**mF-NBFC: a FINANCIAL INTERMEDIARY FOR THE SOCIO-ECONoMIC DEVELOPMENT OF rural poor.**

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***Abstract***

*The present study makes an honest attempt for evaluating the role of new category of NBFC (mF-NBFCs) in promoting the socio and economic status of the poor in the state of Orissa. As a prominent financial intermediary, mF-NBFCs are the great players in rural economy engaged in micro finance, micro insurance and micro enterprises activities in the state. The mF -NBFCs provide micro finance through SHGs and JLG models and also financing the second hand commercial vehicles to the rural poor to generate more rural employments, encourage rural savings and enhance good avenues of the rural poor. As a financial intermediaries, Non-Banking Financial Companies (NBFCs) operate mostly in un-organized and under-serviced segments of the economy, thereby creating a niche for themselves. Which are perceived to be risky by banks.*

*The mF-NBFCs have a definite and very important role in the developing economy like ours to meet the demand for credit. The 200 respondents are being selected in sample study areas. The present study is basically based on primary data as well as secondary data. The primary data is being obtained through face to face interview with respondents by the questionnaires covering their socio economic and psychological dimensions. The appropriate research tools like percentage, mean and Anova etc are being used in the present study to reach scientific and meaningful conclusion. From the data analysis with use of appropriate research tools, it is concluded that mF-NBFCs have commendable contribution in the promotion of socio-economic development of rural poor in state of Odisha.*

***Key words:*** *mF-NBFC, micro finance , rural poor. Micro enterprises.*

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**INTRODUCTION**

 The banking industry has shown tremendous growth in volume and complexity during the last few decades. Bank nationalization (1969,1990) in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking to take the banking services to poor people. Despite of these significant improvements in banking sectors, banks have not been able to include vast segment of the population, especially the underprivileged sections of the society into the fold of basic banking services. A recent (2008) NCAER Survey on rural access to finance indicates that 70% of the rural poor do not have a bank account and 87% have no access to credit from a formal source. Informal lenders remain a strong presence in rural India in delivering finance to the poor on frequently exorbitant terms. Access to other financial services such as savings accounts, life, health and crop insurance also remains limited for the rural poor.

At present, NBFCs have become prominent in a wide range of activities like: hire purchase, finance, equipments, lease finance, personal loans, micro finance, micro insurance and other services to rural unbanked poor which are so far considered the fort of Banks. As a financial intermediaries, Non-Banking Financial Companies (NBFCs) operate mostly in un-organized and under-serviced segments of the economy, thereby creating a niche for themselves. Which are perceived to be risky by banks.

The present study makes an honest attempt for evaluating the role of mF-NBFCs in promoting the socio and economic status of the poor in the state of Orissa. It provides rural credit, encourage rural saving and providing security for human as well as and physical assets of the unbanked poor households.The mF -NBFCs also financing the second hand commercial vehicles to the rural poor to generate more rural employments and enhance good avenues of the rural poor.

**MEANING OF NBFC**

The Reserve Bank of India as an apex regulatory authority is entrusted with the responsibility of regulating and supervising the non-banking financial company by virtue of power conferred in chapter- III B of Reserve Bank of India Act 1934. Chapter III-B defined NBFC as:

**Definition.**

(i) “The business of non-banking financial institutions” is defined to mean carrying in the business of a financial institutions referred to in clause © of sec 45-1 of the Act and includes business of non-banking financial company referred to in clause (f)

(ii) A company engaged in industrial activities or agriculture operating as its principal business is excluded from the financial institutions.

 “NBFC’ itself is defined under Sec. 45-1(f) of the RBI Act 1934 as under.

 Sec. 45 -1(F): “Non-banking financial company” means

* A financial institution which is a company.
* A non-banking institution which is a company and has its principal business in receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner.
* Such other non banking institutions as the bank may, with the previous approval of the Central Government and by notification in the official Gazette specify.

**mF-NBFC (Micro Finance Non Banking Financial Company)**

In India the micro finance revolution began in the 1980s with view to provide resources to help the poor to attain self sufficiency and supplement efforts to strengthen credit scheme-Integrated Rural Development Programme (IRDP) in India.

Microfinance means providing very poor families with very small loans (micro credit) to help them engage in small businesses. Micro finance is defined as “the provision of thrift (savings), credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve living standards.”

There are two main models of micro credit in the country and they are ‘banking model’ and the ‘MFI (Micro Finance Institution) model’. In the case of the banking model, Self Help Groups are formed and financed by banks. In the ‘MFI model’ SHGs are formed and financed by the MFIs that obtain resource support from various channels. NBFCs with view to undertake micro finance activities should have a minimum capital of Rs.2 crore and requiring registration with the Reserve Bank of India. mF-NBFCs (micro finance non banking financial company) are allowed tax concession to the extent of 40% of their profits operating in excluded districts identified by NABARD.The micro financial sector (Development and Regulation) Bill 2007 was passed on 20th March, 2007.The Bill empowered the National Bank for Agriculture and Rural Development (Nabard) to regulator micro-financial sectors. According to this bill, Banks and deposit taking Non-Banking Financial Companies (NBFCs) have to comply with Reserve Bank of India’s (RBI) prudential norms designed to safeguard depositors’funds.

**REVIEW OF LITERATURE**

Before exploring new phenomenon, it is necessary to look into various aspects already studied. As a research is a continuous process. It must have some continuity with earlier facts. The knowledge gathered in the past studies should be consolidated to provide strong base for the present study. Saha committee (1992) has recognized NBFCs as an integral part of Indian money market for its effective role and diversification activities to ensure development process of Indian economy. P.R. Khanna Committee (1995) examined the need for monitoring the work of NBFCs through on-site inspection or off-site inspection.Dimitri & Vitas (1997) has made elaborate study on the role of Non-banking financial institutions (NBIs) in Egypt and other menna countries. Jyoti and Gupta (1999)conducted detailed study on NBFCs in their work, practice manual to NBFCs (Taxman allied services Pvt. Ltd.) New Delhi 1999). Dr. Verma (2001) was a prominent research scholar in the field of NBFCs. In his study “Concept, practices & procedures of Non-banking financial companies, he highlighted the role of NBFC and need of regulatory norms at global foot print. Apex Bank (2003):A comprehensive study was made by Apex Bank to study NBFC fund raising through debenture.Assocham Research of Bureau(2009)has made comprehensive study and analyzed corporate results of the 29 Indian banks and 7 non-banking financial companies (NBFCs) during the year financial year 2008-09. The average profit of NBFCs touched peak at 18.90% as compared to the banks with 10.08 per cent.

**RELEVANCE OF THE STUDY.**

According to RBI’s latest report on “Report on trends on progress of banking in India",mF-NBFCs are also great players in providing micro insurance, rural credit, mobilization of domestic savings financing second hand asset, financing commercial vehicles, motorcycles and financing household assets to rural people. This has been perceived as risky areas by bank.

Orissa is the poorest among all the major states of the country in terms of overall poverty as well as rural poverty (rural povert-48.01%) in 2001. According to the Planning Commission of India, the incidence of poverty in Orissa has not been changed at the expected level (the percentage of below poverty line came down from 66.18% to 47.01%).The extent, depth and severity of rural poverty in Orissa are very high. The majority of the population (87%) lives in rural areas in the state and is highly dependent on agriculture (73%). All these rural problems are seen due to poor banking infrastructure. At this particular period mF-NBFCs are playing important role in providing rural credit to unbanked poor and changed their socio-economic status in the state. The small rural entrepreneur goes first to mF-NBFCs for funds even before he approaches banks in view of the former's easy access, freedom from red-tape and quick response. The mF-NBFCs are generating ample employment opportunities among rural youth in financing to start HH hold base micro enterprises in local areas through SHGs and JLGs models. It is on this background, the present study is important and interesting to study effectiveness of mF-NBFCs in promoting the socio-economic condition of rural poor in Orissa

**LIMITATIONS OF THE STUDY**

The study is also subject to certain limitations. These limitations are as follows.

* The present study is related only to new category of NBFC (mF-NBFCs). So the study does not cover the entire gamut of the mF-NBFCs due to paucity of time and other constraints.
* The appropriate data is a major concern in social science research. The present piece of work is not free from such limitation.

**Socio-economic profile of the study AREA.**

The state of Orissa is taken as study area comprising 30 districts. To easy logistics and reduce the cost of the survey, the present study decided to limit its geographical coverage to four poorest districts including Baragarh,Keonjhar, Rayagada and Mayurbhanja.While selecting four districts, importance was given to scheduled cast and tribal concentration in the district population. The mF-NBFCs like-Biswa,Sks micro finance ltd, Gramutthan, Bharatia Samrudhi financial service ltd. and JFSL are operating there for empowerment of rural poor. The stratified random sampling is used to select client households from clients list provided by mF-NBFCs. The non-clients were randomly selected in the same neighborhoods similar to the clients in terms of gender, sector, and location characteristics. The non-client sample consisted of all households who had never received services from the micro finance activities of mF-NBFCs being studied and living as neighbours in the same localities.

**OBJECTIVES OF THE STUDY**

The present study attempts to make critical evaluation effectiveness and prospective of mF-NBFCs in promoting socio-economic development of poor in rural Orissa. The specific objectives of this study are as follows.

* To examine the effectiveness of mF-NBFCs to ensure economic development of rural people in Orissa.
* To study customer friendly services of mF-NBFCs operating in rural Orissa in relation to provide micro insurance, micro finance.
* To suggest recommendations and suggestion on performance of mF-NBFCs as catalyst to rural development.

**RESEARCH METHODOLOGY**

**Data Sources**

The present study is based on certain facts and data, which are being collected from the following sources.

**Primary Source:** The study is primary based on the data collected from the field work. In all, 200 respondents were covered in four sample districts (Rayagada, Bargarha, Keonjhar, Mayurbhanja) in the state of Orissa and face to face interview was being made through questionnaires.

**Secondary Sources:** The sources of secondary data includes Periodicals reports of RBI (Reserve Bank of India) RBI,s websites, the economics times of India, The business standard, Occasional papers of RBI,district office of mF-NBFCs, RBI Branch in Orissa.

**Tools and Techniques**

The most appropriate research tools like: Anova, ratio, percentage etc. are being used to analyze the effectiveness of mF-NBFCs in promoting the socio-economic condition of rural poor households in Orissa.

**HYPOTHESIS**

The hypotheses reflect the participation in micro-enterprise or micro-finance services of mF-NBFCs leads. The six core hypotheses are analyzed here.

H.1. Increase Household Income

H.2. Diversification of Income

H.3. Increase in House holds Assets

H.4. Leads to an Increase in Savings

H.5. An increase in HH expenditures on Food and Non-Food Items

H6 - Impact on Human Capital Investments (Education and Health)

**data analysis**

**H-1. An increase in the level of Household Income.**

The HH’s income constitutes major components of national economy. Household income appears to be significantly impacted by participation in the micro financial services of mF-NBFCs.The first hypothesis (H-1) relates to an increase in the flow of income from the household’s activities.

The mF-NBFCs provide easy mortgaged free small loans to the poor and unbanked HHs through SHGs. Which are mainly engaged in the major livelihoods or income generating activities (IGA) like diary farms, vegetable cultivation, bamboo crafts, brass metal crafts, making incense sticks, rolling papers, tailoring, weaving, collecting kendupatra, salpatra, goat cultivation, etc. to raise HH’s income. This is clearly depicted on the following table-01

**Table-01: Showing Growth in Average Annual Real Household Income.**

|  |  |
| --- | --- |
| Indicators/variables | Clients & Non-clients |
| Non-clients | Clients |  Percent of change (Increase) |
| Average Income per year  | % to total | Average Income per year | %to total |
| Micro enterprises |  18,000 | 10.27% | 24000 | 10.33% | 6000 | 11.36 |
| Milchi cow |  36,000 | 20.54% |  43200 | 18.56% | 7200 | 13.63 |
| Vegetable cultivation |  14,400 | 8.21% |  18000 |  7.73% | 3600 | 6.81 |
|  Tailoring |  18,000 | 10.27% |  25100 | 10.82% | 7100 | 13.63 |
| Goat cultivation |  18,000  | 10.27% |  30,000 | 12.88% | 12000 | 22.72 |
| Brass metal crafts |  24,000 | 13.75% |  28400 | 12.39 | 4,800 | 9.08 |
| Trading/buying &selling | 10,800 |  6.16% |  14400 | 6.18% | 3600 | 6.81 |
| Bamboo crafts |  7,200 |  4.10% |  10800 |  4.63% | 3600 | 6.81 |
| Casual labours |  10,800 |  6.16% | 16800 | 7.21% | 6000 | 3.47 |
| Pollutry farm |  18,000 |  10.27% | 21600 | 9.27% | 3600 | 6.81 |
| Total |  157200 | 100 | 2,32 300 | 100 | 75100 | 100 |

Source: primary data

From the above table-01, it is indicated that goat cultivation is more profitable and rise of income (22.72%) in sample districts of Orissa. Tailoring and milchi cow ensure moderate change of income (13.63%).It is most suitable for women members of SHGs of mF-NBFCs.The poor rural HHs employed as casual workers brings small changes in their income (3.47%).The overall performance of micro finance activities really have positive impacts to increase income of rural HH’s income in the rural Orissa.

**H-2. Greater diversification in the sources of Household Income.**

Diversification of income is the common strategy of poor rural house holds to increase their overall household income levels and deals with seasonal fluctuation income. Micro finance services of mF-NBFC have a direct impact on diversification by facilitating the start-up of a new business.

**Anova Table-02 Showing Diversification of HH’s income in the sample districts in odisha.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sources of variation | SS | df | MS | F | F-critical |
| Between groups | 1.5 | 1 | 1.5 | 0.3462 | 7.7086 |
| Within groups | 17.3333 | 4 | 4.3333 |  |  |
| Total | 18.8333 |  5 |  |  |  |

Anova table-02 reflects weak evidences of diversifications of income from HH enterprises among clients and non-clients. From the above table-03 , it is depicted that calculated value of F (0.3462)< F, critical value (7.7086). So diversification of HHs income among client and non client is insignificant.The mF-NBFCs are more likely interested to deliver micro loans to the poor HHs having existing household enterprises. The recovery of loan seems to be easy and secured without any defaults.

**H-3. An increase in Household Assets.**

 Assets are important to household welfare. An increase in household assets includes improvements in housing, increases in major household appliances, cash savings and increases in micro enterprise fixed assets*.* Household physical assets encompass a broad range of items including animals, furniture, utensils, refrigerator, TV, moped, mobiles and houses and other real property.

 **Anova Table-03 Showing increase in Household Assets**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Sources of variation | SS | Df | MS | F | p-level | F criti  |
| Between Group | 14792 | 1 | 14792 | 5.0629 | 0.0372 | 4.41139  |
| Within Groups | 5259 | 18 | 292,1667 |  |
|  Total | 67382 | 19 |

The hypothesis is that participation in micro enterprises of mF-NBFCS in Orissa leads to increase in durable productive household assets among the clients than non-clients group in rural base of Orissa. This is evident from Anova analysis table-03, that the calculated value of F (5.0629) is higher than critical value of F (4.4139). The calculated value being more, the difference in possessing the durable productive house hold assets among non-clients and clients are significant. The poor clients HH group of mF-NBFCs in study districts of Orissa are able to acquire TV, radio, fridge, mobiles, cycle, ornaments etc to enhance their social status as their HH income is increasing. Thus the null hypothesis is being rejected.

 **H-4. Leads to an Increase in Savings**

 Savings include cash and non-cash savings. All types of savings are converted to cash at the time of financial crisis. The mF-NBFCs through SHGs or JLG models leads to accumulation of regular monthly savings of it members. The mF-NBFCs operating in rural Orissa providing micro insurance on life, on crops against natural calamities on cows, sheep, goats etc to compensate the losses. The mF-NBFCs maintain provision to deduct 2% to 5% of sanctioned amount of loan as an insurance premium. The mF-NBFCs savings rate of minimum 20 to 100 per month helps to improve their savings habit.

**Anova Table-04: Showing Increase in savings.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sources of variation | SS | df | MS | F | F criti  |
| Between Group | 37128125 | 1 | 3712812.5 | 59.9042 | 5.9874 |
| Within Groups | 371875 | 6 | 61979.1667 |
|  Total | 4084687.5 | 7 |

The hypothesis is that the participation in micro financial services of mF-NBFCs in rural Orissa leads to increases/ encourage rural saving habits of poor rural HHs clients than the non client groups. In terms of saving indicators, the proportion of poor rural unbanked household clients with saving is about 100%.From the above Anova table-04, it is computed that the calculated Value (F-59.9042) is greater (>) than the critical value (F,criti-5.9874). Hence, the null hypothesis thus drawn is sustained and variances on saving habits between rural poor client and non-client are significant. The poor HHs clients save more for secured future than non client poor HHs in rural Orissa. Hence null hypothesis seems to be rejected.

 **H-5. An increase in HH expenditures on Food and Non-Food Items**

An increase in expenditure on food may suggest improved nutritional status and overall well- being of poor HH members. An increase expenditure on non-food may suggest improved socio cultural status of poor rural HHs. Non-food expenditure includes clothing, medical, children education/care, celebrating HH festivals and birthdays of family members, electrification, entertainment, health care and frequent visit to nearby local bazaar/market at the evening hour.

**Anova Table-05 Showing Expenditure on Food and Non-food items.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sources of variation | SS | df | MS | F | F criti  |
| Between Group | 88445000 | 1 | 88445000 | 57.246 | 5.9874  |
| Within Groups | 9240000 | 6 | 1545000 |
|  Total | 97715000 | 7 |

More clients than non-clients reported that their household food and non-food consumption had improved. Anova analysis table-05 shows the positive impact of microfinance activities/HH enterprises of mF-NBFCs on the poor HHs in rural Orissa. The calculated value of F(57.246) is greater than the critical Value of F (5.9874). There is a significant variance in expenditure habits among clients non-client. Henceforth the null hypothesis is rejected.

**H6 - Impact on Human Capital Investments (Education and Health)**

Human resources are the valuable assets of the individual HHs as well as for a nation. The enhancement of HH human capital basically depends on education and health. The mF-NBFCs operating in Orissa play an important role in providing collateral free small loans to the rural poor unbaked HHs in enhancing HH income. This enables them to spend more expenditure on children education, women health care and children health care.

**Anova Table-06 Showing Education Expenditures**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sources of variation | SS | Df | MS |  F | F criti  |
| Between Group | 1280,000 | 1 | 1280,000 | 18.2857 | 5.9874 |
| Within Groups | 420,000 | 6 | 70,000 |
|  Total | 17,00,000 | 7 |

There were significant differences in rural poor clients and non-clients HHs with respect to children education expenditures. The poor client HHs of mF-NBFCs spends more expenditure on education than non-client groups. Anova table-06 shows that calculated value (F-18.2857) is greater than critical value(F,criti-5.9874), impact is significant. Hence null hypothesis is being rejected.

* **Health Expenditure**

Health is wealth. Health is the indispensable to enhance the quality of human capital. Investment in health is also important for ensuring the productivity of the HHs labor force and the more effective utilization of HH’s resources. Investment in women’s health, in particular have significant positive benefits for both the individuals concerned and for their children who face higher risks of diseases and health as poor malnutrition.

**Anova Table-07 Showing Health Expenditures**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sources of variation |  SS | Df | MS |  F | F criti  |
| Between Group | 1405,000 | 1 | 405,000 | 21.1304 | 5.9874 |
| Within Groups | 115,000 | 6 | 19166.6667 |
|  Total | 5,20,000 | 7 |

From the above Anova table - 07 , it is computed that the calculated Value (F-21.1304) is greater (>) than the critical value (F,criti-5.9874). Hence, the null hypothesis is thus drawn at the outset is sustained. That means poor HHs clients incurred more expenditures on health for HH members than non client poor HHs in rural Orissa. Hence null hypothesis seems to be rejected.

**CONCLUSION**

It is concluded that participation in the micro financial services of mF-NBFCs working in rural Orissa has positive impact on the clients. The statistical tools used in the study proved that micro finance activities of mF-NBFCs raises household income, enhance education level, increase rural saving habits, and enhance their saving capacity to cope with financial shocks.Long term participation in mF-NBFC’s activities has several positive impacts. Indeed, mF-NBFC acts as an effective financial intermediary in empowering rural poor households. Their roles in this context are commendable one.

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