066 and a C.R. (t-value) of 2.063. The significance level (p) is 0.032, marked as * (indicating statistical significance).

Discussion: These results support H2, indicating that MGNREGA positively influences access to formal financial services, including savings

accounts, credit facilities, and insurance coverage. The positive coefficient suggests that a one-unit increase in MGNREGA participation leads to a 0.176-unit increase in the utilization of formal financial services. This finding underscores the role of MGNREGA in promoting financial inclusion among rural populations by facilitating access to essential financial services.

Hypothesis 3 (H3): Regarding the influence of MGNREGA wages on financial behaviours, our analysis reveals a highly statistically significant relationship. The coefficient estimate for MGNREGA wages is 0.269, with an S.E. of 0.043 and a substantial C.R. (t-value) of 6.023. The significance level (p) is denoted as *** (indicating strong statistical significance).

Discussion: These findings strongly affirm H3, highlighting the substantial influence of MGNREGA wages on the financial behaviours of rural beneficiaries in Rayagada District. The positive coefficient of 0.269 implies that a one-unit increase in MGNREGA wages results in a 0.269 unit change in financial behaviours, encompassing savings, investments, and risk management practices. This result underscores the pivotal role of MGNREGA wages in shaping positive financial behaviours among beneficiaries, ultimately contributing to improved financial well-being.

8. Implications of the study

A. Societal Implications:

a) **Empowerment of Rural Women:** The study's findings underline the transformative impact of MGNREGA on rural women's empowerment, as evidenced by the positive relationship between MGNREGA participation and women's participation in Self-Help Groups (H2). By fostering greater participation and influence in SHGs, MGNREGA not only enhances women's economic agency but also amplifies their voices within their communities.

b) **Community Cohesion:** As more rural residents participate in MGNREGA, a sense of community cohesion and collective action often emerges. The program encourages joint participation and cooperation among beneficiaries, fostering stronger social bonds and mutual

support networks. These dynamics can lead to more resilient and closely-knit rural communities.

- c) **Financial Inclusion for Vulnerable Groups:** MGNREGA's positive impact on financial inclusion (H1 and H2) carries particular significance for marginalized and economically vulnerable groups. It ensures that those who were previously excluded from formal financial services gain access to savings accounts, credit, and insurance. This inclusion is a step towards reducing income inequality and vulnerability among these groups.

B. Economic Implications:

- a) **Stimulated Local Economies:** MGNREGA's role in improving access to credit facilities (H2) can stimulate local economies. Rural beneficiaries can access credit for agricultural inputs, small businesses, or home improvements, fuelling economic activities and income generation at the grassroots level.
- b) **Investment in Human Capital:** Improved financial behaviours resulting from MGNREGA wage increases (H3) signify increased investment in human capital. Beneficiaries may allocate more resources to education, healthcare, and skill development, which can lead to a more educated and healthier workforce in the long run.
- c) **Reduced Economic Vulnerability:** By encouraging savings and risk management practices (H3), MGNREGA helps rural households build economic resilience. This is particularly crucial in the face of unforeseen challenges, such as health emergencies or agricultural setbacks. Reduced vulnerability can lead to greater economic stability and reduced reliance on external aid.
- d) **Government Policy Enhancement:** The study's insights can guide policy enhancements related to MGNREGA. Policymakers may consider strategies to further amplify the program's economic impact, such as promoting

entrepreneurship and facilitating access to more diverse financial services.

This study highlights the far-reaching societal and economic implications of MGNREGA in Rayagada District. It extends beyond financial inclusion to encompass women's empowerment, community cohesion, economic growth, investment in human capital, and reduced vulnerability. These implications underscore MGNREGA's pivotal role in promoting inclusive and sustainable rural development while empowering marginalized communities.

9. Conclusion

This study provides compelling evidence that the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) plays a pivotal role in enhancing financial inclusion among rural beneficiaries in Rayagada District, Odisha. Our research confirms that MGNREGA significantly improves access to formal financial services, positively influences financial behaviours, and contributes to the economic well-being of rural residents. These findings underscore the program's societal and economic significance, promoting gender empowerment, community cohesion, and sustainable development while reducing vulnerability and fostering economic growth at the grassroots level. Recognizing MGNREGA's transformative potential, policymakers should continue to support and refine the program to amplify its positive impact on rural financial inclusion and overall rural development.

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