

DEVELOPMENT OF BANKING AND
FINANCIAL INSTITUTIONS IN MEGHALAYA
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By

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INTRODUCTION

The present study is the first ever attempt at a critical analysis of some aspects of the working and performances of the banking industry and other financial institutions in a small hilly state of Meghalaya from its inception to March 1999.

Statement of the Problem

The importance of Commercial and Co-operative banking to modern economic life can hardly be exaggerated. Commercial banking has been known to the world from the earliest times. But commercial banking in its modern sense as a joint-stock undertaking came to be established some time in the middle of the 12th century. There is no dearth of literature on the origin and history of Commercial and Co-operative banking and their evolutionary growth and development. Banking has undergone many changes since the use of money as a medium of exchange to the present time. From a money-changing situation, it has developed into the creator and controller of credit. Hence credit creation becomes an important part of economic development model in Joseph Schumpeter's analysis of economic development.

Schumpeter while trying to emphasize on the conditions that are necessary for the performance of entrepreneurial function stressed on the importance of capital resources which enable the entrepreneur to have a command over the factors of

production. Without such command, diversion of resources from existing channels to new processes will be impossible. Therefore the provisions of credit play an important role in the process of economic development. Schumpeter laid emphasis on credit by the banks rather than on savings from current income as done by the neo-classical economists. According to him an entrepreneur secures credit from the banking system to finance his projects and even to carry out innovations.¹

In view of the above important role of commercial banking, we proposed to study its development in Meghalaya, a small and an industrially backward State in the Indian Union. Since special financial institutions were created in India after Independence as commercial banks cannot afford to provide adequate long-term industrial finance for rapid industrialisation of the country, we proposed to include as well the study of the development of these institutions in Meghalaya.

In addition, there has been a clamour in recent times in the State that poor performance of banks reflected in the credit-deposit ratio of 20.54 % as on March 31st 1999, has attributed to the failure of entrepreneurial development in the State. According to the study made by the State Government on the operations of the Scheduled Commercial banks in the State, Meghalaya is losing annually for a considerable number of years, a sum of Rs.500.00 crores in credit outflows to other

regions in the country because of the operational caprice of certain interest banks.² This fact has further added to the significance of this study.

Objectives of the study

The objectives of the study are as follows:

Keeping in mind the significance of the problem we have chosen for our study, an attempt has been made:

- (i) To look at the resource endowments of the State of Meghalaya and the development potentials that they provide, where banking can play a major role.
- (ii) To look into the history of banking and non-banking institutions and their expansion in Meghalaya.
- (iii) To study the performances of all the banks in the State for the last 27 years in terms of the amount of deposits mobilised, amount of loans and advances extended by them, their credit-deposit ratio, investment efforts and rate of recovery. In this regard, the study looks at the causes of the poor flow of credit resulting in the low C-D ratio in Meghalaya.
- (iv) To look into the workings and performances of the Non-Banking Financial Institutions and Companies in Meghalaya.

- (v) To come up with certain conclusions based on the findings on the overall performances of the banking and the non-banking financial institutions in an industrially backward State of Meghalaya.

Hypotheses

Our central hypothesis is that the commercial banks and other financial institutions in the State have made poor performance towards extending advances to the industrial entrepreneurs of the State. We therefore proposed the following hypotheses on their performances and the hypotheses have been duly tested.

1. The deposit mobilisation of each individual bank has grown up from year to year.
2. The loans and advances made by each bank and other financial institutions have also grown up.
3. In spite of the increase in deposit mobilisation and advances, the credit-deposit ratio of the banks is relatively very small in respect of the state of Meghalaya.
4. A considerable outflow of credit has led to the small credit-deposit ratio in Meghalaya, thereby deprived the State of the huge financial credit for its own economic development.

5. There has been a great hesitancy on the part of the banks to make loans and advances in the State due to institutional factors and poor recovery performance.

Methodology and Data Collection.

In this attempt we follow as far as possible the analytical method. Both the primary and the secondary data are made use of in this study. The primary data were personally collected from the main office of every individual bank in the State. The secondary data were obtained from library sources like the North Eastern Council Library, Shillong; North Eastern Institute of Bank Management Library, Guwahati; Jawaharlal Nehru University Library, New Delhi; National Institute of Public Finance and Policy, New Delhi and reports of the different banks existing in Meghalaya. Data have also been drawn from journals, books, research articles and other related papers.

The study covers the banking operations of the State Bank of India (SBI), Meghalaya Co-operative Apex Bank (MCAB), Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Federal Bank, Indian Overseas Bank, Indian Bank, Punjab National Bank, Syndicate Bank, UCO Bank, Union Bank, United Bank of India, Vijaya Bank and Regional Rural Bank (RRB). In addition to the analysis of bank's performances, the study of the other Non-Bank Financial Institutions and Companies is also included.

The study of the individual performance of banks could be made only under certain parameters such as total deposits, total advances, credit-deposit ratio, number of branches, number of the members of the staff due to non-availability of other data. This analysis has been done only for the period from 1991-92 to 1998-99 as the banks did not preserve the data relating to their performances from the date of their establishment up to March 1991. In the case of the non-bank financial institutions, the study has laid more emphasis on the amount of loans and advances sanctioned and disbursed by them in Meghalaya.

The statistical techniques of time series analysis have also been utilised in analysing the relevant statistical data. The different variables or broad heads of deposits, advances and credit-deposit ratio have been regressed on time, the variations explained by the time factor have been accounted for. This has been computed by the method of least square, by fitting simple linear regression equation.

Significance of the Study

The study is significant as banking and other financial institutions being one of the components of economic infrastructure have a very important role to play in sustaining economic development and can provide opportunities for the emergence of entrepreneurs in an industrially backward state of Meghalaya. The study however throws light on the poor performances of the banks in terms of advances which is reflected in their low C-D ratio. In spite of the loopholes in the banking industry, it is hoped that banking and other

financial institutions can still greatly contribute to the economic development of the State. The study spells out certain conclusions that the banking and non-banking financial sector can take note of in improving its overall performance in Meghalaya.

Organisation of the Thesis

The thesis comprises the following chapters:

In the First Chapter, the socio-economic profile of Meghalaya is given. In this Chapter we include the study of the resource endowments and the economic and social infrastructural facilities of the State.

The Second Chapter focuses on the history of banking in the world and its further development in the country is also traced in this Chapter.

In Chapter Three, we look into the origin of Non-Banking Financial Institutions in the world and in India. This chapter also touches on the performances of these institutions in the country. A brief study of the Non-Banking Financial Companies is also given in this chapter.

The Fourth Chapter covers the banking development of all the banks in Meghalaya from 1972 to 1999. In this chapter, we also look into the causes of the poor flow of credit in the state and the reasons thereof.

The Fifth Chapter analyses in detail the performance of each and every individual bank in respect of loans, advances and credit-deposit ratio from 1991 to 1999. This chapter is divided into two sections namely Section (A) and Section (B). The first Section deals with the performances of the SBI and the MCAB being the premier banks in the State and the second Section pertains to the performances of the other fifteen banks in Meghalaya. Chapter-V concludes with an aggregated picture of development of the seventeen banks in the State.

Chapter Six discusses the workings and performance of the Non-Banking Financial Institutions and the Non-Banking Financial Companies in Meghalaya. In this chapter a detailed analysis has been made only of the five Non-Banking Financial Institutions.

The concluding Chapter Seven summaries the major findings of the study and record the conclusion that emerges thereof.

Notes and References

1. Shumpeter, Joseph. A. *Theory of Economic Development*, An enquiry into profits, capital, credit, interest and business cycle. Translated by Redvors Opie, London, Oxford University Press, 196 (c 1934).
2. Data collected from the Finance Department, Shillong, Meghalaya.

CHAPTER VII

CONCLUSION

In the preceding chapters, attempt has been made to examine the resources of the state of Meghalaya, its socio-economic profile and development potentials, the history of banking and non-banking institutions and the performances of all these institutions in the State. In the course of examination, the trends in the development and the performances of all the banking and financial institutions in the State for the period from 1972 to 1999 have been analysed as far as possible and their special features and problems have also been discussed. After doing so, we shall now summarise the findings of the chapters and record our conclusion that emerges therefrom.

Summary of Findings

I

Meghalaya is blessed with enormous natural resources comprising forest, minerals and water and wind power resources. The important types of forest trees in Meghalaya consist of pines (*Pinus Kasia*), sal (*Shorea Robusta*) and teak. Bamboo also grows abundantly throughout the State. Meghalaya forests have the largest species of orchids, medicinal plants and herbs. The forest area as percentage of

the total area of the State stands at 41.70 as against the All-India average of 19.27.

As regards minerals the State has large deposits of *coal* approximately amounting to 1197 million tonnes. The State has also the *largest single reserve of limestone* in India. It accounts for *an unsurpassable deposit of high-grade limestone*. According to the Geological Survey of India (GSI), the estimated reserves of limestones in the State come to 943 million tonnes while the Directorate of Mineral Resources of the State estimated the reserves at 3100 million tonnes. There are also fairly large deposits of different types of *clay* in Meghalaya. The State has the world largest deposit of *Sillimanite*. The various north-flowing and south-flowing rivers of the state provide great potentials for both large and mini-sized hydro-electric projects. Meghalaya is well known as the wettest place in the world.

So far as the infrastructural facilities are concerned, both economic and non-economic, it can be said that they are still too weak to sustain a rapid industrialisation of the state of Meghalaya. Our present survey deals with one of the important economic infrastructural facilities of the state namely, banking development and we have made a humble attempt to make an in-depth investigation into the working and development of the banking and financial institutions in the State and a number of their problems and prospects have been brought to light and summarised in the succeeding sections.

The people of the State are hard working but the rate of literacy was only 49.1 % as compared to the national average of 52.2% according to the 1991 census.

II

Our study of the history of money and banking has shown that the first forms of money were commodities like glass, oil, rice and other materials. In course of time metals like gold and silver were used as money. Thereafter a metal coinage of uniform and proper value was established to serve as a perfect medium of exchange. The first coins of different shapes were struck in Greek cities and in their colonies in Sicily and Italy. Besides coins of metals, paper money was also introduced in the 17th century. Credit money or bank money was developed subsequently.

With the increase in the quantity of money, people began to look for a safe place to keep their surplus amount of money. This led to the creation of banks. The science of Banking originated in Italy and spread elsewhere. Banking in India has its origin in ancient time in temples where gold and other valuables were deposited. But the actual deposit banking system came into existence during the Christian era. The East India Company laid the foundation of modern commercial banking in India. The first joint-stock bank set up in India in 1770 was the Bank of Hindustan. This was followed by the setting up of the Bengal Bank in 1784 and the General Bank of

India in 1786. In order to cater to the needs of foreign rulers, a number of quasi-government banking institutions were established. They included the Presidency Bank of Bengal (1806), the Presidency Bank of Bombay (1840) and the Bank of Madras (1843). The amalgamation of these three banks in 1921 gave birth to the Imperial Bank. In January 1962, a system of deposit insurance was introduced in India. The Deposit Insurance Corporation with a capital of Rs. 1 crore is owned by the RBI. The insurance covers a sum of Rs. 10,000 in respect of each depositor.

The Reserve Bank of India (RBI) was established in the year 1934 after the passing of the R.B.I. Act, 1934. It started functioning in the following year 1935. In order to govern fully the transactions of the banking companies after Independence, the Banking Regulation Act, 1949 was passed. This Act has given more powers to the R.B.I. to control and regulate the banks in the country. The State Bank of India Act was passed in 1955 establishing the S.B.I. The Banking Companies (Acquisition and Transfer of Undertakings) Act was passed in the year 1970 to nationalise the fourteen major commercial banks with retrospective effect from 19th July 1969. The regional rural banks have been established under the Regional Rural Bank Act, 1976. The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance was promulgated in 1980 to nationalise the other six major commercial banks in the country.

In the post nationalisation period, the banks are asked by the Government to follow a 'Target-Oriented Approach' in advancing credit to priority sectors including agriculture, small industry, small transport, retail trade, small business professionals and self-employed persons. There has been a considerable expansion of Bank's offices after the nationalisation of the 20 commercial banks. The number of scheduled commercial banks' offices has increased from 8,262 in June 1969 to 64,980 in June 1999. As a result of this large expansion, the population per bank office has come down from 65,000 in 1969 to 15,000 at present. The aggregate deposits of these banks which stood at Rs.4,646 crores in June 1969 shot up by more than 150 times to Rs.7,17,271 crores in March 1999. As in the case of deposits, there was a huge spurt in advances as well. The advances which stood at Rs.3,599 crores, increased by more than hundred times to Rs.3,68,837 crores in March 1999.

The Narasimham Committee was appointed in August 1991 to look into the distortions of the Indian banking and financial system and to suggest necessary reforms. The Committee identified two major causes behind the distortions in the Indian financial system. These were (i) Directed Investment and Credit Programmes and (ii) Political Interference. The reform measures were thus adopted for correcting the distortions. The CRR and the SLR have been fixed at 25% and 10% respectively. The Recovery of Debts Act was passed in 1993 for the prompt adjudication and recovery of debts. A number of reforms have also been

adopted with regard to the DFIs and the Money and Capital Markets. The second report submitted by the Committee in 1998, made two new recommendations. These are (i) merger of strong units of banks and (ii) adoption of the "narrow-banking" concept to rehabilitate weak banks.

III

The study in the development of non-banking Institutions throws light on the Non Banking Financial Institutions (NBFIs) which form part and parcel of the financial market. The first NBFIs to be set up in the world are Development Banks like 'Societe General pour Favourises Industrie National' in Belgium in 1822 and Credit Mobiliser of France established in 1852.

The development banks in India came into existence after Independence. The first development bank to be set up in the country is the Industrial Finance Corporation of India (1948) followed by the Industrial Development Bank of India (1964), the National Industries Development Corporation (1954), the Industrial Credit and Investment Corporation (1955), the National Small Industries Corporation (1955), the National Bank for Agriculture and Rural Development (1982), the Small Industries Development Bank of India (1990) and the Industrial Investment Bank of India (1997).

In addition to the above mentioned development banks, there are other financial institutions in the country. These are

(1) Specialised financial institutions comprising RCTC Ltd., TDICI Ltd., and IFCI Ltd., (2) Investment Institutions comprising LIC, GIC, and UTI (3) Insurance and Credit guarantee Institutions comprising DICGC and ECGCI and (4) Securities Exchange Board of India (SEBI).

The total amount of loans sanctioned by all non-banking financial institutions in the country rose from Rs. 3,825.97 crores during 1982-83 to Rs. 54,199.3 crores during 1996-97, recording a growth of 1317 %. The disbursements increased from Rs. 2,905.92 crores during 1982-83 to Rs. 41,000.60 crores in 1996-97, reflecting a growth of 1311 %.

Besides the NBFIs, the Non-Banking Financial Companies (NBFCs) have emerged as substantial contributors to the strengthening of the Indian financial institutions. There has been a rapid increase in the number of NBFCs in India. The number rose from 7,063 in 1981 to 10,194 in March, 1996. The regulated deposits and public deposits of 10,194 reporting companies as on March 1996 stood at Rs. 45,440.3 crores and Rs. 20,792.1 crores respectively.

In recent years there has been a mushroom growth of NBFCs in the country. The important ones among them are the Investment Companies, Chit Fund Companies and the Nidhis or the Mutual Benefit Finance Companies. Several measures were adopted by the RBI from time to time in extending its control over the NBFCs. An important step taken was the announcement of a Task Force to look into the entire gamut of

the working and functioning of the NBFCs. The RBI has also set up a separate Department to deal with the transactions of the NBFCs. The RBI Amendment Act, 1997 has introduced compulsory registration of the NBFCs with the RBI. A company wishes to operate as NBFC should have a minimum NOFs of Rs. 25 lakhs and the RBI could also increase it to Rs. 2 crores.

IV

The study of Banking performance in Meghalaya reveals that banks existed in Meghalaya long before the state attained its statehood in 1972. There were 6 commercial banks transacting banking activities in 17 banks' offices as on December 1972. By the 31st March, 1999 there were seventeen banks carrying on banking activities in the State with a total number of 216 branches. There were 141 banks' branches in rural areas, 23 in semi-urban and 52 in urban areas, accounting for 65.27 %, 10.65 % and 24.07 % respectively.

It may be observed that the average population per bank office has declined from 67446 in 1971 to 16909 in 1981 and further to 9390 in 1991 due to the rapid increase in the number of branches during this period. But during 1991-99, only 27 branches of banks were set up in the state and this has unexpectedly caused the increase in average population per bank office from 9,390 in 1991 to 10,023 in March, 1999. This had happened as the growth of population by 21.99% was higher than the growth of banks' branches by only 14.29%.

The study also shows that there is enough scope for deposit mobilisation in the State as the *per capita* deposit in Meghalaya which stood at Rs. 4,971 in 1997 was lower than that of All-India figure of Rs. 5,204 in the same year by Rs. 233. The *per capita* credit of Meghalaya which amounted to Rs. 874 was very low when compared to the All-India figure of Rs. 2858 in 1997.

It may also be observed that more loans have been advanced by the Banks to non-priority sectors like Personal Loan and Professional Services. On the other hand, the amount of loans advanced to development sectors has been very low. Agricultural credit is also diverted to other uses like marriages, deaths and ceremonies.

Another feature noted in our study of banking in Meghalaya for 27 years is that the MCAB could mobilise the highest level of deposits in June 1972 which stood at Rs. 108.89 lakhs. Its C-D ratio was also the highest of all the banks in the State in March 1972, December 1982, December 1992 and March 1999 at 23.51 %, 51.92 %, 39.93 % and 37.86% respectively. The bank could advance more because it is a State's Co-operative bank carrying on banking activities only within the State. Hence, it becomes much easier for the bank to monitor its banking activities.

The C-D ratio of scheduled commercial banks has increased from 10.84 % in June 1972 to 16.61% in March

1999. The C-D ratio of Regional Rural Bank has also increased marginally from 27.46% in 1982 to 28.54% in 1999. The C-D ratio of all the banks in the state declined from 20.99% as on 31st March 1992 to 20.54% as on 31st March 1999.

The study has spelled out some of the factors that led to the poor flow of credit in the state. These include low agricultural productivity, prevalence of restrictive land laws, poor recovery of loans, slow progress of industrialisation, absence of planning at the grass root level, poor economic environment, short tenureship of the bankers, delay in sanctioning of loans, complexities of loan procedures, redtapism and political pressure. After analysing the factors responsible for poor flow of credit, the study has also analysed the measures suggested to be taken up in improving the flow of credit in the state. These are promotion of agriculture on watershed approach, multiple cropping system, introduction of agricultural technology, horticulture plantation, documenting ownership and tenancy rights over land, enforcing the Recovery of Debts Act, 1993, rapid industrialisation, preparation of credit and village plans, creation of a conducive economic environment, longer stay of the bankers at a particular place, simplicity of loan procedures and a higher credit flow as targets of the banks.

The banks in Meghalaya have been able to mobilise large deposits but their advances within the state is too low, bringing down the C-D ratio in the state as a whole. If the

flow of credit inside the state is not enhanced, the people's savings must have been siphoned off outside the state. The findings of the performances of each individual bank are now summarised.

V

The study reveals that SBI leads in the number of branches with 85 followed by RRB with 51 and MCAB with 37 branches. The SBI has been designated as the Lead bank for all the seven districts in Meghalaya. The total deposits mobilized by the SBI in the state rose from Rs. 561.58 lakhs in December 1967 to Rs. 48,488.00 lakhs in March 1999, showing a growth of 8534 % in a period of 32 years. Total advances disbursed also increased from Rs. 85.60 lakhs to Rs. 8125.00 lakhs during the same period, reflecting a growth of 9392%. With the increase in advances, which is more than the increase in deposits, the C-D ratio stepped up from 15.24% to 23.31%. The study also shows that the exponential growth rate of the bank's deposits from 1991 to 1999 stood at 13% after working the regression analysis. R^2 stood at 0.98, indicating that only 2% of the variations in the growth rate is not explained by time factor or not accounted by the regression equation. The exponential growth rate of the advances from 1992 to 1999 stood at 12% and 89% of this rate could be explained by time factor. The C-D ratio reflects an exponential growth rate of -01% for the eight years and only 17% of the variations in the growth rate is due to time factor.

The percentage share of the SBI in the total deposits mobilised by all the banks in the State stood at 35.73 as on 31.03.99. The percentage share of the SBI in total advances stood at 29.15 as on the same date. The SBI has crossed the stipulated norm of 40% in their advances to Priority Sector during 1991-92 to 1998-99.

The total deposits mobilised by the MCAB increased from Rs. 108.89 lakhs in 1972 to Rs. 20,509.29 lakhs in March 1999, indicating a growth of 18,735%. Disbursements rose from Rs. 25.60 lakhs to Rs. 7,764.86 lakhs during the same period, recording a growth of 30,231%. The C-D ratio of the bank increased from 23.51% to 37.86%. Regression equation indicates that the exponential growth rate of MCAB's deposits from 1992 to 1999 stood at 16% and 96% of the variations in this rate is explained by time factor. The exponential growth rate of the bank's advances for the same period stood at 15% and R^2 is equal to 0.97. The C-D ratio's exponential growth rate for the eight years stood at -02% and only 18% of the variations in this growth rate could be explained by time factor.

The percentage share of the MCAB in total deposits and total advances mobilised and disbursed by all the banks in the State as on 31.03.99 stood at 15.11 and 27.86 respectively. The advances to Priority Sector by the MCAB during 1991-92 to 1998-99 showed a fluctuating trend, though it has exceeded the stipulated norm of 40% in all the eight years.

The total deposits mobilised by the ALB rose from Rs. 364.50 lakhs in March 1992 to Rs. 659.25 lakhs in March 1999. Total disbursements jumped from Rs. 25.20 lakhs to Rs. 141.32 lakhs during the same period. The C-D ratio also increased from 6.91% to 21.42%. After working the regression analysis, the study reveals that the exponential growth rate of the Bank's deposits, advances and C-D ratio for a period of eight years stood at 06%, 22% and 16% respectively. R^2 of the three variables stood at 0.21, 0.96 and 0.74 respectively.

The percentage share of the ALB in the total volume of deposits collected by all the banks in the State as on 31.03.99 stood at 0.48 and the percentage share in total advances as on the same date stood at 0.50. The advances made by the ALB to Priority Sector was above 40% during 1991-92 to 1997-98 and stood at 30.36% as on 31.03.99.

The BOB could mobilise Rs. 1840.20 lakhs as on 31st March, 1992 and the amount increased to Rs. 3328 lakhs as on 31st March, 1999. Total advances jumped from Rs. 360.00 lakhs to only Rs. 378.41 lakhs during the same period. The C-D ratio declined from 19.56 % to 11.37%. Regression equation of the Bank's deposits, advances and C-D ratio shows that the exponential growth rate of the three variables from 1992 to 1999 stood at 07%, -00% and -07% respectively. R^2 of the three variables is equal to 0.31, 00 and 0.21 respectively.

The percentage share of the BOB in the total deposits and advances mobilised and disbursed by all the banks in the

State as on 31.03.99 stood at 2.45 and 1.36 respectively. The advances to Priority Sector was below the norm of 40% during the eight years period under study.

The total deposits mobilised by the BOI aggregated to Rs. 675.00 lakhs as on 31st march 1992 and the quantum increased to Rs. 2592.39 lakhs as on 31st March, 1999. Total advances rose from Rs. 110.00 lakhs to Rs. 370.17 lakhs during the same period. The C-D ratio of the Bank fell down from 16.30 % to 14.28%. The exponential growth rate of the Bank's deposits, advances and C-D ratio for eight years stood at 20%, 22% and 25% respectively. R^2 of the three variables is equal to 0.72, 0.61 and 0.02 respectively.

The share of the BOI in total deposits and total advances as at end March 1999 stood at 1.91% and 1.33% respectively. Advances to Priority Sector made by the Bank showed inconsistency during 1991-92 to 1993-94 and an increasing trend from 1995 onwards.

The total deposits mobilised by the CAN Bank increased from Rs. 1,680.00 lakhs as on 31st march 1992 to Rs. 4626.64 lakhs as on 31st March, 1999. Disbursements rose form Rs. 280.00 lakhs to Rs. 415.82 lakhs for the same period. The C-D ratio which stood at 16.67 % in March 1992 fell down to 8.99 % in March 1999. The Regression analysis reveals that the exponential growth rate of the Bank's deposits, advances and C-D ratio for the eight years under study stood at 14%, 06% and -08% respectively. 95% of the variations in the growth

rate of deposits, 74% of the variations in the growth rate of advances and 81% of the variations in the growth rate of C-D ratio are explained by time factor.

The share of the CAN Bank in total deposit mobilisation and total disbursement as at end March 1999 stood at 3.41 and 1.49 respectively. The amount of loans extended by the Bank to Priority Sector was above 40% during the eight year period under study.

The CBI's total deposits rose from Rs. 1,559.13 lakhs in March 1992 to Rs. 3,108.55 lakhs in March 1999. Total advances jumped from Rs. 176.96 lakhs to Rs. 676.42 lakhs during the same period. The C-D ratio of the Bank rose from 11.35 % to 21.75%. The exponential growth rate of the bank's deposits, advances and C-D ratio for the eight years under study stood at 16%, 23% and 07% respectively. R^2 of the three variables accounted for 0.73, 0.89 and 0.56 respectively.

The CBI accounted for a share of 2.90% in total deposits and 2.43% in total advances as on 31.03.99. The advances to Priority Sector has crossed the stipulated norm of 40% only in the calendar year 1997 and as at end March 1999.

The deposit mobilisation of the FED Bank increased from Rs. 879.59 lakhs in March 1992 to Rs. 3,780.00 lakhs in March 1999. Total advances granted rose from Rs. 104.79 lakhs to Rs. 342.00 lakhs during the same period. The C-D ratio dropped down from 11.71 % to 9.05 %. The exponential

growth rate of the Bank's deposits, advances and C-D ratio for the eight years under study is equal 20%, 09% and -10% respectively. R^2 of the said variables stood at 0.91, 0.18 and 0.35 respectively.

The share of the FED Bank in total deposits and total advances as at end March 1999 stood at 2.79% and 1.23% respectively. The Priority Sector advances extended by the Bank was less than 40% during the eight year period under study as the Bank is not a nationalised bank.

The IOB could mobilise deposits of Rs. 1380.00 lakhs as on 31st March, 1992. The amount rose to Rs. 5937.56 lakhs as on 31st March 1999. Total advances increased substantially from Rs. 170.00 lakhs to Rs. 2488.30 lakhs during the same period. The excessive increase of advances caused the C-D ratio to jump from 12.32 % to 41.91%. Regression equation reveals that the exponential growth rate of the Bank's deposits, advances and C-D ratio for the eight years under study stood at 23%, 28% and 05% respectively. R^2 of the three variables stood at 0.91, 0.58 and 0.04 respectively.

The IOB accounted for a share of 4.38% and 8.93% in total deposits and total disbursements made by all the banks in the State as at end March 1999. The advances to Priority Sector was below the norm of 40% for the eight year period under study.

The total deposit mobilisation of the INB increased from Rs. 650.00 lakhs as on March 1992 to Rs. 3362.94 lakhs as on March 1999. Disbursements also increased from Rs. 110.00 lakhs to Rs. 500.53 lakhs during the same period. The C-D ratio however declined from 16.92 % to 14.88%. The exponential growth rate of the bank's deposits, advances and C-D ratio for eight years is equal to 21%, 13% and -08% respectively. R^2 of the three variables stood at 0.94, 0.48 and 0.39 respectively.

The percentage share of the INB in total deposits and total advances collected and disbursed by all the banks in the State as on 31.03.99 stood at 2.48 and 1.80 respectively. The advances to Priority Sector showed a fluctuating trend during the eight year period under study.

The amount of deposits mobilised by the PNB rose from Rs. 734.42 lakhs as on March 1992 to Rs. 2155.77 lakhs as on March 1999. Total advances increased from Rs. 134.28 lakhs to Rs. 372.72 lakhs for the same period. The C-D ratio fell down from 18.28 % to 17.29 %. The regression equation works out the exponential growth rate of the Bank's deposit, advances and C-D ratio for eight years at 16%, 14% and -02% respectively. R^2 of the three variables is equal to 0.78, 0.92 and 0.03 respectively.

The PNB constituted a share of 1.59% in total deposits mobilised by all the banks in the State and a share of 1.34% in total loans extended by all the banks as at end March 1999. In

the advances to Priority Sector the PNB has crossed the stipulated norm of 40% during 1991-92 to 1995-96 and during 1997-98 to 1998-99.

As on March 1992, the aggregate deposits of the SYN Bank amounted to Rs.680.00 lakhs. It rose to Rs.2779.00 lakhs as on March 1999. Total advances stood at Rs.102.20 lakhs and Rs.243.59 lakhs as on the two dates. C-D ratio fell sharply from 15.03 % to 8.77 %. Regression Co-efficient of the Bank's deposits, advances and C-D ratio for eight years is equal to 19 %, 11% and -09% respectively. R^2 of the said variables stood at 0.97, 0.92 and 0.88 respectively.

The SYN Bank accounted for a share of 2.05% and 0.87% in total deposits and total advances respectively mobilised and disbursed by all the banks in the State as at end March 1999. The advances to Priority Sector was below 40% for the eight years under study.

The UCO Bank could mobilize total deposits amounted to Rs.1320.00 lakhs by end March 1992. The quantum rose to Rs.4924.00 lakhs by end March 1999. Total advances disbursed rose from Rs.270.00 lakhs to Rs.425.00 lakhs as on the said dates. The C-D ratio fell sharply from 20.45 % to 8.63 %. The regression analysis shows that the exponential growth rate of the Bank's deposits, advances and C-D ratio for eight years under study is equal to 19%, 05% and -14% respectively. R^2 of the three variables worked out to be 0.98, 0.14 and 0.54 respectively.

The UCO Bank constituted a share of 3.63% and 1.52% in total deposits and total advances respectively as on 31.03.99. The amount of loans extended by the Bank to Priority Sector showed a fluctuating trend. It was the highest at 64.28% as at end March 1998.

The total deposit mobilization of the UNB aggregated to Rs.832.00 lakhs as on 31st March 1992. The quantum rose to Rs.2140.60 lakhs as on 31st March 1999. Disbursements increased from Rs.380.00 lakhs to Rs.412.50 lakhs for the same period. The C-D ratio declined from 45.67 % to 19.27 %. The exponential growth rate of the Bank's deposits, advances and C-D ratio for eight years stood at 18%,-01% and -18% respectively. 81%, 00% and 56% of the variations in the Bank's exponential growth rate of deposits, advances and C-D ratio are explained by time factor.

The percentage share of the UNB in total deposits and total advances collected and extended by all the banks in the State stood at 1.58 and 1.48 respectively as on 30.03.99. The advances to Priority Sector was below 40% during the eight year period under study.

The total deposits collected by UBI aggregated to Rs.3986.00 lakhs as at end March 1992. The amount rose to 11381.45 lakhs as at end March 1999. Total disbursements increased from Rs.672.30 lakhs to Rs.1902.46 lakhs as on the said dates. The C-D ratio fell marginally from 16.87% to

16.71%. The exponential growth rate of the Bank's deposits, advances and C-D ratio works out to be equal to 17%, 12% and -05% respectively. R^2 of the three said variables stood at 0.96, 0.74 and 0.22 respectively.

The UBI accounted for a share of 8.39% and 6.83% in total deposits and total advances respectively as on 31.03.99. The Priority Sector advances made by the Bank was above 40% for all the eight years under study.

As on 31st March 1992 the VJB mobilized deposits of Rs.2460.30 lakhs. The amount rose to Rs.7750 lakhs as at end March 1999. Total disbursements increased from Rs.303.00 lakhs to Rs.981.00 lakhs as on the above two dates. C-D ratio of the Bank increased marginally, from 12.32 % to 12.65 % respectively. The Regression Co-efficient of the Bank's deposits, advances and C-D ratio for eight years stood at 18%, 18% and -00% respectively. R^2 of the said variables is equal to 0.96, 0.91 and 0.01 respectively.

The share of the VJB in total deposits and total advances as at end March 1999 stood at 5.71% and 3.52% respectively. The Priority Sector advances was above 40% only in December 1992. From December 1993 to March 1998 it was below 40%.

The RRB could mobilize deposits of Rs.2395.60 lakhs as at end March 1992. The quantum rose to Rs.8173.84 lakhs as at end March 1999. Total loans granted by the Bank increased from Rs.657.91 lakhs to Rs.2333.34 lakhs as on the above

dates. The C-D ratio increased from 27.47 % to 28.55 %. The exponential growth rate of the Banks deposits, advances and C-D ratio for the eight years under study stood at 16%, 19% and 03% respectively. 0.89, 0.98 and 0.17 of the variations in the exponential growth rate of deposits, advances and C-D ratio are explained by time factor and the rest remained unexplained by time factor or not accounted by the regression equation.

The RRB accounted for a share of 6.02% and 8.37% in total deposits and total advances respectively as at end March 1999. The RRB being a rural bank extended financial assistance to Priority Sector more than 80% right from December 1992 to March 1999 and above 90% during 1992-96 and 1998-99.

The findings of the performances of the NBFIs and the NBFCs are now summarised here.

VI

The AFC, Shillong Branch was set up in Meghalaya in the year 1979. The main function of the AFC is to provide loans to industrial units. The amount of loans sanctioned by the Corporation in Meghalaya aggregated to Rs.1.77 crores during 1987-99. During 1993-94, 1996-98 no loans were sanctioned by the Corporation in the State. This is because no amount was recovered in 1993-94, and from 1994 onwards SIDBI has stopped its contribution to the Corporation.

The IDBI came into existence in Meghalaya in the year 1986. The amount of loans sanctioned by the IDBI in the State during 1986-87 stood at Rs.11.93 crores. It fell down to Rs.2.89 Crores in 1996-97. During 1997-99 financial assistance was not granted because there was no proposal for IDBI's investment in medium and large scale industries Disbursements too dropped from Rs.8.03 crores in 1986-87 to Rs.2.89 crores in 1996-97. The percentage share of the IDBI's sanctions in the State in the All-India sanctions was the highest at 0.26 in 1986-87 and the lowest at 0.02 in 1996-97. The percentage share in the All-India disbursements was the highest in 1986-87 at 0.25 and the lowest in 1994-95 at 0.02. The declining role of IDBI in the State is because the small scale units have been taken care of by SIDBI since 1990.

The MIDC was established in 1971. The amount of loans sanctioned to Small Scale Units and Small Road Transport Operators during 1978-79 stood at 39 lakhs. The amount rose to 451.60 lakhs during 1998-99. Disbursements made by the MIDC increased from Rs.14.35 lakhs to Rs.207.63 lakhs as on the above two years. In addition to the financial assistance provided, the Corporation is also conducting training programmes from time to time. The exponential growth rate of loans sanctioned to SSIs stood at 16% and loans sanctioned to SRTOs stood at 8.18%. The exponential growth rate of disbursements to SSIs and SRTOs stood at 17% and 43% respectively.

In Meghalaya, the NABARD Regional Office was established on 12th July 1986. The amount of sanctioned loans by NABARD in the state aggregated to Rs. 0.05 crores in 1986-87. The quantum rose to Rs. 8.02 crores in 1998-99. In 1986-87 loans sanctioned by the NABARD in Meghalaya accounted for a share of 0.004% in the All-India disbursements. The percentage share rose to 0.18 in 1998-99. The exponential growth rate of loans disbursed by the Institution from 1986-99 stood at 37%.

The SIDBI has only one branch in Meghalaya. The amount of financial credit sanctioned by the SIDBI during 1990-91 stood at Rs. 2.69 crores and the amount disbursed aggregated to Rs. 2.80 crores. Likewise, in the following year Rs. 1.62 crores was sanctioned and 1.68 crores was disbursed. Disbursements was more than the sanctions because some funds were transferred from IDBI to SIDBI prior to 1990. Sanctions increased to Rs. 5.13 crores and disbursements to Rs. 3.01 crores in 1998-99. The proportionate share of SIDBI, Shillong Branch to the All-India sanctions declined from 0.11% in 1990-91 to 0.06 % in 1998-99. The proportionate share in disbursements also declined from 0.15% to 0.05% during the same period. This reflects that the increase in state's sanctions and disbursements could not keep pace with All-India sanctions and disbursement. The exponential growth rate of loans sanctioned by SIDBI from 1990-91 to 1998-99 stood at 15% and the exponential growth rate of loans disbursed during the same period stood at 09%.

Conclusion

On the basis of the findings summarised in the foregoing sections, certain conclusion emerges which is given in the following paragraphs.

(A)

Meghalaya is blessed with abundant forest, minerals and water resources. The climate in Meghalaya has also been found suitable for tea cultivation. Moreover, floriculture development can also be encouraged as Meghalaya has the largest and best species of orchids. Tourism can also be developed as an industry and huge revenue and foreign exchange can be earned from this sector.

Meghalaya can rapidly develop industrially if its resources are properly exploited and utilised. It is here that the banking and financial institutions have a great role to play. The State is however still economically underdeveloped. It may be concluded that either there is lack of entrepreneurship or the banks have failed to motivate the people of the State to emerge as successful entrepreneurs to utilise the bank resources for industrial and other purposes. The banks should not concentrate excessively only on the mobilisation of funds but should increase their participation in the process of economic development of the State by extending their credit facilities to all sectors of the economy.

(B)

The banking industry has expanded considerably since the nationalisation of the major commercial banks. There has been a tremendous increase in the number of banks' branches, deposits and advances. The role of the banks has undergone a revolutionary change after nationalisation. The banks have been made to strive towards achieving the social and national objectives. They have become not only the dealers in money but also the providers of variety of services required for a developing economy like India. There is no denying the fact that among all the banking companies, the nationalised banks have contributed a lot to the industrial development of the Indian economy. However, three of the nationalised banks, namely, the Indian Bank, the UBI and the UCO Bank have suffered too heavy a loss that they were to be merged or sold out to private parties.

The privatisation of the nationalised banks has gained ground in the country because of the failure of these three banks. But there are good grounds to support the continued existence of nationalised banks especially to provide a safety net for the weak and backward sectors and regions of the country. The nationalised banks can co-exist with the private-sector banks thereby bring about a competition in the industry for maximizing their profits. Total privatisation of the banking industry would prove to be adverse to the backward regions and the under privileged sections. Hence, there should be a co-existence of both public and private sector banks.

(C)

The role played by the NBFIs in economic development can hardly be overemphasized. They can make substantial contribution to economic development by increasing the level of savings and by assisting the public to invest the surplus funds in their instruments. The main task of the NBFIs is to allocate efficiently the scarce savings among productive channels. The NBFIs also have remarkably expanded their performances in the past few years. Today they are playing a significant role in catering to the needs of the different sectors of the economy and the different sections of society. But the problem is that small borrowers cannot directly avail themselves of the facilities provided by some of these institutions like the SIDBI. In order to increase the advances of these institutions, it is essential to bring down the stipulated minimum project cost so as to enable small ventures and projects to be accommodated by these financial institutions. This would especially help entrepreneurs and investors to emerge in an industrially under-developed state of Meghalaya.

The NBFCs have also emerged as significant players in the financial sector of the State. They have been able to cater to the credit needs of sectors like equipment leasing, hire purchase, housing finance and other sectors. There has been a rampant growth of the NBFCs in the State. They are no doubt supplementing the financial assistance extended by the banks

and other financial institutions but their growth has to be accompanied by an appropriate regulatory framework so as to prevent their mischievous deeds already suffered in the State. It calls for the need to transform the Department of Financial Companies now under the RBI, into an Apex body exclusively meant to control and regulate the functions of the NBFCs under the direction of the RBI.

(D)

Most of the rural areas in North-East India in general and in Meghalaya in particular have not been covered by the banking network. In Meghalaya, the East Khasi Hills has the highest number of branches which stood at 86 as on 31.03.99 followed by West Khasi Hills with 38.

The banks have been able to mobilised huge deposits but their advances within the State is very low which is reflected in the low C-D ratio of 20.54% as on 31.03.99. Hence a specific strategy in increasing the C-D ratio has to be adopted by the bankers in collaboration with the State Government. The recovery rate has to be stepped up in order to increase the flow of credit within the State. The increase in advances has to be accompanied by development in the economy through industrialisation. Hence it can be concluded that banks' advances are the cause as well as the result of economic development of the State.

(E)

The overall performance of the SBI, the premier bank in Meghalaya is far from satisfactory in terms of its C-D ratio. The C-D ratio as on March 1999 stood at 16.76% which is far below the stipulated norm of 60%. The SBI being the premier bank in the State could look into the real causes of its low performance in terms of its C-D ratio and take necessary steps to improve it. Even after assessing its investment performance, the C+I:D ratio of the SBI is still low which stood at only 37.03% as on 31.03.99. This calls for the bank to look for more investment opportunities to raise its C+I:D ratio in the State.

The SBI has also to improve its recovery performance. As a very important bank in providing credit assistance to different sectors in Meghalaya, the SBI accounted for a major share in the total advances made by all the banks in the State constituting about 29% as on 31.03.99. Hence it could chalk out an awareness programme to educate the borrowers in this industrially under-developed State.

The MCAB has been able to extend its services all over the State with 37 branches. It has grown as an important State Co-operative Bank in the State. The C-D ratio of the bank as on 31.03.98 stood at over 39% as against an average of 14% of commercial and other banks. The MCAB has a greater responsibility to increase its credit flow in the State. It is felt in certain advanced states in the country that the dual

regulatory authorities in the co-operative sector banks should be done away with and that the RBI should treat these banks at par with the commercial banks. The exponents of this idea felt that the time has now come to provide greater freedom and autonomy to the co-operative banking institutions in the light of the globalisation of the Indian economy and also the opening up of the domestic markets.

The above idea was expressed because of certain impediments in the growth of co-operative banks, especially after the recent norms related to the credit exposure limit in non-fund investment, were applied to these banks. The co-operative banks are already saddled with the burden of additional 20% exposure to Priority Sector as compared to the nationalised banks, reducing their opportunities of more profitable deployment of funds. This would result to the deprivation of the co-operative banks of better clients thereby adversely affecting their viability. The RBI has to consider carefully this suggestion.

The highest amount of deposits and advances was mobilised and disbursed by the SBI during the eight year period under study followed by the MCAB and the RRB. These three banks could perform well in terms of deposits as they have more branches when compared to other banks in the State. Though they perform better than the other banks in terms of advances, yet they failed to fulfill the stipulated norm of 60%. Even after taking the investment into consideration, the banks in the State except the BOB, the IOB,

the PNB and the UNB could not reach the level of 60% as the C+I:D ratio as at end March 1999.

The non-repayment of loans by the borrowers has greatly hindered the flow of credit inside the State. During 1991-92 to 1998-99 the highest recovery percentage of 66.00% was achieved by the CAN Bank. The average recovery performance of all the banks in the State is very poor which stood at 32.29% as on 31.03.99. The banks will have to enforce the Recovery of Debts Act, 1993 taking stern action against the defaulters. They shall also have to operate the Meghalaya Credit Operations and Miscellaneous Provisions Act, 1976 to realise the repayment of loans.

The commercial banks should be ready to take more risks in order to improve their performances in the State. The existence of frauds, corruption and mis-utilisation of banks' funds should be removed from the banking industry. The political pressure in the banking sector could be made a channel in developing the economy of the State. The bankers should also create an awareness in the mindset of the borrowers that loans taken by them should in their own interest, be repaid in time and that bank credit should be utilised for the sanctioned purposes.

(F)

The working and performances of the NBFIs and the NBFCs in the State of Meghalaya have left much to be desired.

The AFC which has been expected to play a great role in the industrial development of the state of Meghalaya by extending credit assistance to the different sectors, could not perform satisfactorily. Its role was declining because of its poor recovery performance not only in the State but in the entire North-Eastern Region.

The IDBI's role in the State's industrial sector is insignificant. This is because Meghalaya is lacking behind in heavy and large-scale industries. However, the IDBI should not rest content but it should participate in hastening the industrial development in the State. Being an apex development bank it has to conduct awareness programmes for the purpose of promoting entrepreneurship in the State.

The MIDC being a state financial institution has an increasing role to play. It demands of the Corporation to extend more and more financial assistance. Along with the provision of loans, it has to engage itself in conducting entrepreneurial development programmes.

The overall performance of NABARD in Meghalaya is far from satisfactory. The percentage share of the amount of loans

disbursed by the Bank in the State is negligible and fluctuated from year to year.

The SIDBI has been doing well in the field of indirect finance. It is important for the Bank to bring down the minimum project cost in a underdeveloped State like Meghalaya in order to enable more entrepreneurs to emerge and to avail of loans from SIDBI.

The State has to continue its support and patronage to the NBFIs and the NBFCs. As these institutions are serving the needs of the entrepreneurs in the State, it is the duty of the Government to help them in their transactions and even to support them financially, in particular the MIDC and the AFC being the State financial institutions.

The NBFCs like the NBFIs have also played a role in the industrial development of the State. Owing to the credit needs of the people, more NBFCs could be set up in the State. It is also important that the growth of the NBFCs has to be accompanied by a regulatory framework of the Government of Meghalaya.

(G)

In conclusion, it is emphasised that banking as one of the chief components of economic infrastructure, can provide necessary conditions for the emergence of entrepreneurs in an industrially backward State of Meghalaya. In fact it is a

crucial part of the economic development model which could start with the building up of socio-economic overheads in the sense that it has to share the burdens of other components of infrastructure as well. Banking has to provide the necessary capital resources in the form of credit creation by way of financing the infrastructural projects like laying of transport and communication system, power generation projects, and other important infrastructural facilities to make an economy capable of taking off and to attain a self sustaining growth. As elsewhere the financial enterprises, financiers and investment banking usually developed as a result of infrastructural finance.

It is hoped that in spite of the weaknesses and the hindrances that have adversely affected the development of the banking industry in Meghalaya, the banking and other financial institutions in the State would be able to forge ahead along with the emergence of the prospective entrepreneurs who are expected to exploit prudently and properly the rich natural and human resources of the State of Meghalaya.