

**DEVELOPMENT OF BANKING AND
FINANCIAL INSTITUTIONS IN MEGHALAYA
SINCE 1972**

By

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Thesis

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Dedicated to
My Children,

Dan, Dave & Ruth

NORTH-EASTERN HILL UNIVERSITY
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5th December 2000

I, Natalie West, hereby declare that the subject matter of this thesis is the record of work done by me, that the contents of this thesis did not form the basis of award of any previous degree to me or to the best of my knowledge to anybody else, and that the thesis has not been submitted by me for any degree in any other University/ Institute.

This is being submitted to the North-Eastern Hill University for the award of the degree of Doctor of Philosophy in Economics.



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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.

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(NATALIE WEST)

CHAPTER – I

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SOCIO ECONOMIC PROFILE OF MEGHALAYA

Introductory

Meghalaya, one of the seven states in the North-Eastern Region of India, was born twenty five years after the country secured Independence. It is one of the youngest states being the 21st State of the Indian Union. The term 'Meghalaya' is derived from two Sanskrit words 'Megha' and 'laya' meaning the abode of clouds. Meghalaya was first carved out of Assam in 1970 as an autonomous State consisting of two hill districts: the United Khasi Jaintia Hills district and the Garo Hills district. However, other changes soon took place. With the re-organisation of the North-East Region in the early 1970's, the State of Meghalaya was made a full-fledged State which was formally inaugurated on the 21st January, 1972. On the 22nd February, 1972, the new Jaintia Hills District was created and in October 1976, two more districts - the West Khasi Hills district and the East Garo Hills district - came into existence. At present, there are seven districts with the creation of the Ri-Bhoi and the South Garo Hills districts in 1992. Under the seven districts in the State, there are thirty two Community Development Blocks and more than five thousand villages. There are six small towns and the Shillong Urban Agglomeration with a population of 2,23,366 lakhs is the only class-I city in the State.

Meghalaya has an area of 22,429 Sqm Kms.¹ It lies between 25° 5" and 26° 10" North Latitudes and 98° 47" and 97° 47" East longitudes.² Meghalaya spreads along the northern boundary of Bangladesh which lies in the south. The State is surrounded by the Kamrup, Goalpara and Nagoan districts of Assam on the north, by the Goalpara district of Assam and Bangladesh on the west, and by the Karbi Anglong and the North Cachar Hills districts on the east. The road access to the State is through Assam. The road link between the Brahmaputra and the Barak Valley of Assam passes through Meghalaya. The land surface of the State consists mostly of mountainous terrain with narrow valleys. The hills rise gradually from the Brahmaputra Valley in the north. In the south the hills rise immediately from the plains to a height of 4000 feet above sea level forming a wall along the north of the Surma Valley. The State consists of a wide plateau of the same name and lying between 4000 and 6000 feet above sea level of which the Shillong peak is the highest point at 6450 feet. The plateau like character of this area is well marked over the east, west and south of Shillong, the capital of the State. Meghalaya is blessed with beautiful rivers like the Kupli, Umiam Khwan, and Umkhen flowing towards the north; Lubha, Kynshi and their tributaries to the south, and Myntang and Mynriang flowing towards the east.

Meghalaya is blessed with rich forest, mineral and power resources. Unfortunately, however, these resources are not

fully and properly exploited.

The State also witnesses low agricultural productivity. A variety of crops like paddy, maize, potatoes, tapioca and ginger and fruits like oranges, bananas, pineapples and lemons cannot be produced in surplus and exported to other states because of the lack of credit facilities. Likewise, a number of small-scale industries like blacksmithy, lime-making, weaving and cane-and-bamboo works cannot flourish because of the insufficiency of capital funds. The vast forest resources like sal, pine, teak and bamboo, and minerals like coal, limestone and clay are not properly tapped.

Meghalaya is a state where banks and financial institutions can play a greater role in economic development if only the state government could evolve suitable policies for its agricultural and industrial development. The State however, should also have a promotional and motivational policy to enable local entrepreneurship to emerge for the proper exploitation and utilisation of the state's natural, agricultural and human resources.

While we can stress that all economic infrastructural facilities are required to be built up simultaneously, we however believe that the setting up of a strong banking sector should be given the priority because it is of primary importance in providing the necessary capital support and

investment. We hold that the health of the other infrastructural facilities both economic and non-economic actually depends on the success or failure of the banking industry.

Based on the above assertion, we will first look into the resource endowment as well as the economic and social infrastructural facilities of the state. This will form the background to our study.

Climate

The climatic conditions in the state of Meghalaya vary from place to place because of differences in elevation from sea-level. The climate ranges from the sub-tropical to the semi-temperate. In the foothills of the southern and northern slopes, the climate is somewhat humid and warm. The temperature during April-June is fairly high. The cold season extends normally from November to February. In the months of December and January, frost forms in the Shillong plateau but snow is unknown in Meghalaya. The climate in the north of the Khasi hills adjoining the border of the Kamrup district is hot. The uplands of the Khasi and Jaintia Hills are characterised by warm summers and cold winters. In 1997, the temperature of Shillong stood the highest at 33.4°C during the month of June and was the lowest at 4.8°C during the month of January.³

The monsoon period normally covers the period from the months of May to September. The Khasi Hills has the highest rainfall in the world. But most of the heavy rainfall occurs in the southern part of the region especially above cliffs and mountains in the "War"⁴ area. Meghalaya enjoys the distinction of having two of the wettest places on earth, Cherrapunjee and Mawsynram. The amount of rainfall over Cherrapunjee ranges from 11, 995 mm to 14, 189 mm and over Mawsynram it is 10,689 mm to 13, 802 mm. The Mawsynram-Cherrapunjee-Pynursla belt in Khasi Hills along the southern border records rainfall varying from 10,000 to 15,000 mm per year. In recent years there has been heavy depletion of forests. This has exposed the hills to rains and other natural vagaries which have caused large scale erosion of the top soil and the washing away of huge amount of soil every year. That is why the soil of the border areas tends to be stony and sandy.

Agriculture

Agriculture is the backbone of the Indian economy, so also of the economy of Meghalaya. Nearly 80% of the people of Meghalaya depends on agriculture for their livelihood. Surprisingly only 2,47,413 hectares of land were cultivated constituting 11.03% of the total geographical area of the state in 1995-96.⁵ Unfortunately, the techniques of production practised by the hill dwellers of Meghalaya are still primitive and simple and the method of cultivation primarily adopted is jhumming or shifting cultivation. A variety of crops are grown

on the jhum field. Some of the important crops grown in Meghalaya are paddy, maize, potatoes, local beans, tapioca, cotton, sesamum and ginger.

The Nature in its generous abundance, has bestowed Meghalaya a unique array of fruits. The State is also known as a land of fruits. The fruits which are in high demand are oranges, bananas, plums, pears, pineapples, lemons, peaches and apricots. Some varieties of bananas are produced in Meghalaya, particularly in the Khasi Hills which have better quality and taste. For instance, 'Kaitjriong' is assumed to be the best quality of local bananas not to be found elsewhere and 'Kaitkhun' is another which has been used to feed the babies. The pineapples grown in Meghalaya and Tripura are considered to be the best in India. In the Khasi Hills a major chunk of the pineapples comes from the Ri-Bhoi district. These can even be exported but because of lack of transport facilities they cannot even reach the market and most of them are wasted. Meghalaya is also known for the good quality of oranges which are grown mainly in the Shella area in Khasi Hills. Oranges coming from Cherrapunjee and Jirang too are known for their superior quality and flavour. There is an extensive scope in the State to grow other types of fruits if proper measures are taken.

At present, the State is trying its best to assist the farmers and cultivators in the State. The total cropped area in

the State increased by about 42% during the last twenty five years. The food-grain production covering an area of over 60% of the total cropped area was not sufficient to meet the total State requirement.⁶ After the introduction of HYV seeds, fertilizers, chemicals, and other tools, the production of food-grains has increased considerably. A spectacular achievement was obtained when Megha I and Megha II which are cold tolerant rice varieties developed by ICAR North Eastern Region at Umroi near Shillong, was introduced in 1991-92 for the higher altitude regions where there was no High Yielding Rice Varieties at all earlier.

The production of principal crops has increased during the last five years. The production of rice has increased from 117,786 tonnes during 1993-94 to 150,097 tonnes during 1997-98. This also applies to maize and wheat where production has increased from 20,086 tonnes to 24,858 tonnes in the case of maize and from 6,636 tonnes to 6,894 tonnes in the case of wheat during the same period. However, in the state itself the contribution of agriculture and allied activities to state income remained higher at 50%.⁷ In spite of this, the per capita output of major crops is only 51.6% of the national average (1991) and the per capita food grains production is only 43.3% of the national average (1991). Moreover, the per capita availability of food-grains in the state during 1996-97 remained at 244 gms/day as against the all India average of 512 gms/day.⁸

An autonomous Board was set up to promote plantation crops. Pioneering work was carried on in tea cultivation, with the State having 253 small tea growers. More attention was also given to pulses, oilseeds and cash crops. The Secondary Regulated Markets were set up and rural godowns were constructed to facilitate marketing of agricultural products.

Under the Meghalaya Land Transfer Act 1971, the people of Meghalaya enjoy special benefits in which no land in Meghalaya shall be transferred by a tribal to a non-tribal or by a non-tribal to a non-tribal except with the previous sanction of the competent authority. This should not have been a hindrance to the development and performance of the banking industry in the State. Banking and other financial institutions could easily overcome this institutional safeguards for the people of the State. There is a great deal more that the banks and other financial institutions along with the State have to do in order to improve the agricultural sector of Meghalaya economy.

Livestock or Animal Husbandry

There is a great scope for the development of livestock in Meghalaya. Agriculture, which is the main occupation of the people in the State cannot meet all their requirements in life. Therefore, the people can supplement their income by rearing livestock like cattle, pigs and poultry and by the development of dairy farming. Modern and scientific methods

can be introduced in the livestock farms to increase production as it is done in the countries like Australia and New Zealand.

According to the census of 1961 the total population of cattle in Meghalaya was 4,14,737 that of buffaloes was 38,021, of sheep 20,672, of goats 99,697, of horses and ponies 9,371, pigs 1,12,000 and poultry 9,43,023. By 1991 census, the population of cattle increased to 6,37,000, of buffaloes 34,000, of sheep 23,000, of goats 1,96,000, of horses and ponies 2000, of pigs 2,94,000 and of poultry 18,26,000. From this illustration we can understand that there is a rapid development in livestock farming.

Meghalaya being a State with a predominantly tribal population will greatly benefit if steps are taken to improve the development of animal husbandry and dairy farming. About 80% of the land area in Meghalaya which is lying waste can be devoted to livestock farming. This will greatly increase the income of the rural poor and of the State as a whole.

Industrial Development

Industrialisation plays a vital role in the process of economic development and it is also a primary policy-objective in most of the less developed countries. In such countries, development of industries is regarded as an *essential means to achieve high rates of economic growth to*

meet the basic needs of the growing population and to create more employment opportunities and many other benefits essential for further economic development.

Industrially, Meghalaya is among the most underdeveloped regions in India. The contribution of the State to the industrial output of the country is insignificant. The percentage of industrial workers (manufacturing and household industries) to the main workers in the state during 1997-98 stood at 0.2% only as against 3.8% in the entire country.⁹ However, recently more and more small-scale industrial factories, Khadi and Village industrial units and a few joint stock companies have been set up in the State. The number of registered small-scale industries has increased from 1558 in 1990-91 to 3008 in 1997-98. The growth of joint-stock companies is also increasing in which the number has risen from 132 in 1989 to 228 in 1998.¹⁰ In this connection, mention has to be made of the production of cement by the Mawmluh Cherra Cement Ltd which has increased from 97,000 MT in 1987 to 1,42,000 MT in 1994. At present the production of cement by the company has declined sharply due to several reasons. During 1997, the production came down to 99,000 tonnes in the state.¹¹ In spite of all the achievements in the industrial sector, the progress made is far from satisfactory. In the absence of entrepreneurial supply, industrial development cannot take place as fast as it should. The State is blessed with bountiful forest and minerals resources that

there is wide scope for setting up diversified industries in the State.

The State is doing whatever it could to provide the infrastructural facilities, financial assistance, incentives and concessions in order to increase industrial activities. The number of small-scale industrial units has increased from 21 in 1976-77 to 3008 in 1997-98 with an investment in plant and machinery having increased from Rs. 9.04 lakhs to 22,49.50 lakhs. The number of persons employed in the industrial units rose from 164 in 1976-77 to 1,72,59 in 1997-98.¹²

The number of registered factories in Meghalaya stood at 65 and the number of employees stood at 2929 in 1997. The number of Khadi and village industries in the state during 1997-98 stood at 6224.¹³

No doubt, the state has done a lot to improve the industrial sector. Unfortunately, the level of industrialisation of the state is very low. There is a lot more that the financial institutions and the Government have to accomplish. If the resources are properly tapped and utilised, the State will not have to depend so much on other states as it is now. Individuals are also expected to come up with different ideas and opinions in improving the performance of the existing units and in setting up of new units. No one can deny the fact that the development of the industrial sector has a great

impact on the development of the economy.

Co-operative Movement

Co-operation refers to an institutional framework to organise self-help among those who participate in it. Such an organisation consists of people with modest incomes who have organised themselves for a social or material purpose. These people come together and organise themselves into co-operation. All the members contribute their resources to this organisation. Poor or weak individuals, who are otherwise unable to contribute to society can thus be more productive. Co-operative inspired by the principle of self-help and communal effort, are of great relevance and significance for the people in India, particularly for the rural poor.

The number of co-operative societies in Meghalaya has increased from 763 in 1991-92 to 858 in 1996-97. Membership in these societies has risen from 117 to 168 in the same period. The amount of share capital stood at Rs. 2240.03 lakhs in 1991-92 and it increased to 1725.14 lakhs in 1996-97, and that of working capital from Rs.1,21,92.70 lakhs to Rs. 3,31,39.86 lakhs of rupees in the same period.¹⁴

Tourism

Tourism, is a new sector that can play a significant role in promoting economic development. It can serve as an

important source of income and can become one of the largest industry not only in the state but also in the country as a whole. It has become an important earner of foreign exchange in India.

Meghalaya has great potential for the development of tourism. The enjoyable climate, the hospitability of the people and other features make Meghalaya a centre of tourist attraction. Shillong, the capital of the State is known for its beauty. The Umiam lake and the Orchid Lake Resort along with the Shillong Peak are attractive places for sight-seeing.

There are a number of waterfalls in and around Shillong and the best known are the Spread-Eagle falls, the Bishop falls, the Elephant falls, Sweet falls and Crinoline falls. Cherrapunjee is known for its caves and falls. The well-known caves in the State are the Syndai caves, Siju caves and the caves in Cherrapunjee.

The Jaintia hills is known for its lakes and rivers. The Thadlaskein lake offers boating facilities to the tourists. The Kupli Hydel Project attracts a large number of tourists. The largest collection of Monoliths can be found at Nartiang, of which the tallest one is 24 feet high.

In the Garo hills, Tura can be compared with the Tiger hill of Darjeeling, which is known as the finest view of

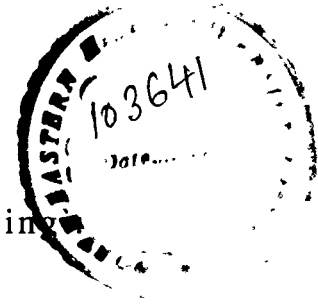
sunrise. Tura on the other hand, offers the finest view of the sunset in eastern India. Siju is famous for the Dabakhol cave and the Balpakram National Park is known for its scenic beauty.

The number of Indian tourists coming to Meghalaya has increased from 2983 in 1974 to 1,15,563 in 1997 while foreign tourists increased from 186 in 1974 to 1071 in 1997. The number of tourist spots in Meghalaya has increased from 34 in 1993 to 62 in 1997.¹⁵

The Government set up the Meghalaya Tourism Development Corporation in the year 1997. At present the Corporation has been managing the Pine Wood Hotel and the Orchid Hotel, the Restaurant cum Guest House at Mawsmai Cherrapunjee, the Orchid Lodge at Tura and the Orchid Lake Resort at Umiam lake.

Population

The Khasis, the Jaintias and the Garos are a physically short and strongly built race totally different from the neighbouring hill tribes. According to the findings, the Khasis descended from the old remote Austric Mon-Khmer nomadic tribe in Burma. The Khasis entered Assam during different periods of history. It is believed that the Khasis were one of the ancient races residing in Eastern India.



The typical Khasi people consist of the following

- a. Khyntriams of the Central plateau of the Khasi hills.
- b. Jaintias or Syntengs of the Jaintia hills who include Pnars, Wars and Bhois.
- c. Wars or inhabitants of the War area in the south.
- d. Bhois or inhabitants of the Bhoi area in the north.
- e. Lyngams - an admixture of Garo-Khasi tribes in the west and north-west of the district.¹⁶

The following are the non-Khasi tribes living in the Khasi and Jaintia Hills.

- a. Lalungs and Hmars in the north east of Jaintia hills.
- b. Mikirs or Karbis inhabiting the north east of Khasi hills and north of Jaintia hills.
- c. Biates and Vaipheis in Saipung area of Jaintia hills.

Other communities residing in the district are as follows:

- | | |
|-------------|-------------|
| a. Nepalese | c. Bengalis |
| b. Assamese | d. Marwaris |

The individuals play a crucial role in the economic development of a country. They are not only the factors of production but they are also the consumers. Therefore a detailed study of population is significant. It is important to

know the number of people living in a particular place at a particular time.

The total population of the State as per 1991 census is 17,74,778 as against 13,35,819 in 1981 indicating a rise of 31.80 % of the population in 1981.¹⁷ The decennial growth rate of population was 31.50%, 32.04% and 32.86% in the 1971, 1981, 1991 census respectively.¹⁸ During 1998, the state's projected population stood at 21,65,014.¹⁹ The distribution of population in the State is uneven. This is because it is governed by so many factors like topography, soil, water supply and mineral resources. The population concentration in the State is confined mainly in the state capital of Shillong and in the district and sub-divisional headquarters like Tura, Jowai, Williamnagar, Nongstoin, Baghmara, Nongpoh, and Cherapunjee.

The State had a total of 5629 villages and 12 towns in 1994. According to 1991 census, the density of population in the state was 79 per Sq.Km²⁰ as compared to 60 in the previous decade. During 1997-98, the density per Sq. Km. stood at 96 as against the national average of 298.²¹ The population growth rate in the state for five years i.e., 1993-94 to 1997-98 stood at 12.00 % as against the all India average of 8.81%.²² The population of Meghalaya is predominantly tribal which constitutes 89.18% of the total population during 1997-98.²³ District-wise, the Jaintia Hills has a population of

220, 473, East Khasi Hills 537,906. Ri-Bhoi 127,312, West Khasi Hills 220,157, East Garo Hills 188,830, West Garo Hills 403,027 and South Garo Hills 77,073 making a total of 17,74,778.²⁴

Natural Resources

Forest

Forest is an important natural and renewable resource of the State. They help in increasing water supply, increasing the production of fish, controlling floods, preserving wild life and preventing erosion of soil. Besides they have a moderating influence on the climate and they also provide varieties of raw materials for a large number of industries.

The important types of trees found in the forests of the State are sal(*Shorea Robusta*), pines(*Pinus Kasia*), teak, birch, schim, beech, nahar, agar, champa, bamboo, tita sopa, gamari, poma, makhai and other trees.

The Khasi *pine* is mainly found in the upper region of the Khasi and Jaintia hills in an elevation of between 3000 to 5000 ft. The main products of pine trees are resin and turpentine oil. *Sal* trees are mainly found in the Garo hills and preserved in the Rongnagiri Reserve Forest.

The State is also rich in orchids. There is a high demand for orchids in the State. This is because people in the present day are more interested in growing hybrids than flowers because the former are more beautiful and take a longer time to fade.

The State has many medicinal plants and herbs which are scattered in the forests. Most of the important forest materials have not yet been fully explored. The popular medicinal plants in the State are Asparagus, Kreitieng, Vallerina, Vallichi, Smilen, Ipecac, Serpentina, Chincona, Terminalia, Arjuna and Bellia offianellis.

The forest area as percentage of total area of the State during the same year stood at 41.70 as against all India average of 19.27.²⁵ The area under different types of plantation such as teak, sal, plywood, pine has gone up from 70 hectares in 1987-88 to 155 hectares in 1996-97.²⁶

Every year the State has tried to take up various plantation schemes in bringing more areas under the umbrella of forest development schemes. In this connection an area of 1,943 hectares was afforested under the Social Forestry Sector during 1996-97. In addition to this, 4780 lakhs seedlings of forest-tree species were distributed free of cost to the public.²⁷

A Village Reserved Forest scheme has been introduced in the State to meet the demand for small timber, fodder and grass of the villagers. Under this scheme a network of nurseries have been created. In addition to this, the Forest Development Corporation of Meghalaya was incorporated under the Companies Act in January, 1975. The main objective behind it is to increase forest cover in the State by acquiring, purchasing or leasing of land on profit basis and growing of all kinds of forest plants. The other objective of the Corporation is to maintain, conserve and protect flora and fauna in the state. But the work and performance of the Corporation has not been satisfactory. It has not been able to check the large-scale felling of trees or timbers which have depleted the forest wealth in Meghalaya. It has not also been able to check the prevalent system of jhum cultivation which inflicts heavy losses on forest. Huge amounts of soil are washed away every year in the rain-intensive areas. The situation is worsening with the gradual increase in the demand of fire wood not only for cooking purposes but also for warmth in cold weather. Charcoal is very important in Meghalaya during the winter months.

The forest losses mentioned above had led to the adoption of massive afforestation and social forestry programmes. The schemes under the afforestation programme include plywood plantation, teak wood plantation, salwood plantation and other plantations. An additional area of about

250 Sq. km. has been planted with valuable forest-tree species, protection measures have been extended over an area of 412 Sq. km. The Forest Training School was set up at Darengiri. The Balpakram National Park has been extended and the census of elephants population was undertaken all over the State.

Fishery Resources

Fishery is one of the resources of the State of Meghalaya. It comprises about 5600 Kms of rivers and 1200 hectares of reservoirs 375 of beels and lakes and 2000 hectares of ponds and tanks. These resources are capable of producing 5000 metric tonnes of fish annually.

Tremendous achievement in the production of fish and fish seeds has been made in the last few years. The production of fish and fish seeds during the period from 1985 to 1997 was 22,329 MT of fish and 13,090 million of fish seed.²⁸

Between 1994-95 and 1995-96, 156 hectares of water area has been brought under the fishery project. This has benefited 528 fish farmers under the Integrated fish farming of fish-cum big farming, duck farming, 67,893 hectares of water area have been included benefiting 3030 fish farmers.²⁹

Mineral Resources³⁰

The State of Meghalaya is blessed with rich mineral resources. It is a store house of economic minerals such as Coal, Limestone, Sillimanite, Clay, Kaolin, Quartz, Feldspar, Corundum, Glass sand and Phosphates. But the exploitation and development of these mineral has been very slow. These minerals are used in many industries. Coal and Limestone are also being exported to neighbouring countries like Bangladesh, earning a good amount of foreign exchange for the country. A brief account of the estimated amount of availability of each of these minerals is given in the succeeding paragraphs:

(1) Coal

The State has a deposit of Coal of approximately 1197 million tonnes. Coal occurs in all the districts of the State. The important coal mines are located at Mawbehlakhar, Sohrarim, Shyrmang, Bapung, Jarain, Rymbai, Sutnga, Kyrdem, Tuber, Lakasein, Umte, Garampani, Kharkor, Mawsynram, Shella-Mawlong, Cherrapunjee, Laitryngew, Pynursla, Lakadong, Lumshnong, Tenglah, East Darrangiri, Langrin or the Umblei area and the Lum Rilang area.

Mining of coal is done by local people in a very crude way. This greatly affects the physical properties of Khasi coal. The ash content is much lower than that of the best

quality coal of the country and its calorific value exceeds some of the best grade coal. However it suffers badly from its excess sulphur-content. The possible uses are power generation, smoke-less coke, fertiliser industries, cement industries, paper industries, textile industries, brick-burning and pottery industries and rubber industries.

The total estimated inferred reserve of coal in Meghalaya is about 460 million tonnes and only 0.28 million tonnes was produced as on December 1998.³¹

(2) Limestone

The State has large reserve of limestone in all its districts. The limestone deposits of East Khasi Hills contain enormously thick and inexhaustible deposits of high grade limestone scattered all along the southern and south eastern part of the district. Between the Tharia hat and the Shella river there occur three beds of limestone with an average thickness of 200 metric tonnes.

The Sylhet limestone can be found in and around Mawmluh-Mawsmal Hills. This type of limestone is best suited for making cement. Individual limestone bands vary in thickness from 6 metres to more than 100 metres. The upper most band contains limestone of great purity and according to H.M.N. Ghosh at least 1,000 million tonnes of good quality stone are available along this length.³²

Limestone is also found in Langkyrdem, Pynursla and Nongtalang lying to the east of Cherrapunjee.

In the Jaintia Hills, the Sylhet limestone with a thickness of 200 Sq.km occurs in the area between the Prang and the Lubha rivers covering the Lakadong, the Lumshnong, the Mynher and the Kuddan areas. Limestone deposits also lie in the Syndai, Sutnga and Nongkhlieh areas.

In the Garo Hills, the upper Sylhet limestone of the Shella Formation occurs in the areas of Athabing, Siju, Dapri Garugiri. The largest deposits of limestone can be found near Siju Arteka and Siju Songmong in the Simsang valley. A few isolated deposits are also found near Rongrengiri, Jarkhare Rongthel and Darrang Era-Aning in the west Darrangiri coal fields.

According to the Geological Survey of India(GSI), the estimated reserves of limestone in the State come to 943 million tonnes.³³ The Directorate of Mineral Resources (DMR) of the State estimated the reserves of 3100 million tonnes.³⁴

Limestone is used mainly by the cement factories. Besides it is also utilised as one of the inputs in steel, fertiliser, and chemical factories.

(3) Clay and Kaolin

Clays are of different types such as china-clay (kaolin), fire-clay, ball-clay and bentonite. The different types of clays are used for different purposes. For example china clay is used for making crockery and other earthen-wares, whereas fire clay is used as an input in refractory and fire-bricks manufacture.

White clay deposits are found to occur in various parts of the State. Large deposits of superior quality white clay are found near Mawphlang, Thadlaskein and Laitlyngkot in the Khasi and Jaintia Hills and at Nerrengiri, Simsang, Dalu, Songsak and Rewak in the Garo Hills. The Garo Hills contain the most extensive and enormous deposits of white clay which is of much economic value. Clays suitable for pottery and stone wares are found near Sohrarim on the Shillong - Cherra Road, about 21 miles from Shillong in the Khasi Hills. Such clays are also found in Sutnga and Shangpung in the Khasi Hills.

Fire clay occurs around Jowai, in Sutnga, Shangpung, Larnai, Nongryngkoh, North-East of Mynriang, South-west of Kupli-Kharkor Junction and near Laitksah.³⁵

The inferred reserve of clay deposits is over 52 million tonnes of which fire clay stood at 9.2 million tonnes. Unfortunately, neither China clay or fire clay was produced in

the State so far.³⁶

(4) Sillimanite and Corundum

Sillimanite, the rock that can be put to use without any processing is a very important refractory raw material and a good foreign exchange earner for the country.

Meghalaya has the world largest reserve of sillimanite. One of the largest sillimanite deposits in the world is around the Sonapahar region of West Khasi Hills. According to reports by geologists, the sillimanite deposits occur in association with corundum. The proportion of corundum varies in different deposits. Some of the deposits, possessing up to 50% or more. The presence of a certain amount of corundum in sillimanite increases the quality of the latter. Sillimanite is used for making electrical and chemical porcelain spark-plugs, enamel-ware, saggars and hotel wares. Mullite a product of sillimanite, is used for making glass furnaces, furnace linings, crucibles, fire boxes and high temperature cement.

The reserves of Sillimanite in Sonapahar and Mawpomblang is estimated at 0.45 million tonnes. The Sillimanite mines in Sonapahar have been used for a long time and hence the reserves of the mineral are almost exhausted.

(5) Dolomite

Dolomite is a very fine-grained mineral which is compact and hard, and is suitable for use in making furnace linings and other refractory products. The best known sources of Dolomite are in the Sylhet Limestone areas of Cherrapunjee in the Khasi Hills.

(6) Phosphorite

Nodules of phosphorite, a fertiliser mineral, are of round or elongated shapes. Phosphate deposits exist in the Sung valley along the border of the Khasi and the Jaintia Hills Districts and in the Rewak area of Garo Hills. The nodules are brownish - yellow in the outside and dark - grey in the inside.

The rock containing phosphorite is known as Apatite Magnetite rock which has 15% to 30% of phosphate content. The reserve of phosphatic rock is about 5 million tonnes.

(7) Glass Sand

Glass sand or silica occurs in many places in the Khasi Hills. Glass sand is mainly found in Cherrapunjee and Laitryngew, it is mixed with mica-quartz and other minerals. This mineral is also available in the Garo Hills in Siju, Tura and Nangalbibra Glass sand found in these places is similar to that found in Laitryngew.

Glass sand containing high proportion of iron adversely affects the production of first grade glass-ware. Besides glass-ware, glass sand can also be used in the manufacture of bottles and sheet glass. The total reserve of glass sand in the State is approximately 3 million tonnes.

(8) Gypsum

Gypsum is made of small crystals and is particularly found lying in shale beds and in scattered patches in the shale. Gypsum is one of the raw materials in the manufacturing of cement.

Gypsum can be found near Mohendraganj in Jarapara, Garobadha, Merringjipara, and Mogapara in the Garo Hills. The proportion of gypsum in shale is 0-0.7%. The presence of gypsum in host rock is uneconomical. This has prevented access to it and hence no reserve has been estimated so far.

(9) Base Metal

The Geological Survey of India has carried out much work in a shear Zone from Tyrsad to Barapani in the Khasi Hills but it has not been able to indicate any rich zones of sulphide mineralisation, instead, it has cited the existence of copper, zinc, nickel and cobalt in the Shillong group of rocks. There is a scattered presence of various sulphides, silicates and aluminates at Lumpyrtha. The average copper, zinc and

lead contents vary from 1.5 to 2.5%, 2.5% to 3.00% and 0.5% to 0.7% respectively.

Copper is used in the alloy industry and in the manufacturing of dry cell. It is also useful as the best conductor of electricity.

Lead and zinc are also used in the alloy industry.

(10) Iron Ore

Iron ore is found in the State in the form of fine sand, consisting of minute crystals of utani fexores and magnetic oxide. Various grades of iron-ore have been found in Debu and the areas near the Simsang river. The largest deposits of iron-ore are located near Myllem., Laitlyngkot and Nongkrem. The total estimated reserve is approximately 0.087 million tonnes.

Iron smelting was an important industry among the Khasis in the previous century. The main places where smelting of iron ore was done in the past were at Nongspung to the west of Shillong, Myllem to the south of Shillong, Umphrup near Nongkrem and Nartiang in Jowai. This art has died out because the local people could not compete with the imported iron ore.

(11) Gold

Gold was reported to be found near Mawphlang in the Khasi Hills. However, it cannot be extracted due to the requirement of huge investment. Traces of gold along with silver pyrites and quartz have been found near Barapani in the north and Tyrsad in the south. The gold content in the core samples is found to be at 0.8 gram/tonnes to 62 gram/tonne, which is considered uneconomical for extraction.

(12) Quartz and Feldspar

Quartz and feldspar are minerals used in the ceramic and pottery industries. These minerals are found to occur side by side in several localities in the Khasi and Garo Hills of Meghalaya. In the Khasi Hills, feldspar deposits are found in Halrim and Nongstoin. In the Garo Hills it is found near Tura, Angiri, Tengalgiri, Sathengiri and Chisakgiri.

Total indicated reserves of quartz and feldspar are estimated to be at 0.076 and 0.096 million tonnes respectively.

(13) Mineral Oil

Seepage of Crude oil along with the bubble discharge of natural gas has been found in a number of places in the tertiary rock formation in Umpyrdit river in Narpuh Reserve Forest, in Lailong and near Shella in Telcherra, Kynjah and Sdatditung in Dholai, Dharmalia and near the Someswari river.

The Oil and Natural Gas Commission of India has applied for 'prospecting licence' in exploring the hydrocarbon deposits in the southern part of Meghalaya.

Economic Infrastructural Facilities

Transport and Communication

For the smooth functioning and for the expansion of an economy in all sectors, the existence of adequate infrastructure like transport is of utmost importance. In the absence of adequate transport facilities, it is impossible for the state of Meghalaya to develop industrially. As the Khasi, Jaintia and Garo Hills are made up of hilly terrain, it is difficult for the State to be connected by water transport. It will also take time to connect Meghalaya by rail. Air transport in the state is playing a minor role. So road transport is the only means of communication in the hilly state of Meghalaya.

In the absence of any other mode of communication, road network plays a most vital role for all round development of the State. First, it is the means by which products reach the final consumer. Secondly, it helps the farmers and cultivators to bring their products to the town market. Thirdly, it facilitates production by moving raw materials, tools and machines from one place to another. Besides these, there are other contribution made by road transport to the economy of the State.

In 1972 the total road length in the State was only 2786 Km and at present it is 6707.09 Km showing an increase of over 140%. Of the 5629 villages, 2486 have been connected by roads. Measures have been taken to continue the development of road network in the rural area including those in the border areas. The number of registered vehicles in Meghalaya has been increasing from one year to another. It has increased from 37,963 in 1992 - 1993 to 51,247 in 1997-98. The road density of the State at present is 29.90 Km per 100 Sq.km as compared to the national average of 48.79 Km per 100 Sq.km.³⁷ Hence the existing roads and bridges have to be improved and upgraded. There were proposals for the construction of Shillong By'Pass, Jowai By'Pass and Dawki bridge. Approximately, 2400 metres of permanent bridges were constructed. The longest bridge in the State is in Ranikor over the river Jadukata. A 140 metre bridge, the second longest single span bridge was under construction on River Kynshi.

The road transport services have been operated by both the State Transport Corporation and the private bus owners on the major and important routes in the State. The Corporation has been providing financial assistance to the un-employed educated youth belonging to scheduled caste and scheduled tribe communities in the State for purchasing vehicles and three wheelers under different schemes. In spite of this, the

picture of transport development in the State as it is at present is not promising. There is a great deal more that the State has to do in order to match the development with the other States. More attention should be given by the financial institutions and the state in this regard, as poor transport facilities hinder the pace of development in the other sectors and in the economy as a whole.

Power

Power is another essential factor in increasing the productivity of labour in agriculture, industry and other sectors. It is difficult to think about development in the absence of power. There is a direct relationship between the consumption of power and the level of per capita income. In advanced countries, the consumption of power is high, so is the per capita income. It is just the opposite in the case of under developed countries. Availability of electric power is one of the important factors for accelerating the economic growth of the State.

There are different sources of power such as wind, sun, wood, cowdung, water, oil, coal and atomic energy. The use of cowdung and wood is wasteful and uneconomical. The dependable sources of power are water, petroleum, coal and atomic energy. Hydro-electric power is a renewable source whereas coal and petroleum are non-renewable resources.

In Meghalaya the various rivers flowing to the north and south provide great potentials for both large and mini-sized hydro-electric projects. Meghalaya is also known to have the wettest place in the world. The total installed capacity of power in 1974-75 was 65.20 MW and the generation was 216.97 MKWH. The total installed capacity has increased to 188.76 MW and the generation to 595.61 MKWH in the year 1997-98. In regard to installed capacity, Umiam Hydel Project has shared 174.00 MW, Umtrew Hydel Project 11.20 MW, Tura Diesel Project 2.05 MW and Sonapani Micro Hydel (SESU) Project 1.51 MW in the year 1997-98.³⁸

The number of villages electrified has increased from 1622 in the year 1987-88 to 2510 in 1997-98. The percentage of villages electrified has increased from 31.1% in 1987-88 to 45.8 percent in 1997-98 covering 54.40% of rural population.³⁹

The sale of electricity has increased from 426.16 MKWH to 561.10 MKWH in 1993-94 and further fell down to 551.10 in 1997-98.⁴⁰

The revenue collection of the Meghalaya State Electricity Board has increased from Rs. 41,41 lakhs in 1995-96 to Rs. 54,78,57 lakhs in 1998-99.⁴¹

Banking⁴²

Banking development is a very crucial component of economic infrastructure which should precede economic development of a country or its region.

Banking industry in Meghalaya has started long before the state attained its statehood. The banks that existed in Meghalaya prior to 1972 were the State Bank of India, Bank of Baroda, Central Bank of India, Punjab National Bank, United Bank of India and United Commercial Bank. The number of scheduled commercial banks branches as on December, 1972 stood at 17. By the end of 31st March, 1999 there were seventeen banks carrying on banking activities in the state with a total number of 216 branches. Of these, the Commercial Banks(SCBs) constituted 128, the Regional Rural Bank (RRB) 51 and the Meghalaya Co-operative Apex Bank (MCAB) 37. The 17 banks include Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Federal Bank, Indian Overseas Bank, Indian Bank, Punjab National Bank, State Bank of India, Syndicate Bank, UCO Bank, Union Bank, United Bank of India, Vijaya Bank, Khasi Jaintia Rural Bank (RRB) and Meghalaya Co-operative Apex Bank(MCAB).

The total deposits mobilised by the SCBs in Meghalaya increased from Rs. 15.22 lakhs as on June, 1972 to Rs. 107014.43 lakhs in March, 1999. Total disbursements rose from Rs. 1.65 lakhs to Rs.17775.24 lakhs during the same

period. Hence, the C-D ratio increased from 10.84 % to 16.61% during the same period. The total deposits of MCAB jumped from Rs. 108.89 lakhs as on March, 1972 to Rs. 20509.29 lakhs in March 1999. Total advances also rose from Rs. 25.60 lakhs to Rs. 7764.86 lakhs during this period. With this quantum of deposits and advances, the C-D ratio worked out to be increased from 23.51% to 37.86%. Total deposits of RRB rose from Rs. 2395.60 lakhs in December 1992 to Rs. 8173.84 lakhs in March 1999 and that of advances from Rs. 657.95 lakhs to 2333.34 lakhs. The C-D ratio increased marginally from 27.46% to 28.54%.

Social Infrastructural Facilities

Education

The significance of the role of education in the development of the State can hardly be over-emphasized. In modern days people are realising the importance of literacy and therefore, parents today are trying their best to give education to their children. The foundation of modern education was laid by the Christian missionaries in the 19th century according to the traditional practice of the people. Society plays a vital role in setting up schools. More and more schools and colleges are being opened and run by private management. Besides the community, the State has also supported the spread of education in many ways especially by establishing new educational institutions.

To keep pace with the National Policy on Education, the Government has introduced 10+2+3 pattern. Till 1992-93, a number of 30 high schools have been selected for opening higher secondary classes including vocationalisation. In this respect, the State Council for Technical Education has been set up in the State. This will improve technical education in the State. In addition to this, the Adult Education Programme has been introduced and its special objective is to eradicate illiteracy.

There has been an increase in the number of schools, colleges and other educational institutions in Meghalaya. The number of such institutions has increased from 3101 in 1972-73 to 5655 in 1995-96 or an increase of 82.36% over the period, the overall enrolment rose by 155 %, that is, from 2,06,000 to 5,25,000.⁴³

In addition to this, there has been an increase in the number of teachers in the different educational institutions. The number of teachers has risen up from 17789 in 1992-93 to 201044 in 1995-96.⁴⁴

The educational administration was re-organised for decentralised administration of the educational institutions, particularly primary and middle schools. The target of additional enrolment of 0.75 lakhs children was achieved. During the Eighth Plan period, 1500 Adult Educational

Centres were set up to provide educational facilities to nearly 1,73,000 illiterate adults.

The educational programme, which is of great significance in the development of the economy has been implemented in the State. The total literacy campaign has been popularised with quality improvement being given the top priority. Three separate directorates were set up pertaining to the Elementary and Mass Education, Higher and Technical Education and Training, 1621 posts were created under operation blackboards and 434 posts of primary school teachers under other schemes. Approximately, 988 primary school buildings and 1420 additional rooms in primary schools were constructed. Building grant was given to 263 upper primary schools and 190 high schools. 1900 schools received grants for furniture and 3500 schools for purchase of text books.⁴⁵

In addition to this, financial assistance was also provided to 147 middle schools and 25 secondary schools for the construction of additional class rooms, laboratory rooms and library rooms⁴⁶ in order to meet their requirement so as to fulfil added responsibilities due to the introduction of revised syllabus and introduction of higher secondary.

More emphasis is given to the teaching of science subjects in schools, 40 posts of science teachers for secondary

schools and 30 posts of laboratory assistants were created. The District Council lower primary schools were taken over by the State Government and Higher Secondary Education was taken over by the MBOSE from the North Eastern Hill University. Total literacy campaign is in progress all over the State and mid-day meal programme for school children was also introduced.

In spite of the achievement in the field of education, it is expected of the government to change the bookish educational system in the State.

As per estimates of National Sample Survey, 1995-96, the literacy rate of Meghalaya has touched 62 percent, literacy in the urban areas stood of 84 percent and that of rural areas of 59 percent. Compared to the literacy rates of 1991 census, the percentage of literacy in rural areas has gone up from 41.05 percent to 59 percent and the percentage in urban areas has increased from 81.74 percent to 84 percent. The combined literacy rate rose to 62 percent now from 41.10 percent in 1991 census.⁴⁷

Health and Family Welfare

Health and family welfare which has been given the highest priority, has achieved considerable progress since the inception of the State. One of the objectives of the State's Five year plan was to meet the minimum needs of the people

regarding water supply and health care. The death rate declines from 15.5 percent in 1972-73 to 8.9 percent in 1996. The birth rate fell down from 33.5 percent in 1972-73 to 30.4 percent in 1996.

The number of hospitals has increased from 8 in 1989 to 10 in 1997 and dispensaries from 3 to 38 in the same period.⁴⁸ The number of beds in the government hospitals increased from 1005 in 1972-73 to 2377 in 1996-97, an increase of over 136 %. Besides the 10 hospitals and 38 dispensaries, Meghalaya has got 78 Primary Health Centres; 10 Community Health Centres; 344 Sub-Centres; 2 Leprosy Colonies; 2 Leprosy Control Units and 25 Survey and Education Training Centres.⁴⁹

In 1996-97, the State had 382 doctors, 356 nurses, 71 pharmacists, 559 ANM, 46 Health visitors and 102 laboratory technicians during 1996-97. During the same year the doctor-population ratio stood at 5509 and the hospital-bed ratio stood at 238.⁵⁰

The achievement in health and family welfare is far from satisfactory. The state is in need of more hospitals, dispensaries, doctors, nurses and others.

State Income

The State of Meghalaya is under-developed in many aspects. There has been certainly some progress since its inception. In fact, over the period of 25 years, the improved economy is reflected in the State Domestic Product (SDP) or State income in which the net SDP at current prices rose from Rs. 8,541 lakhs in 1972-73 to Rs. 1,76,262 lakhs in 1996-97. This shows an increase of Rs. 1,67,721 lakhs. The State's income has to be increased to meet the increasing demands of the people. The Revenue, which is the main source of State's income has increased remarkably during the last 25 years. Its collection rose from Rs. 10,68,059 in 1971-72 to Rs. 25,41,338 in 1996-97.⁵¹

The per capita income of the State at current prices stepped up from Rs. 598 in 1972-73 to Rs. 8474 lakhs in 1996-97, which is more than a 10 fold increase over the period. In spite of this achievement, a large chunk of the state's population is still living below poverty line. There is a great deal more that the Government has to do in order to usher economic progress in the State.

Concluding Remarks

The foregoing analysis has shown that Meghalaya is blessed with enormous ^{resources} comprising minerals, forests and water supply. Its climatic conditions is suitable for the cultivation

of horticultural crops like oranges, pineapples, lemons, banana, litchi, jack-fruits, plums, peaches, and vegetables. In this connection, more processing units could be set up in the State for the production of value added processed products like jams, pickels, drinks and other items. The climate in Meghalaya has also been found suitable for the cultivation of tea. Thus, many farmers in the State now take to tea cultivation in place of jhum, for better economic benefits and for winning over the jhum cultivators from this primitive and wasteful method of agriculture. Moreover, floriculture development can also be encouraged as Meghalaya has the largest and best species of orchids. The medicinal plants and herbs spread all over the State should be properly and scientifically made used of to prevent their extinction. The animal husbandry and dairy farming activities if taken up on scientific lines can create employment opportunities and hence bring prosperity to the people of the State. Poultry, goat and sheep rearing activities are economically viable as there is high demand for eggs and meat in the State. If sufficient quantities can be produced there will be no more need to spend crores of rupees in importing these products.

Tourism can be developed as an industry and like Switzerland huge revenue and foreign exchange can be earned from tourism. More and more tourist spots could be developed as Meghalaya is known for its natural beauty. Individuals should also be encouraged to set up Guest Houses/Paying

Guests Accommodation for tourists in suitable areas. Through these measures, the economy of the State can be uplifted.

The varied and myriad mineral resources should be properly exploited and utilised to bring about a rapid industrialisation and an all round economic development of the State.

Besides the utilisation of available resources, transport and communication also needs to be developed. The number of roads has to be increased. Railway transport should be introduced while air transport should also be developed. At present, the State has only a helicopter service while the only airport at Umroi is defunct.

Meghalaya's educational system is less than ideal. The condition of primary education is rather deplorable. Vocational and training schools should be increased in number. The bookish and examination-based system needs major overhauling.

The condition of health and family-welfare leaves much to be desired. The State is in need of more hospitals, dispensaries, doctors, nurses and paramedics, especially in rural areas. The enhancement of health and family-welfare will necessarily lead to the upliftment of the standard of living of the people in the state.

There are great scopes for banking and the financial institutions to play a role in developing the economy of the State which has the potentials to become one of the richest states in the country. The banking and the financial system in the State should not fail to motivate the people of the State to emerge as potential entrepreneurs.

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CHAPTER – II

CHAPTER – II

HISTORY OF BANKING

Introduction

Since this work relates to development of banking and other financial institutions, it is quite relevant to go into the history of banking in the world and how it spread in our country. Hence, in this chapter we shall be dealing with the history of banking since the olden days with detailed analysis of its development in India.

In the olden days when life was simple, man had only the barest minimum of daily needs like food, clothes and shelter from the harsh forces of nature. These were enough for his well being. Cooke states that in the most remote ages of the world, man recognised no other wants than those of being clothed and fed. The standards of value in all countries were cattle skins of animals and the produce of the soil.¹

As population increased and civilization advanced, human wants multiplied at a rapid pace. With the increase in human requisites man was no longer self-sufficient and hence different trades came into being. Thereafter, man began to specialize in one particular trade or work, and exchanged the produce of his work with the produce arising out of other kinds of work. The farmer for instance, would receive milk from the dairy owner in exchange for his crops and so on. This is known as the Barter System. But this system was too crude

and unwieldy. Goods could not be easily exchanged for other goods.

Men hit upon the idea of a common standard of value for all goods. Money came into existence. The term 'money' is derived from the Latin word 'Moneta'. The first forms of money that were used were different commodities chosen as the standard commodity. Cowries, glass, oil, rice, tobacco, dates, goats, and other materials were used as standards by different tribes in the past. In course of time metals like gold, silver, iron, copper and bronze have been used as money. There had been agreement on the use of one or more of three metals for purposes of exchange, these being silver, copper and gold.

For many years silver was pre-eminent. After the division of the Roman Empire, gold had a prior place. This is because gold has been the most precious and beautiful metal. Moreover, the merchants in those days would require that the precious metal they received should be of a certain degree of fineness. But metal could not serve as a perfect medium of exchange and therefore steps were taken to establish a coinage of uniform and proper value.

Early Coinage

The Greeks played a dominant role in the early financial market and the first coins were struck in Lydia, a Greek province about 700 B.C. The early coins were of different shapes like oval, rectangular, square, knife-like and shirt-

like.² It seems possible, based on references in the Hindu epics, that coins including a decimal division, were in fact in use in India some hundreds of years earlier.³ After the Lydians, coinage developed rapidly in the Greek cities and in their colonies in Sicily and Italy.

In course of time, the rulers and even the private entrepreneurs could manage to reduce the amount of metal in their coins. Thus a smaller amount of silver or gold would buy as much as before. As early as 540 B.C., Polycrates of Samos is said to have cheated the Spartans with coins of simulated gold. In the ancient and medieval world, the coins of different dominations conveyed at the major trading centres. Most probably bad coins were used, whereas good coins were retained. It is from this incident that Thomas Gresham derived his famous law stating that bad money always drives good money out of circulation.

The Paper money that came into existence in the 17th century was known as 'token money'. Metallic money was found by merchants to be unsafe to transport. Moreover, there was a scarcity of metals and therefore, state authorities found it more economical to use paper money. Besides paper money, other form of money was developed which was known as credit money or bank money e.g., cheques, bills of exchange and promissory notes.

As the quantity of money increased and goods were no longer exchanged for goods, people began to look for a safe

place to deposit their surplus amount of money. The surplus money also began to be lent with interest to those who needed it. The Athenian money lenders were among those who charged a very high rate of interest. Money lending and borrowing facilitated the greater circulation of wealth, which led finally to the creation of Banks.

Origin of Banking

Cooke pointed out that the science of Banking originated in Italy from where we derive our knowledge of Book Keeping by double entry. The Bankers and Merchants used to write their Bills of exchange upon benches in the market place and other public places. When a Banker or a Merchant lost his credit and was unable to meet his debts, his bench was broken. It is from this practice that we get the word "bankrupt" in English language, which is derived from two Italian words 'Branco' and 'rotto' meaning 'broken bench'. From the first of these two words, the terms 'Bank' and 'Banker' are derived.⁴

The Banking system had a substantial existence in Roman times. So far as any business can be given ethnic association, Banking belongs to the Italians. The Banking-houses or Banks in Rome were called *Argentinae*, *Tabernae*, or *Mensa Numularia* and the Bankers were called *Argentarii*, *Mensarii*, *Numularii* or *Colybista*.⁵ The Bankers were also money-changers. They lent money on interest and charged a lower rate of interest on deposits accepted by them. The mode

of transaction was somewhat similar to that which is used in modern Banks. The Banking-houses of Venice and Genoa were the recognised forerunner of modern Commercial Banks.

Coinage in India

The first form of money that was used in India was metallic money. Vedic literature mentions the 'satamas' (coins), 'niskas' (weights) and 'hiranya pindas' (ornaments). Before the 5th Century B.C., some smaller states like Surasena, Uttara Panchala, Kalinga and Andhra had issued coins. These coins were used even during the Mauryan period i.e., from the 4th to the 2nd century B.C. The data on Indian coinage can be found in Kautilyas Arthashastra. During the reign of Chandragupta Maurya, literature talks about coins of 'silver' (rupya-rupa), gold (swarnarupa), copper (tamrarupa) and lead (sisarupa). Coins as a medium of exchange were used from the Mauryan age. After the Mauryans, the Indo-Bactrians (250BC-50AD), the Indo-Parthians (250BC-80AD), the Kushanas (40AD-241AD) and the Guptas (320AD-540AD) refined the coins and gave them different shapes. The Indo-Greek and Kushana coins had symbols of the Greek and Indian gods and their kings. The Gupta coins depicted the royal interest on riding, hunting and music.⁶

The Rupee (in silver) was introduced from the Mughal period and was recognised as a standard currency. It was Sher Shah who had minted this type of currency. He also issued gold *mohurs* and copper *paise*. The Portuguese were the first to open a mint in Goa in the year 1510, and in 1775 they used

the word 'Rupia' for their coins. The English opened a mint in Bombay in 1717 and the French in Arcot in the year 1736 with the objective to issue Mughal rupees and other coins. Besides the mint in Bombay, the English set up other mints in Madras, Bombay, Banaras, Calcutta, Dacca, Patna, Murshidabad and Farukhabah.⁷

After the downfall of the Mughal Empire, many small states started to issue their own coins. During this period, the English East India company gained administrative powers and divided its holdings into three Presidencies - Bombay, Calcutta and Madras. Each Presidency was allowed to issue its own coins and only these coins were allowed to circulate in the respective Presidencies. It was in 1835 that the British parliament passed an Act by which a uniform coinage was introduced in India and in which the portrait of king William-IV replaced that of the Mughal Emperor. In 1860, the Government had to issue paper money as the silver rupees were not able to meet the needs of a growing trade transactions.⁸

The First Bankers in India

The banking in India was in practice since time immemorial. The Vedas and Manusmrities had records of banking transactions in ancient India. Temples were considered safe places to deposit gold, ornaments and other valuables. The gods of these temples were known as the first bankers and the priests and priestesses acted as their tellers.⁹ These agents accepted deposits on behalf of their gods and

lent the same on interest to those who needed it. From time immemorial, the bankers had always been an important member of the society. Even during the Ramayana and Mahabharata ages, banking had become a full-fledged business activity. The Vaishyas were the principal bankers during the Vedic period. The Bankers were divided into three main classes: the city shroffs, the Zillah Bankers and the village Mahajans.¹⁰ The literature of the Buddhist period also provides information regarding the existence of "shreths", "seths", "shahukars" and bankers in all the important trade centres in India which had a great impact on the welfare of the society. The Hindu Dharmashastra laid down principles that different rates of interest should be charged on different believers belonging to different castes and that only the Vaishyas should take up the profession of money-lending. According to Preston, it may be accepted that the system of banking eminently suited India's then requirements and was enforced in this country many centuries before the science of Banking became an accomplished fact in India.¹¹

The deposit banking, however, came into being quite later i.e., by the 2nd and 3rd century of the Christian era.¹² Like the Vaishyas of the Vedic period, gradually Indian bankers also emerged later like the Jainas, Marwaries, Khattris, Aroras, Chettis, Multanis, Rehtis and Mohammedans and Baniyas in U.P., Gujarat, Rajasthan and West Bengal. According to the famous French traveller J.B. Fraverner, every Indian village had money changers called "shroffs" who

undertook all the remittance of money and issued letters of exchange.¹³

The indigenous banking in India is a family business inherited by the son from his father, the son automatically acquiring training within the family itself. He did not have to incur any expenses to learn the art of indigenous banking. The indigenous bankers became very popular and their hundis were and are still negotiated in all parts of the country and even outside the country. The Chettis provided credit for financing India's foreign trade with South-East Asian countries. The indigenous bankers employed gumastes or expert agents who supplied all the necessary information from different parts of the country.

The indigenous banking could not flourish well during the Muslim period as the Muslim ruler believed in the Quran teaching that accepting money by way of charging interest is a sin. It was only in the time of Jahangir and Shah Jahan that banking in India showed signs of prosperity. Money banking houses were set up and it was during this period that Muslim writers wrote about the existence of hundis or indigenous bills during the Mughal period. Hundis played an important role in providing financial assistance and in financing internal and external trade¹⁴ and this raised indigenous bank to occupy a higher position in the economy of the country. During the reign of Aurangzeb, banking system in the economy suffered a setback. People found it more convenient to borrow from friends and neighbours than from the banks. Though

indigenous banks had been playing an important role, the institution had been characterised by serious problems. Such problems are the mixture of banking business with trade which had adversely affected the banking system in the country. In certain cases indigenous bankers had to incur losses because of non-recovery of loans and the prevalence of different types of gold and silver coins circulated in different parts of the country. They did not publish the balance sheets and proper accounts. Their records were always kept in secret and they never developed the hundis.

The indigenous bankers operated in their respective centres and thereby had an intimate relationship with their clients and customers. This helped them to carry on their work smoothly and efficiently. Indigenous bankers and money-lenders were the main source of credit in the Indian economy up to the year 1850 or 1860 i.e., before the establishment of the Presidency Banks and the Joint-stock Banks. Even during the first half of the 20th century, the indigenous bankers and money lenders supplied the major chunk of credit, especially in the remote areas of the country.¹⁵

This distinction between indigenous bankers and money-lenders should be emphasised. The money-lenders operated with their own capital fund arising out of their savings, while indigenous bankers operated with the deposits accepted from public. The latter discounted hundis whereas the former did not do so. The indigenous bankers and their methods of operation were far better than the money-lenders. There is one

thing common between them in that they both were ancient institutions and did not belong to the organised sector.

When the British ruled in India, many changes took place in India-socially, economically and politically. The Indian banking system began to decline as the Shahukars could not make changes in the methods of their operations to suit the changed economic conditions of India. Besides, the Industrial Revolution had a great impact on Indian economy. People obtained work in the different factories and industries and did not have to depend anymore on the 'shahukars' and 'seths'.¹⁶ In this way the indigeneous banking system headed towards a complete breakdown. This led to the necessity of a modern banking system.

Origin of Central Banks

The government banks were founded with an aim to promote trade and commerce and to meet the requirements of a state. Thus central banking has passed through many phases of evolution. The design and structure of the central banks, their significance and policies, their relations with the government and with the public, their contributions toward economic development, all form part of this evolutionary process.

The central bank is the organ of government that undertakes the major financial operations and by other means, influences the behaviour of financial institutions so as to support the economic policy of the government. In the past, it

so happened that out of many banks in a country, one bank would acquire a higher position of a central bank enjoying the sole right of note issue and acting as the government's bank and agent. Such banks were not called central banks but were known as 'bank of issue' or as 'national banks'. In course of time, such a national bank besides issuing notes had to perform other functions too, which were similar to the functions of a modern central bank. This led to the adoption of the term 'Central Bank' in place of 'National Bank'. But central banks are different from commercial banks in certain vital respects. First, they are governed by agencies of government. Secondly, their motive behind is not achieving individual profit but social profit.

Central Banking is a recent phenomenon and is related to the 19th and 20th centuries, even though there were institutions which transacted certain central banking functions in earlier times. The growth of central banks has been very slow. Amongst the existing central banks, the Riksbank of Sweden which was originally set up as private bank in 1656, was recognised as state bank in the year 1968 and later developed into a Central Bank. Since its inception, the Bank enjoyed the right to issue notes and this right was confirmed by an Act passed in 1809. Unfortunately, the Bank lost the liberty of issuing notes when 'enskilda' banks established from 1830 onwards took away the right to issue notes. It was not until 1897 that the monopoly of note issue was given back to the Riksbank.¹⁷

The Bank of England, founded in 1694 assumed the position of the central bank and developed the fundamentals of the art of central banking. It started functioning as a full-fledged central bank only after the passing of the Bank of Charter Act, 1882. Other major central banks established in the 19th century were the Bank of France (1800), the Bank of Netherlands (1814), the National Bank of Austria (1817), the Bank of Norway (1817), the National Bank of Belgium (1850), the Banks of Spain (1856), the Bank of Russia (1860), the Bank of Germany (1875) and the Bank of Japan (1882).¹⁸

The Bank of France was established with the State's assistance but mainly with private capital. Since its inception, it functioned side by side with the State. The Bank of France had the exclusive right of note issue in Paris and acted as the government's banker. The shareholders were represented by a board of fifteen Regents, who were elected by the two hundred largest shareholders. In course of time, the Bank of France set up many other branches and acquired the monopoly of note issue in the entire country.¹⁹

The Bank of the Netherlands was founded in 1814 with private capital. The President and the Secretary were appointed by the state while the other members of the Managing Board and the Board of Directors were elected from among the shareholders. The Bank was established to replace the old Bank of Amsterdam as the latter had become discredited.²⁰

The National Bank of Austria was set up in 1817 in order to bring about a sound monetary system in the country. The Bank enjoyed the right to issue currency notes till the year 1847. Owing to the wars and revolts which broke out in Austria between 1847 and 1866, the right to issue notes was given to the Government. The Bank was recognised as the Bank of Austria-Hungary in 1878.²¹

The Bank of Norway which was instituted in 1817 started functioning with private capital. The Governor and Vice-Governor were appointed by the King and the directors were elected by Legislature. The Bank enjoyed the privilege of note issue and acted as Government's banker.²²

The National Bank of Belgium was set up in 1850 and it had the sole right of issuing notes. Prior to the establishment of the Bank, there were four banks issuing notes but the notes of none of these banks had a national circulation. The Bank was a private bank but the Governor was appointed by the Government.²³

The Bank of Spain instituted in the year 1856 had to share the right to issue notes with other provincial banks, and was not granted a monopoly of note issue till the year 1873. The Bank operated with private funds but the appointment of the Governor was the task of the Government.²⁴

The Bank of Russia was established in 1860 to issue notes. Besides this, the other objectives were to bring about

stabilisation in the currency and to promote the development of commerce, industry and agriculture. The Governor and Deputy Governor were appointed by the Government, while a Council was formed to look after the transactions of the Bank.²⁵

The Reichbank of Germany was instituted in 1875. It was owned partly by the Government and partly by shareholders. When the German empire was founded, there were several banks which issued notes. The most popular among these was the Bank of Prussia. In course of time, the Bank of Prussia was acknowledged as the apex bank and was renamed as the Reichbank.²⁶

The Bank of Japan was founded in the year 1882 with an aim to stop the excessive issuing of notes by the several national banks. These banks were asked to withdraw the notes and so the Bank of Japan had the sole right of note issue. The Bank was a joint-stock company but the Government appointed the Governor, Deputy Governor and four Directors.²⁷

Banking in the USA

The growth of central banking began in the 20th century. This gained momentum when the International Financial Conference which met at Brussels in 1920, suggested that all countries which have not yet established a Central Bank should proceed to do so. Accordingly, central banks have been established not only in the existing independent countries but

also in many new independent states. The movement of central banking gained further force after the setting up of the International Monetary Fund in 1947.²⁸

The central bank of the United States of America is a system of twelve connected banks called the Federal Reserve Banks.²⁹ Hence, the Federal Reserve System is made up of the twelve Reserve Banks.³⁰ The capital of each Reserve Bank was subscribed by the 'member banks' in its region. The member banks enjoy certain rights in controlling over the functioning of the system such as electing some of the Directors on the local boards - the Boards of the individual Reserve Banks. But more power is exercised by Board of Governors of the Federal Reserve System over the Reserve Banks. The Board of Governors is in Washington and it consists of seven Governors appointed by the President of the United States. From among these seven, the Chairman and the Vice-Chairman, are appointed by the President for a term of four years. Thus, the American Central bank may be described as directed by men appointed for fairly long terms. In the 1950's, the Open Market Committee has come out to be an effective decision-making body in the system. The Committee consisted of the seven Governors along with the heads of five of the twelve Reserve Banks. It met once every three weeks and has attended by sixty or seventy people.³¹

Modern Central Bank

At present, all countries have a central bank of their own as they have felt the need of having centralised monetary

reserves as well as vesting the control of currency and credit in one bank with the State's intervention. They have also realised the significance of a central bank as a means of co-operation and relation with banks of different countries. Most of the central banks in different countries have been set up as state-owned institutions.

A modern central bank has been defined as the supreme monetary institution which is at the apex of the monetary and banking structure of a country. The powers and range of functions of a modern central bank vary from country to country. But there are certain common functions performed by all central banks. According to De Koch a Central bank is a:

- (1) Bank of issue;
- (2) Banker, agent and financial adviser;
- (3) Custodian of member banks' cash reserves ;
- (4) Custodian of nation's foreign exchange reserves;
- (5) Lender of the last resort ;
- (6) Bank of central settlement and transfer, acting as a clearing house.
- (7) Controller of credit.³²

Central Bank in India

In India, the idea of establishing a Central Bank is an old one. In 1836, a group of merchants proposed a scheme for a Central Bank to ensure monetary stability. But the idea of establishing a Central Bank came to an end with the setting up of three Presidency Banks at Calcutta, Madras and Bombay.

The idea was revived in 1867 by amalgamating the three Presidency banks which the Government deferred implementation until the Imperial Bank of India came into being in 1921. The Imperial Bank undertook all the general banking business of the Government and acted as the Government's bank.

The Hilton Young Currency Commission (1926) suggested the creation of a separate bank called the Reserve Bank of India. The Commission suggested the importance of such a bank in bringing about monetary stability. The Commission also recommended that the bank should be a shareholder institution and to avoid political pressure on the Bank, no members of the central and state legislatures should be allowed to serve as Directors of the bank. Bills were passed in 1927 and in 1929 to support the recommendations of the Hilton Young Commission. Unfortunately, nothing positive came out to establish a Central Bank. Besides the Hilton Young Commission, the Simon Commission (1930), the First Round Table Conference (1931), the Central Banking Enquiry Committee (1930), and the White Paper on Indian Reforms (1933) were all in favour of a Central Bank for India.³³

The Reserve Bank Bill was introduced in the Legislative Assembly in 1933 to institute the Reserve Bank as the central bank of the country. The Bill became an Act on 6th March, 1934 and termed the Reserve Bank of India Act, 1934. Mainly the Act has the provisions pertaining to the establishment,

management and functioning of the Reserve Bank. The Act also contains certain provisions concerning the commercial banks. The Reserve Bank of India Act, 1934 also made a classification between scheduled and non-scheduled banks. The Scheduled banks are those banks which are included in the second schedule of the Act and have a paid-up capital and reserves of not less than Rs.5 lakhs. The operations of these banks are controlled by the Reserve Bank(RBI) and they are eligible for its rediscounting facilities. The Non-scheduled banks are those banks which are not included in the second schedule of the R.B.I. Act, 1934.³⁴

The Reserve Banks of India with a share capital of Rs 5 crores was inaugurated in April 1935 and functioned as a private shareholders bank. The affairs and functions of the Reserve Bank were taken care of by the Central Board of directors consisting of 16 members. The Issue Department and Banking Department are kept separate. The Reserve Bank of India had to be nationalised on January 1, 1949 after the passing of a Bill by the Indian Legislature in September 1948³⁵ because it failed to act in the interest of domestic stability and people's welfare and had failed to identify itself with the national aspirations. After nationalisation, the Central Board of Directors consisted of Governor, two Deputy Governors, ten Directors and one government official was instituted. Before 1949, the Reserve Bank of India had been performing two functions i.e. regulation and provision of credit to various sectors. It had concentrated on three things first-on the strengthening of the commercial banking system;

secondly, on the strengthening of co-operative banking system and thirdly on the promotion of other financial institutions. At present, the Reserve Bank of India, performs all the functions of a Central Bank.

Evolution of Commercial Banks

The Commercial Banks are the most important source of institutional credit in the modern age. It is difficult to give an exact definition of the term 'Commercial Bank'. According to the Oxford Dictionary, a Bank is "an establishment for the custody of money, while it pays out on a customer's order". This definition was not accepted as it did not mention the supreme function of a Commercial Bank, i.e. credit creation. Sayers states that a Bank is an institution whose Bank deposits are widely accepted in settlement of other people's debts to each other.³⁶

The Commercial Banking has been practised since time immemorial. The development of traditional commercial banking was related to one factor i.e. money changing. In those days kings, rulers and governments required financial facilities and therefore granted banking rights in exchange for loans.

Around 2000 B.C., the famous temples of Ephesus, Delphi and Olympia in Greece were used as depositories for people's surplus amount of money. The accumulated fund in turn was lent to those who needed it. Hence, these temples became centres of money lending activities in ancient times.

The temples of Delphi and other safe places acted as store houses for the precious metals before the days of coinage and later they lent out money for public and private purposes at interest, though they paid none themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly to a common unit of value, and went on to accept money on deposit at interest and to lend it out at higher interest putting meanwhile drafts to be drawn on them. The banker in the Smriti period performed most of the functions of a modern Commercial Bank such as accepting deposits and lending the same against security and without security.³⁷

In ancient Rome, the pattern of banking was similar to that in ancient Greece. After the fall of the Roman empire, i.e. after the death of Emperor Justinian in 565 AD, banking suffered a setback and it was only in the middle ages that banking was revived and took a new shape. During the middle ages, money lending transactions were mainly carried by the Jews and the financial agents of Lombardy. The Christians did not indulge in any act of money-lending as it was considered to be sinful for them to lend money to others on interest. In course of time, Christians too entered into the business of money-lending and thereby tried to compete with the Jews.³⁸

The development of Commercial banking in England can be traced back to the activities of the London goldsmiths during the reign of Queen Elizabeth-I. The goldsmiths were popular during the middle of seventeen century. This is

mainly because in the year 1640, King Charles-I seized all the large hoards of gold that were kept in the Tower of London by the London merchants. The London merchants were so frightened by this event that although their seized deposits were returned by the monarch they decided to look for a safer place for their gold and in the process of the search they deposited their bullion with the goldsmiths. The goldsmiths in turn lent the money on interest and even issued notes certifying the receipts of valuables and money. These notes took the form of the present day Bank note. Later, the goldsmith's business suffered a setback due to the ill-treatment they received at the hands of Charles-II. After the collapse of the goldsmiths' activities, the need was felt for a developed English banking. As a consequence, private banking came into existence and finally the Bank of England was set up in the year 1694.³⁹

With regard to English Commercial banking, Geoffrey Crowther has remarked:

The present-day banker has three ancestors of particular note. One we have already met, the merchants whose high and widespread reputation or credit enables him to issue documents that will be taken all over the known world as titles to money. To this the title of 'merchant banker' is reserved by usage to the older cosmopolitan and more exclusive private banking firms, nearly everyone of which can trace its ancestry to a trader in commodities, more tangible (though hardly more profitable) than money.

The banker's two other ancestors are the moneylenders and the goldsmiths. Lending and

borrowing are almost as old as money itself and the village money-lender is found even in quite primitive communities. He is not usually regarded as a very lovely object, usurer is one of the oldest terms of abuse. But the services he performs are undoubtedly useful and necessary even though the reward he exacts in return may usually be rapacious. The money-lender works, of course, with his own capital. But if there are any other members of the community with money to spare, it will be quite natural for them to entrust it to the money-lender for investment, in view of his skill and experience in the technique of exaction. As soon as the money-lender reaches this stage, he is an embryonic banker. He has become a money borrower as well as a money-lender. At first he may merely lend out his clients' money on commission, just as a present day solicitor does. But it is obviously both more convenient for his clients and more profitable for him to borrow their money outright, paying interest on it and mingling it with his own capital and then to lend out the whole lot, making his profit from the difference between the moderate rate of interest he pays to his lending clients and the high rate he charges to his borrowing clients.

...The goldsmith ancestry of the modern Bank is purely an English affair. Indeed, the Bank as a provider of circulating money is almost entirely an English invention.⁴⁰

The commercial banking transactions in the under-developed Afro-Asian countries, have been practised by expatriate banks and national banks. But the national banks were not entirely owned by the government such as the Bank of the North Africa Ltd., and the Bagos Ltd. both in Nigeria. The branches of the expatriate banks were set up in the colonised countries of the world. For example, the London Banks which at first established their branches in India also

opened their offices in many other colonies in the East. Even in the West Indies like the Bahamas, Bermudas. British Guyana and other British territories only expatriate banks existed.⁴¹

The former colonies also set up their own banks which had no branches outside their territories. Examples of the earlier local banks are the National Bank of Malta, the Bank of Cyprus and the Mauritius Commercial Bank.⁴²

In the U.S.A., the banks are directly or indirectly linked with the New York money market. The development of nationwide branch banks has been prevented by law, and also by the traditional feelings. It was only after 1930, and particularly since 1945, that branch banking has grown quite rapidly. California is the State where branch banking has gone the farthest. In the year 1965, there were 49 banks with 695 branches in New York city. At the other extreme, Chicago city had 84 unit banks which were not allowed to have branches at all.⁴³

The large-scale bank organisation plays a vital role in the American economy, 'Groups' or 'Chains' of banks, under substantially common ownership have developed. About 427 banks are believed to be under the control of forty-six holding companies. The Transamerica group, with ten banks spread over six states was the biggest in term of deposits. The scale of bank organisation has also been greatly modified in recent years due to amalgamation. This has a great impact on some

of the giant and big banks in Pittsburgh, Boston, Dallas, Kansas city, Baltimore, Washington DC and elsewhere. The degree of concentration of banking in many of the large cities is now very high and we cannot describe the United States, even outside California, as a country of small banks. What is still lacking outside California, is the wide network of branches. The United States remains predominantly a country of local banks.⁴⁴

In the present day world, economic activities in all countries, are in one way or another, relate to the aggregate money supply comprising of currency demand and time liabilities with the banks. In the modern day, credit or bank money constitutes the major chunk of the aggregate money supply. Here lies the significance of the commercial banks. Today the commercial banks not only issue and transfer deposits but they also offer different types of account, act as underwriter to new issues, deal in foreign exchange, provide locker facilities, and other services. No doubt commercial banks are performing many functions but one should not confuse the functions of a central bank with those of a commercial bank. The former aim at stabilising the monetary policies in the economy whereas the latter aim at maximisation of profits thereby accelerate economic development.

Commercial Banking in India

The East India Company sowed the seeds of modern commercial banking in India.⁴⁵ The English Agency Houses⁴⁶

in Calcutta and Bombay began to serve as bankers to the East India Company. Calcutta was the principal port through which external trade was considered by the East India Company with Europe, the Far East and China. The British merchants in Calcutta instituted the great Mercantile Houses. The entire American and European business was run by them. They not only accepted deposits and granted loans but also issued paper money. They provided financial facilities for shipping and for production and transportation of crops.

The first joint-stock Bank established in India in 1770 by Messrs Alexander and Company was the Bank of Hindustan.⁴⁷ This Bank issued notes valued at Rs. 20 lakhs. Two other joint-stock commercial banks were the Bengal Bank and the Central Bank of India which came into existence in the year 1785. The Central Bank issued notes valued at Rs. 42 lakhs and the government accepted all these notes. During the Great Depression in 1929-33, there was a financial crisis in the country and all the three joint-stock commercial banks had to liquidise their assets.

After the establishment of the joint-stock commercial banks, three Presidency Banks were established. These Banks were the Bank of Bengal instituted in the year 1806, with a capital of Rs. 50 lakhs of which Rs. 10 lakhs were subscribed by the Government; the Bank of Bombay established in 1840 with a capital of Rs. 52 lakhs of which Rs. 3 lakhs were subscribed by the government. But this Bank went into liquidation in 1868 and a new Bank of Bombay was set up in

the same year with a capital of Rs. 100 lakhs. The Bank of Madras was instituted in 1843 with a capital of Rs. 30 lakhs of which Rs. 3 lakhs were subscribed by the government. The East India Company by virtue of subscription, obtained the right to appoint some of the Directors as well as the Secretary and Treasurers. The Presidency Banks had the monopoly of note issue subject to certain limitations. They also acted as Banker to the government. The majority of shares of the three Banks were subscribed by the Europeans.⁴⁸

In 1860 an Act was passed permitting the institution of more Banks. In 1862, the right of the Presidency Banks to issue currency notes was taken over by the government but the Presidency Banks continued to use government balances without paying any interest on them as an act of compensation.⁴⁹

The collapse of the first Bank of Bombay in 1868 led to the passing of the Presidency Banks Act, 1876. The government withdrew its capital from Presidency Banks and gave up the right of the appointment of Directors, Secretaries and Treasuries of the Presidency Banks. These Banks however, retained the monopoly of government banking. In this connection, new restrictions were imposed on the Banks to safeguard the interests of the government and the depositors as a whole. The Banks were not permitted to deal in foreign bills, to lend for more than six months and to lend against immovable property. Even though, the Presidency Banks acted as bankers' Bank, they could not be called

government's Banks because the government had the significant portion of the cash balances in district treasuries and sub-treasuries scattered throughout the country. The Presidency Banks hold the idle cash of other banks and provided them with financial assistance in times of need. The Presidency Banks provided direct finance by advancing loans and indirectly by discounting the hundis brought to them by shroffs.⁵⁰

In spite of the restrictions imposed on the operations of the Presidency Banks, they made rapid progress. There was a considerable increase in the amount of deposits collected by them, especially during the years prior to World War I. The amount of cash at the disposal of the Presidency Banks was higher than that of other joint-stock Commercial Banks. The government always kept its cash with the Presidency Banks and conducted its business through them. The banking transactions carried on by the Presidency Banks can hardly be over-emphasized and they acquired a high position in the banking scenario of the country.⁵¹

During 1860 to 1874, attempts were made by the government to convert the Bengal Bank into a "Bank of India".⁵² The Secretary and Treasurer of the Bank of Bengal placed a proposal before the government regarding the amalgamation of all the three Presidency Banks. But the government of India did not accept it. The Allahabad Bank and Alliance Bank of Shimla were established in 1885 and 1875 respectively. Both these Banks were incorporated under

European Management. The first Bank of limited liability managed by Indians was the Oudh Commercial Bank set up in 1881.⁵³ The Punjab National Bank was set up in 1894 and the People's Bank of India in 1901 through the efforts of Lala Har Kishan Lal.

Imperial Bank of India

The Fowler Currency Committee of 1899 suggested the establishment of a Central Bank but the government of India under Lord Curzon rejected it. Moreover, the Presidency Banks did not like the idea of amalgamation and desired to keep their individuality. In 1913 the Chamberlain Commission advocated the appointment of an expert committee to study the whole issue.⁵⁴ At the same time people in India emphasized the creation of a Central Bank. With these pressures, the Presidency Banks withdrew their opposition and finally the Imperial Bank of India was set up in 1921 by the amalgamation of all the three Presidency Banks along with their branches and paid-up capital of Rs. 3,314 crores.⁵⁵

After the amalgamation of the three Presidency Banks to form the Imperial Bank of India, four things followed. First, the London office of the Imperial Bank of India was established. Secondly, the government handed over all the general banking activities to the Imperial Bank. Thirdly, the Imperial Bank was to open 100 branches. Fourthly, the Governor-General in council was given powers to issue instructions to the Imperial Bank on important matters.

The Imperial Bank enjoyed a high position in the entire banking world because of its satisfactory resources, experience in banking transactions as also in the field of trade and commerce. It acted at the same time as the government's Bank. All this gave rise to serious talks for converting the Imperial Bank into the Central Bank of the country. But majority of Indian nationals did not like this idea. This is because of various reasons. First, the Imperial Bank was a commercial bank with a high spirit of competition with the other existing commercial banks. Secondly, the Imperial Bank was incorporated by Europeans and therefore had certain anti-national attitudes. It was reluctant to lend to those industries which were owned 100% by Indians. Moreover, it never recruited Indians to higher posts in the banks and in most cases never favoured Indians. Ultimately, the Hilton-Young Commission of 1920 totally rejected the idea of making the Imperial Bank the Central Bank, and decided that it should remain only a big and strong commercial bank.

The Swadeshi movement started in the year 1903 and the movement gave a big push to banking as the number of banks with paid-up capital and reserves of over Rs.5 lakhs had increased to 18. These banks had the total deposits of Rs. 22 crores ⁵⁶ The continuous increase in the capital and deposits of banks is shown in table 2:1 on the next page.

From the table 2:1 we can see that the development of banking was rapid in the first decade of the century but after that the trend was static. This is because of the outbreak of

famines in Bengal, United Provinces and Bombay during 1912-1914.

TABLE 2:1
BANKING DEVELOPMENT FROM 1906 TO 1913

Year	Number of Banks	Capital and Reserves (Rs. in lakhs)	Deposits (Rs. in Lakhs)	Cash Balance (Rs. in lakhs)	Ratio of Cash Balance to Deposit(%)
1906	9	190	1150	149	13
1907	11	292	1400	194	14
1908	14	309	1626	245	15
1909	15	354	2049	279	14
1910	16	376	2566	280	11
1911	18	412	2591	362	14
1912	18	426	2726	400	15
1913	18	364	2259	400	18

Source: M.C. Vaish, (1976) *Modern Banking* (Rabsa Publications, Jaipur) p. 171.

The well-known banks of the present time like the Indian Bank of Madras, the Bank of Mysore, the Bank of Baroda and the Bank of India came into being during the Swadeshi movement period. Other Indian banks set up during this period like the Indian Specie Bank, the Bengal National Bank, the Credit Bank of India, the Bombay's Merchant Bank, the Upper Bank of India, and other banks,⁵⁷ could not carry on their work and they failed. The number of Banks which failed in 1913 was 12; in 1914, 22; in 1915, 11; in 1916, 13; in 1917, 9; in 1918, 7; in 1919, 4; in 1920, 3; in 1921, 7, in 1922, 15, in 1923, 20; and in 1924, 18.⁵⁸ The failure of the 141 Banks dealt a severe blow to banking development in India.

The failure of banks appeared not only in the period between 1913 and 1924 but also in the period during 1925 - 36. Such banks were the People's Bank of Northern India and the Tata Industrial Bank of Shimla which were set up in 1932. In 1936 another 40 banks failed.⁵⁹ There were many factors that led to the collapse of so many banks. According to the Central Banking Enquiry Committee such factors were: inefficient directors, faulty management, unprofitable investment, inadequate paid-up capital and reserves, a mixture of banking and non-banking business, absence of proper proportion between authorised, subscribed and paid-up capital, low percentage of cash to total deposits, absence of knowledgeable directors and managers, misuse of bank's funds for personal gains, ignorance about the banking business among the public, political, communal and business rivalry among bankers, absence of stricter government regulation and control over commercial banks in the country. Besides these, the other responsible factor was the absence of co-operation between the joint-stock Banks. The Presidency Banks were going their own way and were not willing to help other banks like the Bank of Bengal which refused to lend to other banks.

In the midst of all this chaos a need was felt for the creation of a Central Bank. As mentioned earlier, this need had been felt for a pretty long time. Ultimately the Reserve Bank of India was actually set up in April, 1934.

Banking Development During 1939-49

After the setting up of the Reserve Bank of India in 1935, the growth of banking in the country was remarkable. The total number of banks including the Imperial Bank increased from Rs.1,035 in 1938 to 2,717 by the end of 1949. Their deposits also increased from Rs. 238 crores to 1,093 crores during the same period. The main reason for the growth of banks is the abundant supply of funds. Funds in those days could not be utilised for setting up industries because of scarcity of capital goods. Therefore, all the funds available were used in setting up new banks. The main banks which were set up during this period were the Bharat Bank, the Delhi Bank and the United Commercial Bank. The progress of banking during this period was significant but the banking system was not free from deficiencies. Such defects included mal-management of bank accounts, cut-throat competition, and unhealthy branch expansion. Consequently, many banks failed. The number of default banks during this period was 444.⁶⁰

The partition of the country during India's Independence had a great impact on its banking system.⁶¹ Prior to the partition, the banks were run by the Hindus. On the eve of the conflict between the Hindus and the Muslims, most of the banks in Punjab led by the Punjab National Bank and run by the Hindus transferred their head-quarters from West Punjab to East Punjab and Delhi. The bank in West Punjab was forced to wind up due to the continued disturbances.⁶²

The Government of India with the help of the Reserve Bank of India(RBI) and the application of the Reserve Bank of India Act, 1934 was able to minimise the crisis among the Punjab banks. The RBI was given power to supervise the banks and hence most of the banks survived with the help rendered by the RBI. More power was given to RBI by the passing of the Banking Companies (Inspection) Ordinance Act, 1946. The provisions of this Act also enabled the RBI to close the banks which were beyond recovery and to save other banks at the right time. The mushroom growth of banks was checked with the passing of the Banking Companies (Restriction) Act in 1946. Prior to the year 1949, all the commercial banks in the country were governed by some of the provisions of the Indian Companies Act, 1913. These provisions suffered from certain loopholes and hence there was a necessity for a wider conservative legislation. In 1949, a major action was taken which was very important from the point of view of structural reforms in the banking sector. The Banking Companies Act came into force on 16th March, 1949, which gave the RBI extensive regulatory power over the commercial banks. This Act was renamed the Banking Regulation Act, 1949 in the year 1966 to cover the Co-operative Banks.⁶³ The objectives of this Act was to prevent bank failures, to avoid cut throat competition, to ensure balanced development, to regulate bank credit and working of banks, to safeguard the interests of depositors, to strengthen the banking system, to control foreign banks, to provide quick and easy liquidation and to have a specific legislation containing comprehensive provisions relating to the business

of banking in India. The first provision of the Act gives the definition of Banking and Banking Company. According to Sec 4(b) of the Act, banking is defined as “accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise”.⁶⁴ Sec 5(c) of the Act gives the definition of banking company as “any company which transacts the business of banking in India”.⁶⁵ The Act was amended from time to time to meet the changing requirements in the economy.

Banking Development During 1949-1970

The Indian banking system has made rapid progress since Independence. In the two decades following the enactment of the Banking Regulation Act, 1949, the Indian Banking progressed in many respects. It not only grows geographically but also functionally.⁶⁶ After Independence, India inherited the banking system and even the Indian banking laws based on the English laws. This was a period which witnessed the economic development of the country in accordance with the objectives of the Five Year Plans. The banking system and the RBI tried their best to adapt themselves to the changes in the economy after the launching of the First Five Year Plan in 1951. The RBI regulated credit so that it could reach the priority sectors in the economy and did whatever it could to consolidate and strengthen the banking structure. The RBI was also empowered to amalgamate the banks. The failure of a number of banks in the early 1960s made it necessary to amend the Banking Regulation Act, 1949 to give the RBI the

right to order for the amalgamation of a banking company with other banks. As a result of the operation of the Act along with the process of the amalgamation, there was a decline in the number of non-scheduled commercial banks and their offices as the smaller banks were merged with the bigger banks. The RBI which is vested with greater powers of control over the banks started collecting data on various aspects of banking.

The development of banking in India during the 20 year period from 1950 to 1970 may be seen in the table 2:2 on the next page.

The table 2:2 reveals an annual increase in the number of branches in the country. During the 20 year period, the SBI branches exhibits a growth of 452%. The number of branches of the SBI Subsidiaries had also increased from year to year except for 1962 which remained constant for two years at 519. The table also shows that the branches of other Indian banks reflects a fluctuating trend from 1950 to 1953 followed by an annual increase in the succeeding five years and a decline in 1960. From 1961 onwards there was an annual increase in the number of the other Indian banks' branches. The number of foreign banks' branches remained constant at 64 from 1950 to 1953 followed by a fluctuating trend in the succeeding four years. The number remained constant for two years at 67 in 1958 and then declined to 66 in the following year, and remained constant for two years. The number of scheduled banks' branches reveals a fluctuating trend from 1950 to 1954.

The number of non-scheduled banks' branches exhibits an annual decrease from 1951 to 1970. The decline is because many of these banks having subsequently fulfilled the conditions laid down by the RBI Act, 1934 and were included in the second schedule of the said Act and are termed scheduled banks.

TABLE 2:2
BANKING DEVELOPMENT DURING 1950-1970
(Number of Bank Branches)

Year	State Bank of India	Subsidiaries of SBI	Other Indian Banks	Foreign Banks	Number of Scheduled Banks	Number of Non-Scheduled Banks	Total Number of Scheduled and Non-Scheduled Bank offices
1950	382	-	2317	64	2765	1203	3968
1951	391	-	2191	64	2646	1473	4119
1952	408	-	2199	64	2671	1369	4040
1953	422	-	2181	64	2670	1357	4021
1954	453	-	2228	67	2746	1286	4032
1955	480	-	2292	65	2838	1247	4085
1956	536	-	2350	66	2953	1240	4193
1957	620	-	2576	67	3263	1112	4375
1958	711	-	2846	67	3623	982	4605
1959	823	-	3033	66	3922	925	4847
1960	901	490	2690	66	4150	789	4939
1961	946	519	2854	69	4390	622	5012
1962	1002	519	3005	71	4608	565	5173
1963	1069	566	3283	82	5004	487	5491
1964	1143	608	3658	86	5499	329	5828
1965	1267	653	3890	90	5902	232	6134
1966	1378	692	4203	90	6382	229	6611
1967	1488	751	4455	106	6782	213	6995
1968	1543	832	4946	111	7446	203	7649
1969	1660	942	6100	125	8832	181	9013
1970	2108	1144	6625	130	11006	142	11148

Source: Sandhu B.S. *Banking and Rural Development: Promises and Performance*, (Deep & Deep Publications, 1996) p.35.

In the year 1951, the total number of scheduled banks' branches in India was 4263. Most of these banks existed in capital cities and urban centres and only about 700 branches operated in rural areas. The Madras state (now Tamilnadu) had the highest number of branches of about 557. Out of this number, 92 were in Madras city alone. The Uttar Pradesh had the second largest number of branches with 442. The total deposits mobilised in the state were Rs. 70.89 crores and the advances were Rs. 45.04 crores. In the third position was Maharashtra with 433 branches. The Bombay city itself had 159 branches. West Bengal had the fourth largest number of branches with 222. Out of this, 197 branches were in the Calcutta city alone. On the other extreme the states of Assam and Orissa had only 32 and 15 branches respectively.

Nationalisation of Imperial Bank

The State Bank of India(SBI), the biggest commercial bank in the country, was formed on 1st July, 1955 with the passing of the State Bank of India Act, 1955 by taking over the assets and liabilities of the Imperial Bank of India. The setting up of the State Bank of India(SBI) was the outcome of the recommendations of the All-India Rural Credit Survey Committee appointed by the Reserve Bank of India in 1951. The Committee recommended the establishment of a state bank with adequate number of branches spread through-out the country providing sufficient remittance facilities for other banks and following a policy in accordance with the national goals and objectives of planned economic development. The SBI therefore came into existence with 92 % of its shares

subscribed by the RBI, and had the distinction of becoming the first state-owned commercial bank in the country. The main motive behind the establishment of the SBI is to take banking to the countryside. In view of this necessity the SBI was required to function as a development agency besides performing the traditional functions of a commercial bank. In addition to the development agency function, the SBI was entrusted with the task of being the RBI's agent. The RBI shall appoint the SBI as its sole agent at all places in India where the RBI does not have an office or branch of its banking department provided there is a branch of the State Bank or branch of its a subsidiary bank. Hence the SBI now has the right to receive and make payments on behalf of the Central and the State Governments.

The State Bank group comprising of State Bank of Hyderabad, State Bank of Indore Jaipur, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Travancore, State Bank of Saurashtra and State Bank of Patiala was created in 1960 after the passing of the State Bank of India (Associate Banks) Act in 1959. These banks opened new offices in semi-urban, rural and unbanked areas. This attempt yielded good results and their relative share in total deposits increased.

Lending Policy & Deposit Insurance

The period also witnessed a change in the lending policy of commercial banks. The major part of their credit had gone to commerce and large and medium scale industries. Industries

accounted for 68 percent of the commercial bank credit in 1968 as against 34 percent in 1951. Judged on the basis of deposit mobilisation, commercial banks made considerable progress during this period. The deposits of scheduled banks excluding State Bank of India and its Associate Banks increased from Rs. 843 crore in 1950-51 to Rs. 5,028 crores in 1969-70. The share of the commercial banks deposits owned by the household sector in the total savings in financial assets rose from 1.94 percent in 1950-51 to 7.14 percent in 1965-66. An important step taken up in the country in January, 1962 was the introduction of a system of deposit insurance. The system administered by the Deposit Insurance Corporation whose capital of Rs.1 crore is owned entirely by the Reserve Bank of India and India is the second country to develop this system. The insurance cover was originally a modest sum of Rs. 1,500 in respect of each depositor in each bank. The cover was raised to Rs. 5,000 in 1968 and further to Rs. 10,000 in 1970.⁶⁷

Agricultural Finance

Another important step taken was to enlarge the commercial banks involvement in agricultural finance. The Agricultural Finance Corporation Limited was set up as a joint venture by the leading commercial banks to provide credit facilities to the priority agricultural projects and to encourage commercial banks in supporting the agricultural sector. Right from the First Five Year Plan launched in 1951, the emphasis on the objective of raising food production. The Intensive Agricultural Development Programme was

introduced in selected districts in the country. Investments were made by the state on research work for developing hybrid varieties of different crops. As a result, the Green Revolution took place in the country. The area under cultivation expanded along with the expansion of irrigation facilities. But the financial assistance to the agricultural sector provided by commercial banks was not adequate. In 1968, only 0.4 percent of the total advances was extended to this sector. Hence, it was felt necessary for the commercial banks to be brought under social control, so that they would contribute to economic development.

Social Banking

Prior to the year 1969 all the banking companies operating in the country except the SBI, were private sector Banks. These Banks like any other business companies aimed at maximising private profit. A demand for the nationalisation of commercial banks was raised over and over again by the Congressmen and the Communists.⁶⁸ This demand was based on the ground that the commercial banks had been owned and controlled by a few persons and thus contributed in a big way to the growth of monopolies and concentration of economic and political power. It was also alleged that the banks discriminated between small and big business units and in most cases neglected the agricultural sector. The resources of commercial banks were being misused by directors for promoting only those units in which they were interested instead of promoting common interests of the society. It was

felt that nationalisation was the only way to solve the problems of banking in the private sector.

The concept of nationalisation was rejected by the Government of India at the first instance and in its place the government introduced a social control system of Banks.⁶⁹ Under the social control system, the lending policy of Banks was guided by National Credit Council (NCC) headed by a Finance Minister. The first task of the commercial banks was first to meet the necessities of the farmers and small business units. However, immediately after the introduction of social control, an important decision was taken by Mrs Indira Gandhi, the former Prime Minister of India for nationalising 14 of the major Commercial Banks. The President of India promulgated an ordinance on the 19th July 1969 nationalising these fourteen major Commercial Banks in India each with deposits worth Rs. 50 crore or more. The ordinance was replaced by an Act of the Parliament on the 9th of August, 1969. Some prominent shareholders challenged the Act in the Supreme Court as they alleged that it lacked constitutional validity. The Supreme Court pronounced the verdict on the 10th of Feb 1970 that the Act is unconstitutional and hence 'null and void' as it makes hostile discrimination and allows for 'unfair compensation'.⁷⁰ The rejection of the Act compelled the government to promulgate again an Ordinance on 14th February, 1970 nationalising the said fourteen Commercial Banks with retrospective effect from 19th July 1969. The second ordinance was replaced by an Act called the Banking Companies (Acquisition and Transfer

of undertakings) Act, 1970. This Act came into force from the 31st March 1970.

According to the provisions of the Banking Companies Act, 1970, the ownership and management of the 14 major commercial banks has been transferred to the Government of India. The independent identity of each of these Banks is maintained and they are allowed to conduct their business in their old names, but the words "The" and "Limited" were deleted from their new names. The Act also empowers the Government of India to amalgamate any of the acquired Banks bank with another nationalised bank or any other bank, and for the transfer of the whole or a part of a new bank to any other bank or vice versa.

The Banks which were nationalised on 19th July, 1969 are the following:

- (i) the Central Bank of India;
- (ii) the Bank of India;
- (iii) the Punjab National Bank;
- (iv) the Bank of Baroda
- (v) the United Commercial Bank,
- (vi) the Canara Bank
- (vii) the United Bank of India
- (viii) the Dena Bank
- (ix) the Syndicate Bank,
- (x) the Union Bank of India,
- (xi) the Allahabad Bank,
- (xii) the Bank of Maharashtra,
- (xiii) the Indian Bank,
- (xiv) the Indian Overseas Bank,

Banking Development in Post Nationalisation Period:

Lead Bank Schemes -

The main objective of Bank nationalisation was the expansion of credit facilities to all sectors of the economy and to do away with regional disparities. Other objectives were removal of poverty with branch network mobilisation of deposits, meeting the credit needs of neglected sectors, growth of new entrepreneurs and improving the management efficiency of the Banks. A number of measures were adopted in helping the nationalised Banks to play an effective role in economic development. The then Governor of the RBI had appointed a committee under the chairmanship of F.K.F. Nariman in August 1969 to prepare a programme in creating adequate banking facilities especially in districts and regions where such facilities were lacking. The RBI accepted the recommendation of the Committee for the 'Lead Bank' Scheme. This Scheme was initiated in 1970 and under this scheme, the districts were allotted to the State Bank Group, fourteen nationalised Banks and 3 private Indian Banks. The main responsibility of the Lead Bank was to prepare District Credit Plans to fill up the credit gaps estimated in all the districts in the country. The District Credit Plans were formulated and implemented by the nationalised Banks with the support of non-nationalised Banks and the state governments.

Banks and Rural Development

After nationalisation, the role and functions of Bank underwent a great change. The major task of the nationalised Bank is to extract saving from the rural masses and to channelise the accumulated funds into productive channels. This will boost upliftment, progress and prosperity of the rural sector. The Commercial Banks started functioning in the neglected sectors like agriculture and allied activities and shifted their attention from the urban to the rural sector. However, the planners were not satisfied with the progress achieved by the nationalised commercial banks in reaching the weaker sections. This led the government of India to formulate programmes like the Small Farmers Development Agency and the Marginal Farmers, and the Agriculture Labourers' Development Agency. The Government of India recommended the establishment of Regional Rural Banks(RRBs) in supplying banking facilities to certain specified groups in rural areas.

The Regional Rural Banks made their first appearance after the passing of the Regional Rural Banks Act, 1975. These banks have been in the public sector since their very inception. The main objectives of the RRBs are to develop the rural economy. Thus about 91% of the country's banking system is now under the public sector.

Second Dose of Nationalisation

On the 15th April 1980 the other six Commercial Banks in the private sector were nationalised. The six Banks are:

1. The Andhra Bank Ltd.
2. Corporation Bank Ltd,
3. The New Bank of India Ltd,
4. The Oriental Bank of Commerce Ltd,
5. The Punjab and Sind Bank Ltd,
6. Vijaya Bank Ltd,

The second dose of nationalisation widened the coverage of the public sector banks and their number increased to 28 comprising the S.B.I and its subsidiaries.

Even after the nationalisation of Banks, the Indian banking industry is still primitive in practice and outlook. This caused the setting up of National Institute of Bank Management, Bombay and many Bankers' Training Colleges for conducting training and research work. It is possible for nationalised banks to become effective instruments in mobilising saving and distributing credit and to operate in line with the national goals and objectives. It is also possible for them to strengthen and support investment in industry and agriculture if they are properly managed. On the other hand, if they lack managerial competence and effectiveness, it may prove dangerous for the economy and it may also lead to a transfer of deposits from the nationalised banks to the smaller banks in the private sector.

Branch Expansion

The post-nationalisation period has seen a rapid expansion in the branch network of commercial banks. The banks have given special attention to providing credit facilities in under banked regions and in the neglected sectors of rural economy like agriculture and allied activities and they also shifted their emphasis from urban to rural sector. There has been also a spectacular expansion of bank's branches. The number of branches of all scheduled commercial banks increased from 8,262 to 53,840 during the 18 years of post-nationalisation period. The number increased further to 61,742 in 1994. Besides the increase in the number of branches, there has also been a considerable increase in the deposits of commercial banks. During the 18 years of the post-nationalisation period, the deposits increased from Rs 4,646 crores in the 1969 to Rs 1,07,345 crores in 1987. The deposits rose to Rs 2,30,458 crores in March 1992. As in the case of deposits, there was a huge spurt in advances. Advances of scheduled banks increased from Rs. 3,599 crores in 1969 to Rs. 63, 753 crores in 1987 and rose further to Rs. 1,24,788 crores in March 1992.⁷¹

The considerable expansion of bank offices is also due to the role played by the Lead Bank Scheme initiated immediately after the nationalisation in 1969. Among the newly opened offices, the State Bank Group and the nationalised Banks accounted for more than 94 percent. However, after the nationalisation of 14 Banks in 1969 a

deliberate policy has been adopted to outreach banking to rural and less developed areas. As a result of this, the percentage of Bank offices in rural areas has increased from 22.4 percent in June 1969 to 52.7 percent in March 1996. In the same period the percentage of bank offices in urban areas and metropolitan towns declined from 37.5 percent to 26.1 percent of the total bank offices in the country.

The metropolitan cities have been able to attract most of the commercial banks in all countries and India is no exception to this. Until the nationalisation of 14 Banks, eight metropolitan cities (Mumbai, Calcutta, Chennai, Delhi, Hyderabad, Ahmedabad, Kanpur and Bangalore) accounted for more than 50 percent of the deposits of commercial banks. In the post-nationalisation period the deposits in the metropolitan centres now account for less than 40 percent of aggregate deposits.

The amount of deposit mobilisation depends very much on the level of economic development particularly industrialisation. The capacity of the people to save depends on the growth of industries and trade. It is because of this reason that Maharashtra leads all other states in terms of deposits mobilisation. Maharashtra is followed by West Bengal, Delhi, Uttar Pradesh, Gujarat and Tamil Nadu. These six states have together mobilised more than 60 percent since nationalisation. Small states like Sikkim, Mizoram, Arunachal Pradesh, Manipur, Meghalaya, Nagaland and Tripura are still lagging behind and therefore their capacity to mobilise Bank

deposits is very little. However in terms of percentage growth during the post-nationalisation period, relatively less developed states have done better. This is due to the spread of banking facilities to less developed and backward states.

Development-Oriented Banking

The concept of banking has undergone a great change. In the past, the concept of banking was confined to acceptance of deposits and granting of loans but in the post-nationalisation period banks are development-oriented. The Joint-stock banks are now catering to the needs of industrial and agricultural finance. The state is making great efforts to support agriculture and the commercial banks have been asked to enter into the field of agriculture finance activity.

In the post-nationalisation period, the main objective behind advancing credit is to reach the neglected sectors which were accorded priority status. The priority sector includes agriculture, small industry, small transport, retail-trade, small business professionals and self-employed persons. The banks are asked by the government to follow a 'Target-Oriented Approach' in advancing credit to these sectors. Initially the target was placed at 33 percent of the total credit which was subsequently raised to 40 percent.

The nationalised commercial banks have been playing a significant role in rural and urban areas. The Reserve Bank of India in its report of banking in India (1985-86) has stated, "The main objective of the policy would be to achieve a

coverage of 17,000 population per Bank office in rural and semi-urban areas of each block to provide banking facilities in those pockets of rural areas where there are wide spatial gaps. In the period of 23 years after nationalisation there was an over 800 percent increase in the number of Bank branches and the most remarkable progress was made in rural areas.

Despite the number of banks being large, the area uncovered by commercial banking system is still vast. There has been little competition between the banks. The public sector banks, which accounted for more than 90 percent of the banking business, had little incentive to compete. The commercial banks are anxious to open branches in unbanked areas but they face problems like the lack of organisations, non-recovery of loans and the hesitancy of the staff to settle down in rural areas. The commercial banks still have a long way to go.

No doubt there has been a remarkable banking growth at the all-India level but unfortunately this did not lead to a balanced growth at the inter-state level. This is evident from the table 2:3 on the next page which shows the position as on December 1980.

From the table 2:3 it appears that by and large the more advanced states have a higher C-D ratio than the less developed states in the country. There are fifteen states below the national average of 66.6 percent and this reveals the fact that the deposits mobilised in these states are flowing out to other states.

TABLE 2:3
STATE-WISE DISTRIBUTION OF DEPOSITS AND
CREDIT OF COMMERCIAL BANKS IN A FEW
STATES: DECEMBER, 1980.

<i>States</i>	<i>Deposits Rs.in crores</i>	<i>Credit Rs.crores Per capita (Rs)</i>	<i>Credit- Deposit Ratio(%)</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
<i>Andhra Pradesh</i>	1862	1384	74.3
<i>Assam</i>	340	156	45.8
<i>Bihar</i>	1556	636	40.8
<i>Gujarat</i>	2564	1491	58.1
<i>Haryana</i>	654	469	71.3
<i>Himachal Pradesh</i>	206	69	33.4
<i>Jammu & Kashmir</i>	377	118	31.2
<i>Karnataka</i>	1933	1449	74.9
<i>Kerala</i>	1455	983	67.5
<i>Madhya Pradesh</i>	1172	653	55.7
<i>Maharashtra</i>	6957	5482	78.7
<i>Manipur</i>	16	6	37.5
<i>Meghalaya</i>	50	8	16.0
<i>Nagaland</i>	20	5	25.0
<i>Orissa</i>	430	254	59.0
<i>Punjab</i>	1952	845	43.2
<i>Rajasthan</i>	843	569	67.4
<i>Sikkim</i>	5	-	NA
<i>Tamil Nadu</i>	2523	2374	94.0
<i>Tripura</i>	35	18	51.4
<i>Uttar Pradesh</i>	3582	1513	42.2
<i>West Bengal</i>	4136	2501	60.4
<i>Union Territories</i>			
<i>Andaman & Nicobar Island</i>	9	2	22.2
<i>Arunachal Pradesh</i>	9	2	22.2
<i>Chandigarh</i>	579	267	46.1
<i>Dadra Nagar Haveli</i>	1	1	100.1
<i>Delhi</i>	3650	3008	82.4
<i>Goa, Daman & Diu</i>	323	128	39.6
<i>Lakshadweep</i>	1	-	-
<i>Mizoram</i>	9	1	11.1
<i>Pondicherry</i>	58	33	56.8
<i>All India</i>	37307	24455	66.6

Source: (i) RBI. Report on Trend and Progress of Banking in India:1982-83
(ii) RBI Bulletin, June 1982

Banking Development in the 1990's

After 20 years of bank nationalisation and after achieving a tremendous growth, the banking system has entered a stage of consolidation. There has already been a diversification of banking activities, a standard measure of liberalisation and a step towards upgradation of technology. On 1st April, 1989, the Service Area Approach was implemented to make rural lending more productive. This could be done by meeting the local and genuine needs of the villagers and promoting deposit mobilisation. It was also expected that the approach would increase bank credit and the communication between bank officials and local development agencies. Several steps and measures have been taken up for effective implementation of the approach. Such steps are field study tours and discussions at various levels in the RBI, NABARD and the Commercial Banks. Extensive training and research work was also conducted to equip branch managers in preparing reports and credit plans.

The Bank credit plans were required to be updated and made more realistic. The control offices of each bank were asked to investigate the progress and were rendered help if necessary so that the plans may be launched in time with effect from April 1st, 1990.⁷³

The successful implementation of the Service Area Approach can bring about a drastic change in the credit planning process and this will have a great impact on production, productivity and income in the economy

particularly in rural areas. The need for a co-ordinated approach at the local levels cannot be exaggerated.

The growth of deposits was slow at the beginning of 1995-96 but revived in the second half of the year due to the decrease in the interest rate of term deposits. In addition to this there was an increase in the inflow of funds through Foreign Institutional Investors (FIIs) which lead to an increase in net investment. It amounted to Rs. 3,637.8 crores during January-March, 1996. This contributed to an increase in deposits in the last quarter of 1995-96.

During the first half of 1996-97, between March 29, 1996 and September 27, 1996, the aggregate deposits increased by Rs. 27,926 crores (6.4 percent) despite a fall in demand deposits. Aggregate deposits had recorded an increase of Rs.11,740 crores i.e., 3.0 percent in the corresponding period of 1995.⁷⁴

The bank credit expanded during 1995-96 by Rs. 42,454 crores (20.1 percent) besides a rise of Rs. 47,144 crores (28.7 percent) recorded in the previous year, whereas it expanded by Rs. 51,322 crores (25.3 percent) between March 17, 1995 and March 29, 1996. There was a decline in food credit of Rs. 2,484 crores (20.2 percent) as against an expansion of Rs. 1,368 crores (12.5 percent) during the previous year. On the other hand there was a significant expansion in non-food credit of scheduled commercial banks of Rs. 54,684 crores (28.9 percent) during 1995-96. This was mainly due to the

progress in the industrial sector. The credit-deposit ratio and the non-food credit-deposit ratio reached the peak levels of 90.4 percent and 95.7 percent respectively in 1995-96.⁷⁵ As on 31st March 1999, the aggregate deposits and the aggregated credit of scheduled commercial banks stood at Rs. 7,17,271 crores and Rs. 3,68,837 crores respectively.⁷⁶

The present structure of scheduled commercial banks comprised the State Bank of India and its subsidiaries (8), nationalised commercial banks (19), private sector banks (34), regional rural banks (196) and foreign banks (41). As on March 31, 1998, the total number of branches of scheduled commercial banks stood at Rs. 64,267. Of these, 32,890 were in rural areas.⁷⁷

Banking and Financial Reforms in India⁷⁸

Over the succeeding decades, many distortions gradually infected the Indian banking and financial system. Therefore, in August 1991 the Narasimham Committee was appointed to look into these distortions and to suggest reforms to correct them. The formal announcement of the first initiatives of the reforms was made in 1991-92 in the First Report of the Narasimham Committee which submitted its second Report in 1998. During the interval between 1991-92 to 1998, much progress was made in the building up of a financial system which can cope with the challenges of a more competitive and open economy.

The Narasimham Committee identified two major causes behind the distortions in the financial system. These were (1) Directed Investment and Credit Programmes, and (2) Political Interference. These two were the main reasons that not only reduced the profitability of the banks but also increased their expenditure. Besides these, central directions and control of the banks had undermined their supervision, inspection and audit. The end results were a decline in labour productivity and low standards of customer service. The reform measures were thus adopted to straighten out these distortions.

Since 1991-92, the reforms have had a very favourable impact and much progress has been made. Though the Cash Reserve Ratio (CRR) level is still higher, the medium target of 25% set for the Statutory Liquidity Ratio (SLR) and 10% for the CRR has been, by and large, achieved. Some other measures of reform adopted have been the relaxation of entry and exit norms, a reduction of public ownership in the banking industry and allowing banks access to the capital market for meeting their fund requirements. The gradual liberalisation of interest ratio was another step for reform. Another category of reform related to the safety aspects of the financial system are income recognition norms, assets classification, fulfilling minimum capital adequacy standard through re-capitalisation and devising of a supervisory framework. Then in 1993, the Recovery of Debts Act was passed for the prompt adjudication and recovery of debts.

Besides the above-mentioned measures, a number of reforms have been adopted with regard to the Development Financial Institutions (DFIs) and the Money and Capital markets. Many DFIs have been granted permission to access the domestic and international markets. Several of them have raised funds at variable interest rates thus liberalising their interest regime. Because of these measures the DFIs can now provide a number of new products and services to fulfill the requirements of industrial enterprises. There has also come about a diversification in the financial services sector. The DFIs now follow the prudential norms and achieved the capital adequacy rate of 8% in March 1996. The Recovery of Debts Act has been made applicable to them also.

The RBI is trying to reduce the difference between various sections of the money market as well the variations in the rates of interest by bringing out reforms from time to time. A secondary market has been developed and new instruments have been introduced. The Money Market Mutual Funds and the Discount and Finance House of India Limited have been established.

The above-mentioned reforms have had thorough and far reaching effects and have almost revolutionised the Indian Financial System. In 1998, the Narasimham Committee submitted its Second Report, reviewing the progress of the reform introduced since 1991-92. The Second Report also made two very important new recommendations. These related to (1) the merger of strong units of banks and (2) adoption of

the "narrow-banking" concept to rehabilitate weak banks. It also repeated those recommendations which were rejected by the Government in its First Report. These were the creation of an Asset Reconstruction Fund, a reduction in priority sector (social) lending, recommendations for streamlining the procedures and the modus operandi of banks through modernisation and upgradation of technology. Besides, the Report repeated its earlier recommendation of depoliticisation of appointments to the Boards of Directors and their Chairman. The political interference being identified as one of the main causes of distortions in the financial system, both the First and Second Reports stressed on professionalism in bank management.

The strive towards the implementation of stricter prudential norms should in no way cause anxiety to the depositors with regard to their deposits. No doubt, all the measures taken would protect their interest. But bank employees felt that the restoration of the financial position of the banking industry lies very much in their own interest. The overall improvements in the financial strength of all the banks is required to improve their service conditions.

The process of strengthening the banking system has to be a continuing process. The first problem that has to be looked into is to bring down the high level of the Non-Performing Assets (NPAs). In order to tackle this problem the creation of a limited Asset Reconstruction Fund for the smaller weak banks is very necessary. Secondly, The

Government should pave the way for "universal banking" with a three-tier structure. Banks which could hold more Government securities should be encouraged. Thirdly, rationalisation of the interest rates is the need of the hour and for this a Reserve Bank Reference Rate of Interest should be evolved. Fourthly, to enhance the production of agriculture and small scale industries, directed credit programmes are still necessary in the development process. Fifthly, side by side with the public sector banks, the private sector banks both Indian and foreign, should be allowed to operate in order to develop an element of competition. Last but not the least there is a need to review and update the Banking Laws. Moreover, review of the regulations is also desirable to ensure that the burden of the regulatory system is not excessive.

The banks existed in Meghalaya before the State attained its statehood in 1972. The banks which transacted banking activities before the year 1972 were the State Bank of India, the Bank of Baroda, the Central Bank of India, the Punjab National Bank, the United Bank of India and the United Commercial Bank. The total number of banks' offices at the end of December 1972 was 17.

Concluding Remarks

All the states in the country including Meghalaya have experienced a steady banking growth in the last few years particularly after the nationalisation of banks. There has been a tremendous increase in the number of banks, branches, deposits and advances and more and more areas have been

covered. It is important to note that most of the rural needs have been catered. The role of banks has undergone a revolutionary change after nationalisation. The bankers have realised that they have to strive towards achieving the social and national objectives. They are now not only dealers in money but are also providing a variety of services required for developing the economy. There is no denying the fact that among all the banking companies, the nationalised banks have contributed a lot to the development of the economy. Unfortunately, in the past few years many nationalised banks have incurred huge losses. Among these, are the Bank of India, the Central Bank of India, the United Bank of India and the UCO Bank. During 1994, the total loss of these banks stood at Rs. 1089.15 crores, Rs. 7119.3 crores, Rs. 618.06 crores and Rs. 546.45 crores respectively.⁷⁹

The Government has now recognised the need to make banking industry more competitive. It has thus made certain policy changes such as deregulation of interest rates and dilution of consortium lending requirements. Moreover, banking has been opened up to the private sector. Till end of February, 1994 the R.B.I. received 140 applications for setting up new private banks. However, only 19 applicants have fulfilled all formalities. The RBI, has so far given approval only to ten applicants. For a speedy development of an economy particularly the priority sector, it is important for the public sector banks to continue and function side by side with the privately owned banks.

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CHAPTER – III

CHAPTER - III

DEVELOPMENT OF NON-BANKING FINANCIAL INSTITUTIONS

After looking into the history of banking development in the world and its detailed development in India, we will now deal in this chapter with the development and performance of the Non-Banking Financial Institutions (NBFIs) in the country. We will first of all look into their origin and role in the financial world in the introductory section. The development of the Non-Banking Financial Companies (NBFCs) is also included in the discussion since they are also recognised as financial institutions.

Introductory

The Non-Banking Financial Institutions (NBFIs) form part and parcel of the financial market. They collect resources by mobilising savings from individuals and institutions and lend them to trade, industry and other sectors. They generate financial instruments and they buy and sell them. They deal in financial assets and accept deposits, grant loans and invest in securities. They also perform various financial services.

The first NBFIs to be set up in the world are

development banks. The concept of development bank as an institutional device to accelerate the pace of economic development is of evolution. The origin of development banking may be traced to the establishment of 'Societe Generale Pour Favouriser International Industries Nationales' in Belgium in 1822 with the specific object of financing and promoting industry.¹ But the important development bank which acted as an industrial financier, was the 'Credit Mobiliser' established in France in 1852² by the Pereire Brothers. This institution became a model for similar institutions in other European countries throughout the 19th century. Its main functions were to promote economic development by the mobilisation of resources through the sale of bills and promissory notes and by entering into long-term investments particularly in public undertaking banks, insurance companies and railways.

The Credit Mobiliser after 15 years of operation had to be closed down in 1867 for various reasons. But it had led to the establishment of similar other institutions in Switzerland, Spain, Germany, Austria, Belgium, Netherland and Italy. These institutions copied the functions performed by the Credit Mobiliser. They converted firms and concerns into corporations and gave impetus to the development of capital market.

In 1920, Japan established the Industrial Bank of Japan to cater to the financial needs of her industrial development. The Bank performed the functions of a commercial bank, an issue house and a mortgage institution. It engaged itself in commercial banking business and accepted deposits, advanced loans, discounted bills of exchange, floated and under-wrote government and municipal bonds, issued underwrote and subscribed to shares and debentures of companies. It provided financial assistance to various enterprises such as power generation, cement manufacture, sugar production, paper mills, railway construction and transportation. After 1927, it began to assist small industries. In this way the Bank played a pivoted role in financing the process of economic development of Japan.

In the post World War II period, important financial institutions which were set up were the Industrial Development Bank of Canada (1944), the Finance Corporation for Industry Ltd. (F.C.I), and the Industrial and Commercial Finance Corporation Ltd. (IFCI) of England (1945) and the Industrial Finance Department (I.F.D) of the Commonwealth Bank of Australia (1945). These institutions provided not only term loans to industry but also participated in the share capital of companies.

The Canadian institution used the designation of a

development bank, but it hardly performed the promotional or entrepreneurial function of a modern development bank. In the same way the British institutions were purely financing agencies. The Australian Industrial Finance Department could be termed as a development bank for it enjoyed the right not only to provide long-term industrial finance but also to assist in the establishment and development of industrial undertakings. The institutions may differ from one another in their scope, methods and functions, but they had one thing in common and that was to provide financial assistance to undertakings in various ways when such assistance could not be achieved from any other source.

Definition of Development Bank

There is no precise definition of development bank. Diamond defined development bank “as an institution to promote and finance enterprises in the private sector”.³ Bosky provide a broader view of development banks. She defined development banks as “institutions, public or private which have, as one of their principal functions, the making of medium or long term investments in industrial projects”.⁴

The idea of a development bank is defined in the name itself. First, it involves the banking or financing function and secondly, it plays the chief and distinguishing role in the promotion of economic development by way of stimulating

investment. In this context, the word 'development' means promotion of industries, fostering entrepreneurial abilities, setting up of new industrial projects, as also renovation, modernisation, expansion or diversification of existing ones.⁵ Though the important function of a development bank is that of a purveyor of long-term capitals yet development banking has acquired an additional role and that is of promotional activities.

The development banks differ from one another with respect to their ownership, objectives, method and scope of operations, sources of finance and others. Some development banks are exclusively owned by the government, some by private individuals and some by a combination of the two. Some banks are concerned with the promotion and financing of government enterprises, some for private enterprises and some for both. Some lay emphasis on the entire economy and some on a single sector.

A development bank has more responsibility than a mere financing institution. The latter is concerned only with the mobilisation of savings and diverting the same into productive channels, while the former is engaged in a host of activities which are designed to hasten the pace of development. Another important feature of a development bank is that it is expected not to compete with other financial institutions. Its

role is that of a gap-filler. Moreover, a development bank has to function as an instrument of economic development in conformity with national objectives, plans and priorities. It works in the general interest of a nation.

NBFIs in India

The development banks in India are a post-independence phenomenon. Since commercial banks could meet only the requirements of trade and industry, it was felt necessary to set up financial institutions to ensure an adequate flow of assistance to industrial projects. So an outstanding financial development of the post-independence period has been the rapid growth of development banks in the country. These banks are also known as specialised institutions which perform the twin functions of providing medium and long-term finance to private entrepreneurs and of performing various promotional roles conducive to economic development. The development banks in India are different from ordinary commercial banks in three ways. First, they do not seek or accept deposits from the public as ordinary banks do. Second, they specialise in providing medium-and long-term finance, whereas commercial banks have specialised in the provision of short-term finance. Third and most important, they are not mere providers of long-term finance like any ordinary lending institution. Their chief distinct role is the promotion of economic development by way of promoting investment and

enterprise in their chosen spheres, whether manufacturing, agriculture or some other.

Section 451 (c) of the Reserve Bank of India Act, 1943 defines a Financial Institution as under:

“Financial Institution” means any non-banking institution which carries on as its business or part of its business any of the following activities, namely:

1. The financing, together by way of making loans or advances or otherwise, of any activity other than its own.
2. The acquisition of shares, stocks, bonds, debentures or securities issued by a Government, or local authority or other marketable securities of a like nature.
3. Letting or delivering of any goods to a hirer under a hire-purchase agreement as defined in Section 2. of the Hire-Purchase Act, 1972.
4. The carrying on of any class of insurance business.
5. Managing, conducting or supervising as foreman, agent or in any other capacity of chits or kuries, as defined in any law which is for the time being, in force in any state, or any business, which is similar hereto.
6. Collecting, for any purpose or under any scheme or arrangement by whatever name called, monies in lumpsum or otherwise, by way of subscriptions or by sale

of units, or other instruments or in any other manner and awarding prizes or gifts, whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person; but does not include any institution, which:

- i. is an individual concern as defined in clause (c) of Section 2 of the IDBI Act, 1964 or
- ii. carries on as its principal business – (a) agricultural operations, or (b) the purchase or sale of any goods (other than securities) or the providing of any services; or (c) the purchase, construction or sale of immovable property, so however, that no portion of the income of the institution is derived from the financing of purchases, constructions or sales of immovable property by other persons.

The first development bank, the Industrial Finance Corporation of India, was established in the country on the eve of the second half of the present century i.e., in 1948. In course of time, many other financial institutions were established. The development banks in India may be classified into three groups: (i) Industrial development banks (ii) agricultural development banks and (iii) export-import development bank. Each of the industrial and agricultural development banks may be further sub-divided into two (a)

all-India institutions and (b) state-level institutions.

At the national level, there are seven industrial development banks. These are: (1) the Industrial Finance Corporation of India (IFCI), 1948; (2) the National Industrial Development Corporation (NIDC), 1954; (3) the Industrial Credit and Investment Corporation of India (ICICI), 1955; (4) the National Small Industries Corporation (NSIC), 1955; (5) the Industrial Development Bank of India (IDBI), 1964; (6) the Industrial Reconstruction Bank of India (IRBI), 1985; and (7) the Small Industries Development Bank of India (SIDBI), 1990. The IRBI was replaced by the Industrial Investment Bank of India (IIBI) in 1997. The SIDBI is a subsidiary of the IDBI. All the above financial institutions except the NSIC and the SIDBI are meant to cater to the needs of large-scale industries. At the state-level there are (1) the State Financial Corporations (SFCs); (2) the State Industrial Development Corporations (SIDCs); and (3) the State Industrial Investment Corporations (SIICs).

The agricultural development banks are classified into three groups: (a) all-India level, (b) state-level, and (c) local-level institutions. At the national level there was only one agriculture development bank called the Agricultural Refinance and Development Corporation (ARDC), established in the year 1963 but was replaced by the National Bank for

Agriculture and Rural Development (NABARD) in 1982. At the state level there are State Land Development Banks (SLDBs), originally known as Central Land Mortgage Banks. These banks provide medium and long-term credits to agriculture. At the local level, the branches of SLDBs are established.

The Export-Import Bank of India (EXIM BANK) was set up in 1982 to promote and develop exports and imports at the national level.

In addition to the above mentioned development banks, there are other financial institutions set up in the country. Such institutions are:

1. Specialised Financial Institutions (SFIs) comprising (a) Risk Capital and Technology Finance Corporation Ltd (RCTC); (b) Technology Development and Information Company of India Ltd. (TDICI); and (c) Tourism Finance Corporation of India Ltd. (TFCI);
2. Investment Institutions comprising (a) Life Insurance Corporation of India (LIC); (b) Unit Trust of India (UTI); and (c) General Insurance Corporation of India (GIC) and its subsidiaries;
3. Insurance and Credit Guarantee Institutions comprising (a) Deposit Insurance and Credit Guarantee Corporation

(DICGC); and (b) Export Credit Guarantee Corporation of India (ECGCI);

4. Securities Exchange Board of India (SEBI) and Securities Trading Corporation of India Ltd.(STCI) of the Capital Market. The Government too has its own institutions such as the National Savings Corporation, the Post Office Savings Bank and the Employees Provident Fund.

Operations and Performances of NBFIs(1982-83 to 1986-87)

We are going to analyse the operations and performances of the NBFIs during the 17 year period from 1982-83 to 1998-99. The assistance sanctioned and disbursed by the NBFIs will be analysed for four stages: 1982-83 to 1986-87; 1987-88 to 1991-92; 1992-93 to 1996-97; and 1997-98 to 1998-99. The industry-wise assistance sanctioned and disbursed by the NBFIs is done only for one period i.e. 1982-83 to 1986-87 due to non-availability of data for other periods. The sector-wise assistance sanctioned and disbursed by the NBFIs is analysed only for two periods i.e. 1992-93 to 1996-97 and 1997-98 to 1998-99. The institution-wise financial assets of the NBFIs is given only for the period 1989-90 to 1996-97 and for the following two years, 1997-98 to 1998-99 due to non-availability of data for the period upto 1989.

The financial assistance sanctioned and disbursed by the NBFIs from 1982-83 to 1986-87 is evident from the table 3:1 on the next page.

It can be seen from the table 3:1 that the amount of loans sanctioned by the NBFIs viz., IDBI, IFCI, ICICI, LIC, UTI, GIC, IRBI, SFCs and SIDCs aggregated to Rs. 3825.97 crores during 1982-83. After a period of five years, the sanctioned amount rose to Rs. 9622.14 crores, reflecting a growth of 151%. In all the five years the highest amount were sanctioned by IDBI. This is because IDBI is the apex development bank in the country. The amount disbursed jumped from Rs. 2905.92 crores during 1982-83 to Rs. 6742.6 crores during 1986-87, registering an increase of 132%.

Operations and Performances, (1987-88 to 1991-92)

The financial assistance sanctioned and extended by All India Development Banks, Specialised Financial Institutions, Investment Institutions and State-Level Institutions from 1987-88 to 1991-92 is reflected in the table 3:2 on the next page.

It can be seen from the table 3:2 that the amount sanctioned by the NBFIs which stood at Rs. 11,151.0 crores during 1987-88 rose to Rs. 27,520.72 crores during 1991-92, registering an increase of 147%. Disbursements rose from

TABLE 3.1

**ASSISTANCE SANCTIONED AND DISBURSED BY ALL FINANCIAL INSTITUTIONS
(1982-83 TO 1986-87)**

(Rs. Crore)

Name of Institutions	Sanctions							Disbursements						
	1982-83	1983-84	1984-85	1985-86	1986-87	Cumulative upto end March, 1987	1982-83	1983-84	1984-85	1985-86	1986-87	Cumulative upto end March, 1987		
IDBI	1800.23	2317.47	3454.18	3738.82	4656.26	23232.06	1498.49	1774.29	2073.69	2783.74	3205.87	16749.72		
IFCI	230.22	321.91	415.43	499.24	798.05	3748.54	196.10	224.46	272.88	403.89	451.55	2626.58		
ICICI	392.06	507.55	620.69	708.24	1118.28	5733.10	282.20	334.20	392.73	782.17	695.47	4215.22		
LIC	212.83	255.61	332.13	509.13	504.83	NA	162.90	229.70	273.80	387.37	530.76	NA		
UTI	127.46	165.79	357.27	696.59	465.02	2204.89	71.69	139.34	236.24	528.85	417.59	1694.32		
GIC	92.70	108.49	144.08	153.27	153.27	876.35	44.70	84.54	110.54	107.34	131.60	638.96		
IRBI	62.26	69.45	110.79	75.22	148.86	572.03	37.85	41.35	54.82	67.81	94.66	408.72		
SPCs	611.57	644.91	743.12	009.07	1206.28	6092.95	403.99	435.48	497.74	608.52	791.54	4371.64		
SIDCs	296.64	364.59	477.94	526.96	571.29	3250.06	208.00	236.45	297.57	364.00	423.56	2193.33		
Total	3825.97	4755.77	6655.63	7916.54	9622.14	45709.98	2905.92	3499.81	4210.01	5733.69	6742.6	32898.49		

Source: IDBI, Report on Development Banking in India, 1986-87.

TABLE 3.2
ASSISTANCE SANCTIONED AND DISBURSED BY ALL FINANCIAL INSTITUTIONS
(1987-88 TO 1991-92)

(Rs. in crores)

Institution	Sanctions					Disbursements					Cumulative upto end March, 1992	
	1987-88	1988-89	1989-90	1990-91	1991-92	Cumulative up to end March, 1992	1987-88	1988-89	1989-90	1990-91		1991-92
All-India Development Banks												
IDBI	5,289.2	6730.9	7742.2	6827.4	7639.61	56001.0	4004.5	4745.8	5084.8	4459.4	5762.8	40419.2
IFCI	922.6	1662.6	2101.3	2775.1	2569.32	13963.3	657.1	997.5	1121.8	1574.8	1605.2	8650.6
ICICI	1231.7	1978.1	2850.6	3744.0	43,059	23861.3	771.2	1085.6	1357.1	1967.5	2351.3	14938.2
SIDBI			-	2410.1	2847.0	5257.1	-	-	-	1838.5	2028.0	3866.5
IRBI	186.5	208.8	146.6	234.7	277.7	1508.9	101.9	116.5	141.1	153.9	185.2	1104.3
Sub-total	7,630.0	10,580.40	12,840.70	1,599.13	17,939.41	100591.6	55347	6945.4	7704.80	9994.10	11932.5	68978.8
Specialised Financial Institutions												
RCTC	3.7	6.6	8.8	11.4	13.3	53.3	3.5	4.9	5.1	7.3	7.8	37.5
TDICI	-	12.3	14.2	11.4	19.8	58.1	-	3.4	9.5	11.4	17.8	42.1
SCICI	143.8	312.0	321.2	331.6	409.0	1517.6	60.5	137.9	225.7	167.0	170.9	762.0
TFCI			52.8	85.0	103.51	241.3	-	-	12.8	39.2	48.3	100.3
Sub-total	147.5	350.9	397.0	439.4	545.61	1870.3	64.0	146.2	253.1	224.9	244.8	941.9
Investment Institutions												
LIC	362.7	660.2	578.2	688.1	1515.3	5849.3	342.3	442.0	455.2	427.4	1022.5	4318.7
UTI	966.0	1878.1	1202.8	1927.1	3671.5	118,505	707.2	1054.6	1017.5	1556.2	2730.3	8877.0
GIC	98.3	122.6	211.2	312.9	657.2	2278.5	103.5	115.4	179.6	146.4	241.8	1425.7
Sub-total	1427.0	2660.9	1992.2	2928.1	58,440	19978.3	1153.0	1612.0	1652.3	2130.0	3994.6	14621.4
State-level Institutions												
SFCs	1305.0	1391.1	1514.2	1863.9	2178.1	13667.4	942.5	1055.2	1156.5	1270.8	1540.1	10305.3
SIDCs	641.5	722.1	691.0	823.7	1013.6	6567.5	448.6	472.1	545.2	598.3	680.0	4923.9
Sub-total	1946.5	2113.2	2205.2	2687.6	3191.7	20234.9	1391.1	1527.3	1701.7	1869.1	2220.1	15229.2
Grand total	11,151.0	15,685.40	17,435.10	22045.20	27520.72	142675.1	81421.8	10230.90	11311.90	14218.10	18392.0	99771.3

Note: 1. IDBIs figures up to 1989-90 and cumulative up to end-March, 1992 include assistance to small sector.
2. SIDBI commenced operations in April, 1990, TDICI in July, 1988 and TFCI in February, 1989.
Source: IDBI, Report on Development Banking in India, 1991-92.

Rs.8,142.8 crores to Rs. 18,392.0 crores during the same period, recording a growth of 126 %. The table also shows that the highest amount was sanctioned and disbursed by IDBI throughout the five year period.

Operations and Performances, (1992-93 to 1996-97)

The financial assistance sanctioned and disbursed during the third period from 1992-93 to 1996-97 is shown as per data in table 3:3 on the next page.

In the table 3:3 we see that the NBFIs' sanctions and disbursements during 1992-93 amounted to Rs. 37,081.3 crores and Rs. 26,321.2 crores respectively. The quantum sanctioned rose to Rs. 58,739.2 crores and quantum disbursed to Rs. 43,970.4 crores during 1996-97. This shows that the amount sanctioned and disbursed registered an increase of 58% and 67% respectively during the 5 year period.

Operations and Performances, (1997-98 to 1998-99)

For the period 1997 to 1999, the data for the State Level Institutions are not readily available.

The amount of financial assistance sanctioned and disbursed by the three categories of Non-Banking Financial Institutions during 1997 to 1999 is shown in the table 3:4.

TABLE 3:3

**ASSISTANCE SANCTIONED AND DISBURSED BY ALL FINANCIAL INSTITUTIONS
(1992-93 TO 1996-97)**

Institution	SANCTIONS						DISBURSEMENTS						Cumulative upto end March '97
	1992-93	1993-94	1994-95	1995-96	1996-97	Cumulative upto end March '97	1992-93	1993-94	1994-95	1995-96	1996-97		
All India Development Banks													
IDBI	9249 4	12056 9	18262 6	17795 8	17049 9	129133.5*	6710 7	8088 6	10648 1	10692 8	11439 0	88825 4*	
IFCI	2347 9	3745 9	5719 4	10300 3	7212 3	39682 3	1733 4	2163 1	2838 7	4563 3	5157 1	25106 6	
ICICI	5771 8	8491 4	14527 9	14594 9	14313 1	89988 4	3315 2	4413 3	6879 3	7120 4	11180 9	53746 7	
SIDBI	2909 2	3356 3	4706 3	6065 6	6485 3	28779 8	2146 3	2672 7	3389 8	4800 8	4584 7	21461 1	
IIBI	294 3	425 8	777 9	897 3	816 0	4311 9	183 9	188 6	397 6	528 6	549 6	2953 6	
SCICI	760 9	1698 3	3719 8	5049 0	@	@	486 3	1006 6	1440 7	2464 6	@	@	
Sub-total	21333 5	29774 6	47713 9	54642 90	45876 6	289588 3	14575 8	18532 9	25594 2	30170 5	32911 3	192093 40	
Specialised Financial Institutions													
RCTC	9 2	7 3	13 5	34 5	41 2	153 9	10 2	9 2	13 3	15 4	20 7	106 9	
TDICI	23 4	29 7	120 3	53 6	16 8	280 4	22 9	22 4	97 9	47 1	24 6	257 8	
TFCI	125 0	159 1	229 3	271 6	303 5	1329 9	59 8	78 8	137 2	166 9	182 4	725 4	
Sub-total	157 6	196 1	363 1	359 7	361 5	1764 2	92 9	110 4	248 4	229 4	227 7	1090 1	
Investment Institutions													
LIC	1740 0	1664 0	1790 0	2341 9	2820 8	17800 3	1395 0	794 0	1343 3	2529 7	2960 6	15296 5	
GIC	10302 5	8332 6	7522 8	3685 7	3633 1	46960 6	7469 4	6612 4	4791 2	3006 5	3237 3	35528 7	
UTI	559 3	824 0	688 5	834 6	1035 2	6307 0	536 0	470 3	379 2	587 9	698 1	4172 0	
Sub-total	12601 8	10820 6	10001 3	6862 2	7489 1	71067 9	9400 4	7876 7	6513 7	6124 1	6896 0	54997 2	
State Level Institutions													
SFCs	2015 3	1908 8	2702 4	4188 5	3304 6	26305 7	1557 4	1563 4	1880 9	2961 1	2678 4	20896 0	
SIDCs	973 1	917 9	1588 6	1951 2	1707 4	13352 1	694 7	700 8	1051 0	1188 7	1257 0	9702 4	
Sub-total	2988 4	2826 7	4291 0	6139 7	5012 0	39657 8	2252 1	2264 2	2931 9	4149 8	3935 4	30598 4	
Grand Total	37081 3	43618 00	62369 30	68054 50	58739 2	396276 5	26321 2	28783 80	35845 50	40673 80	43973 80	278779 10	

* Including assistance to small scale sector up to end - March, 1990.

@ Merged with ICICI

Source: RBI Bulletin.

TABLE 3:4

**ASSISTANCE SANCTIONED AND DISBURSED BY
ALL FINANCIAL INSTITUTIONS (1997-98 TO 1998-99)**

(Rs.in crores)

Institution	Sanctions			Disbursements		
	1997-98	1998-99	Cumulative upto end March 1999	1997-98	1998-00	Cumulative upto end March 1999
All-India Development Banks						
IDBI	23982.0	25554.6	173977.5	15170.0	14403.4	117687.1
IFCI	7693.2	8683.6	47245.2	5620.4	4749.5	35513.9
ICICI	24717.5	34219.6	146691.7	15806.9	19225.1	88076.2
SIDBI	7484.2	8879.8	45143.8	5240.7	6285.1	32987.0
IIBI	2061.0	2175.2	8208.4	1153.2	1688.5	5795.2
Sub-Total	65937.9	79483.0	418928.9	43021.2	46351.6	280059.4
Specialised Financial Institutions						
RCTC	8.6	12.3	154.8	18.2	10.4	135.7
ICICI VENTURE*	28.5	19.4	308.1	19.6	18.1	301.7
TFCI	320.1	211.2	1861.1	186.8	132.3	1044.5
Sub-Total	357.2	242.9	2324.0	224.6	160.8	1481.9
Investment Institutions						
LIC	3563.1	4845.6	26209.0	3971.4	4837.0	24104.9
UTI	4588.4	3990.6	55545.6	3499.0	3498.2	42507.9
GIC	1172.8	1314.7	8794.5	1143.8	1386.2	6702.0
Sub-Total	9324.3	10150.9	90549.1	8614.2	9721.4	73314.7
GRAND-TOTAL	75619.4	89876.8	504884.9	51860.0	56203.9	346502.5

* ICICI Venture is a new name for erstwhile TDICI Ltd.

Source: IDBI, Report on Development Banking in India, 1998-99.

The table 3:4 reveals that the amount of loans sanctioned by All-India Development Banks, Specialised Institutions and Investment Institutions rose from Rs. 75619.4 crores during 1997-98 to Rs. 89876.8 crores during 1998-99, recording a growth of 18.85%. Disbursements made by these institutions during the same period increased from Rs. 51860.0 crores to Rs. 56203.9 crores, registering a growth of 8.38 %.

Industry-wise Assistance, (1982-83 to 1986-87)

The credit assistance provided by the NBFIs to the different industrial units in the country from 1982-83 to 1986-87 is shown in the table 3:5 on the next page.

The table 3:5 reveals that the amount of loans sanctioned by the NBFIs to industry increased from Rs. 3181.34 crores during 1982-83 to Rs. 7811.72 crores during 1986-87, recording a growth of 146 %. The amount disbursed rose from Rs. 2355.26 crores to Rs. 5398.71 crores during the same period, reflecting a growth of 129%. In 1982-83 the table shows that the highest amount of Rs. 379.80 crores was received by the textile industry. During 1986-87, services sector received the highest amount of Rs. 648.93 crores.

Sector-wise Assistance (1992-93 to 1996-97)

The amount of loans and advances extended by the NBFIs to Public, Joint Co-operative and Private Sectors from 1992-93 to 1996-97 is given in the table 3:6.

TABLE 3.5
INDUSTRY - WISE ASSISTANCE SANCTIONED AND DISBURSED
BY ALL FINANCIAL INSTITUTIONS
(1982-83 TO 1986-87)

Industry	Sanctions						Disbursements					
	1982-83	1983-84	1984-85	1985-86	1986-87	Cumulative up to end March, 1987	1982-83	1983-84	1984-85	1985-86	1986-87	Cumulative upto end March, 1987
Food Products	202.39	214.33	252.73	250.52	359.17	2172.85	131.6	169.29	208.29	207.62	276.77	1811.08
Textiles	460.05	471.94	525.37	673.61	769.82	4979.19	379.80	417.12	423.66	519.21	589.03	3921.85
Paper	99.47	141.01	194.58	122.85	157.01	1530.58	142.43	198.19	168.65	141.39	30.22	1345.67
Rubber	94.71	75.10	85.36	65.54	79.49	662.81	34.91	75.40	67.65	42.94	43.59	517.22
Basic Chemicals	120.50	201.23	204.99	304.71	337.75	1842.46	116.98	98.84	110.27	195.02	286.99	1207.39
Fertilisers	134.76	103.15	427.90	256.18	528.51	1968.77	65.14	42.27	43.22	216.46	214.43	964.39
Miscellaneous Chemicals	287.80	310.65	544.57	726.83	691.5	3408.45	195.80	211.32	288.74	443.87	528.55	2386.20
Cement	184.71	384.99	385.43	314.12	400.96	2321.33	110.23	159.36	263.03	426.07	348.56	1810.38
Basic metal Industries (a) Iron & Steel	126.99	185.65	190.55	360.71	392.44	1980.76	108.10	113.05	121.19	199.18	237.36	1361.29
(b) Non-ferrous	23.55	16.55	63.09	55.23	30.39	316.14	8.52	12.97	24.66	22.87	64.77	237.34
Metal products	117.06	116.59	142.74	160.87	210.39	1046.57	60.03	87.68	100.61	114.33	141.76	797.36
Machinery	233.58	325.95	399.10	420.97	327.44	2733.37	188.65	246.36	317.15	348.60	239.69	2130.98
Electrical machinery	112.09	149.09	167.92	263.08	534.59	1659.93	76.29	110.5	86.54	166.19	270.03	1114.37
Transport Equipment	90.25	119.44	216.13	153.48	275.41	1334.13	79.86	76.85	144.65	107.74	65.88	951.39
Electricity generation	111.49	271.93	409.88	749.36	711.13	2723.67	82.03	228.64	199.38	413.12	472.28	1796.40
Services	412.98	393.79	569.67	697.62	882.83	4017.39	322.78	326.57	490.38	562.26	648.93	3352.34
Others	368.96	503.09	550.66	833.42	1122.89	4704.03	252.14	310.98	384.51	530.66	739.87	3447.78
Total	3181.34	984.48	5330.67	6409.10	7811.72	39402.43	2355.26	2885.39	3442.58	4657.53	5398.71	9153.43

Source: IDBI Report on Development Banking in India, 1986-87

TABLE 3.6

SECTOR - WISE ASSISTANCE SANCTIONED AND DISBURSED BY ALL FINANCIAL INSTITUTION
(1992-93 TO 1996-97)

(Rs. in crores)

Sector	SANCTIONS										DISBURSEMENTS									
	1992-93	1993-94	1994-95	1995-96	1996-97	Cumulative upto end March '97	1992-93	1993-94	1994-95	1995-96	1996-97	Cumulative upto end March '97	1992-93	1993-94	1994-95	1995-96	1996-97	Cumulative upto end March '97		
Public	4171.1	6072.5	4441.5	6198.0	6613.0	43386.6	3405.0	3868.5	2427.2	4128.0	4592.9	30237.6	3405.0	3868.5	2427.2	4128.0	4592.9	30237.6		
Joint	922.0	845.4	2508.6	3055.8	2663.8	18287.0	698.7	1020.7	828.7	1378.0	1549.2	12015.0	698.7	1020.7	828.7	1378.0	1549.2	12015.0		
Co-operative	128.0	181.0	455.8	1135.8	550.4	5009.9	167.4	224.5	140.6	160.8	502.1	3234.4	167.4	224.5	140.6	160.8	502.1	3234.4		
Private	26739.4	32710.2	50689.7	53400.7	44372.1	290201.1	17957.0	20313.5	29000.2	31737.1	34356.4	197216.3	17957.0	20313.5	29000.2	31737.1	34356.4	197216.3		
Total	31960.5	39809.1	58095.6	63790.3	54199.3	356884.6	22228.1	25427.20	32396.70	37403.9	41000.6	242703.3	22228.1	25427.20	32396.70	37403.9	41000.6	242703.3		

Source: IDBI Report, 1996-97.

The table 3:6 reveals that credit assistance granted by the NBFIs to the four sectors aggregated to Rs. 31960.5 crores during 1992-93. The amount rose to Rs. 54,199.3 crores during 1996-97 registering an increase of 70%. Disbursements increase from Rs. 22,228.1 crores to Rs. 41000.6 crores during the same period, recording a growth of 84 %. During all the five years the highest amounts were sanctioned and disbursed by the Institutions to the Private Sector. The Private Sector accounted for a share of 82% and 84% during 1996-97 in total sanctions and disbursements respectively.

Sector-wise Assistance, (1997-98 to 1998-99)

The sector-wise financial assistance sanctioned by the NBFIs during 1997-98 is given in the table 3:7 below:

TABLE 3:7
SECTOR-WISE ASSISTANCE SANCTIONED BY
ALL FINANCIAL INSTITUTIONS
1997-98 TO 1998-99

Sector	1997-98	1998-99	(Rs. in crores) Cumulative up to end March 1999
Public	9106.6	16968.4	66719.2
Joint	2111.7	2298.5	19631.9
Joint Co-operative	374.3	352.9	5380.6
Private	61356.4	65368.4	385374.8
Total	72949.0	84988.2	477106.5

Source: IDBI, Report on Development Banking in India, 1998-99.

The table 3:7 shows that the amount of loans sanctioned

by the NBFIs to Public, Joint, Co-operative and Private Sectors rose from Rs. 72,949.0 crores during 1997-98 to Rs. 84,988.2 crores in 1998-99, reflecting a growth of 16.50%. During 1998-99, the Public Sector recorded the highest growth in sanctions of 86.3% followed by the Joint Sector of 8.9% and the Private Sector of 6.5%.

Financial Assets of the NBFIs, (1989-90 to 1996-97)

The financial assets of all India term lending Institutions, State-Level Institutions, Investment Institutions and other Institutions from 1989-90 to 1996-97 is shown in table 3:8 on the next page.

The table 3:8 reveals that the financial assets of all Non-Banking Financial Institutions rose from Rs. 102,179.0 crores in 1989-90 to Rs. 32,2951.8 crores in 1997-98. This shows a growth of 262 % for a period of eight years. It can ^{also} be seen from the ~~above~~ table that the financial assets of the Investment Institutions stood the highest during all the eight years.

TABLE 3:8
INSTITUTION-WISE FINANCIAL ASSETS OF FINANCIAL
INSTITUTIONS
(1989-90 TO 1996-97)

(Rs.in crores)

Institutions	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
A. All India term Lending Institutions								
IDBI	20317.9	22700.8	27967.9	30919.0				
NABARD [@]	11771.7	12664.4	14466.1	15680.3	15586.2	17820.0	19436.5	22393.0
ICICI	5603.9	7083.8	9134.5	11184.9	13715.1	17375.1	20911.0	33756.0
IFCI	4477.6	5834.5	7514.5	9108.1	9868.8	10550.9	13239.9	6453.0
EXIM BANK	1715.9	1983.7	2457.5	2684.6	3099.4	3596.8	3958.4	4883.0
IRBI	694.0	818.2	984.9	1070.0	1128.3	1269.4	1508.2	1698.1
NHB	360.3	968.6	2659.3	3002.9	3267.9	3351.8	34573.3	4041.0
TOTAL OF A (1 TO 7)	44941.3	52054.0	65184.7	73649.8	80995.4	91744.00	137418.30	131149.1
B. State Level Institutions								
SFCs	5488.3	6411.5	7383.0	7943.1	8430.3	9008.6	9954.5	10999.7
SIDCs	2404.9	3636.9	4140.1	4632.8	4798.3	5169.5	5757.4	8204.0
TOTAL(8+9)	7893.2	10048.4	11523.1	12575.9	13228.6	14178.1	15711.9	19203.7
C. Investment Institutions								
LIC	23988.4	29040.0	35410.9	41836.7	50964.3	61921.7	75100.0	90923.0
GIC & ITS SUBSIDIARIES	5284.6	6361.6	7952.6	8731.3	9916.4	12691.4	13347.0	14342.0
UTI	18421.2	23163.7	35336.2	41578.0	54881.5	62444.0	61226.0	59605.8
TOTAL OF C(10 TO 12)	47694.2	58565.3	78699.7	92146.0	115762.2	137057.3	149673.9	164870.8
D. Other Institutions								
DICGC	1423.1	1743.5	2038.4	2519.9	3497.1	4588.2	5522.6	6936.4
ECGC	226.9	243.8	315.4	379.5	336.2	539.0	653.3	791.8
TOTAL OF D(13+14)	1650.0	1987.3	2353.8	2899.4	3833.3	5127.2	6175.9	7728.2
GRAND TOTAL (A+B+C+D)	102179.0	122655.0	157761.3	181271.1	213819.5	248106.6	308980.00	322951.8

Source: IDBI Report, 1997-98.

Financial Assets of the NBFIs, (1997-98 to 1998-99)

The institution-wise financial assets of the NBFIs during 1997-1999 is shown in the following table 3:9.

TABLE 3:9
INSTITUTION-WISE FINANCIAL ASSETS
OF FINANCIAL INSTITUTIONS
(1997-98 TO 1998-99)

(Rs. in crores)

INSTITUTIONS	1997-98	1998-99	Growth Rate (%) 1998-99
a.All-India Term Lending Institutions	161,216.0	187,073.0	16.0
b.State-Level Institutions	21,003.0	21,003.0	0.0
c.Investment Institutions	197,748.0	201,560.0	1.9
d. Other Institutions	6,914.0	8,409.0	21.6
Grand Total (a+b+c+d)	386,881.0	418,045.0	8.1

SOURCE: *RBI's Report on Trend and Progress of Banking in India, 1998-99.*

The table 3:9 reveals that the growth rate of the NBFIs financial assets recorded a growth rate of 8.1% during the 1998-99. The growth rate of Other Institutions at 21.6% stood the highest followed by that of All-India Term Lending institutions at 16.0%.

Concluding Remarks

The role played by the NBFIs in economic development can hardly be exaggerated. Their importance has been widely accepted by the policy makers in recent years. Like the banks,

the NBFIs can make great contribution to economic development by raising the level of savings and by assisting the public to invest the surplus funds in their instruments which are of stable money value and of low risk of default. By offering assets of different maturity and liquidity, the financial institutions raise the level of savings at any level of income. The economic growth depends not only on the volume of savings and investments but also on their wise allocation. The task of the NBFIs is to allocate efficiently the scarce savings among productive channels. By transferring funds to the users, the financial institutions can improve performance of economic activities and accelerate the economic growth.

Non-Banking Financial Companies (NBFCs)

Introductory

A Non-Banking Financial Company (NBFC) may be defined as an institution which mobilises the savings of the community and invests the same. They have emerged as substantial contributors to the economic growth by supplementing the transactions of the banks and other financial institutions.

The NBFCs have grown remarkably in advanced countries and are also coming up in a massive way in the developing countries like Brazil, India, Jordan, Korea and Malaysia. The NBFCs constitute a heterogeneous group of finance companies. These include hire-purchase finance companies, loan

companies, investment companies, equipment leasing companies, mutual benefit finance companies, miscellaneous finance companies, residuary non-banking companies and housing finance companies.

The different financial services offered by the NBFCs are as follows:

1. Leasing and Hire Purchase Financing.
2. Consumer Finance.
3. Investment banking
4. Issue management and underwriting
5. Bought out deals
6. Bill discounting/rediscounting
7. Inter Corporate deposits
8. Venture Capital finance
9. Financing against securities
10. Short-term bridge loans/promoter funding
11. Portfolio management
12. Project finance, Project counselling and Pre-investment studies
13. Capital structuring and restructuring
14. Mergers and amalgamations include take-overs
15. Forex advisory services
16. Credit syndication
17. Fixed deposit broking
18. Institutional placement services
19. Credit card issuance
20. Factoring/forfeiting, and
21. Housing finance.

NBFCs in India

The NBFCs in India appear to have been formed and registered under the Indian Companies Act, 1956 as in the case of all other business and trading companies following under the purview of this Act. But because of their mismanagement and malpractices, they are now required to get the approval of the RBI for their formations and registration.

In India, the Investment Companies and the Unit Trusts are found with pure financial intermediaries that specialise in the mobilisation of public savings for investment in corporate securities. The investment companies are of two types: (I) Holding Companies and (ii) Investment companies. The former relate to large industrial groups and the latter collect deposits from the public and invest in shares and debentures.

The other group of financial companies are the Chit Fund Companies which are essentially savings institutions. They are also known as *Kuries* and they are popular in South India especially in Kerala and Tamil Nadu. In this institution, all the members subscribe a fixed amount every month to the common pool. The periodic collection is given to some members of the Fund. Each member is assured of his turn before anyone gets in the second time. The Chit funds are of three types; (a) Simple Chit, (b) Prize chit and (c) Business chit.

There is yet other group of financial companies known as the Nidhis or Mutual Benefit Finance Companies which are peculiar to South India, particularly Tamil Nadu. The major source of their funds is the deposits from the members. They offer loans to their members usually for such purposes as house construction or repair, etc. They are mutual benefit funds and are well-managed.

Performances of the NBFCs in India

The number of reporting NBFCs along with their regulated and public deposits as on 31.3.96 is given in the following table 3:10 on the next page.

The table 3:10 reveals that the number of reporting NBFCs has increased from 7,603 in 1981 to 10194 as at end March'96, recorded a growth of 44.33%. The regulated deposits and public deposits of these companies amounted to Rs. 45440.3 crores and Rs. 20792.1 crores as on March'96. The Financial Companies with the highest numbers of reporting companies accounted for the largest share of 85% in regulated deposits and a share of 68 % in public deposits.

TABLE 3:10
ACTIVITY-WISE DISTRIBUTION OF DEPOSITS OF
NBFCs AS ON 31.03.96.

Rs. in crores

Activity of Company	Number of Reporting Companies		Regulated Deposits	Public Deposits
	1981	1996	1996	1996
A. Financial Companies	-	9060	38676.5	14050.3
1. Hire-Purchase Financial Companies	-	800	6354.8	5140.5
2. Loan Companies	-	3125	18925.3	3371.8
3. Investment Companies	-	4794	2949.5	389.3
4. Housing Finance	-	107	2915.5	2908.0
5. Mutual Benefit	-	103	32.9	19.2
6. Equipment Leasing	-	131	7498.5	2221.5
B. Miscellaneous Non-Banking Companies	-	1101	34.2	12.2
C. Residuary Non-Banking Companies	-	33	6729.6	6729.6
Total	7063	10194	45440.3	20792.1

Source: *Report on the Task Force of the NBFCs, 1998.*

Expansion of NBFCs

The mushroom growth of the NBFCs was possible because compliance with the RBI norms was not binding. For the healthy growth of Indian money market, it is necessary for these companies to be properly guided and regulated by an effective monetary policy of the RBI. It has been suggested that the NBFCs should maintain minimum reserve requirements in order to regulate their capacity to lend and invest. These

reserves should be held with the RBI or any of the SCBs. It has also be suggested that a separate Apex Bank for the NBFCs be set up to control and regulate the NBFCs. One of these alternatives would suffice. In the meanwhile, it has already been decided that the formation and registration of all NBFCs should compulsory be approved by the RBI.

There are several factors that have contributed to the mushroom growth of the NBFCs in India. Some of the factors are (i) easy process of formation and registration along with the absence of effective financial regulation under the Companies Act, (ii) higher rate of interest offered to the depositors by the NBFCs, (iii) attractive media advertisements backed by incentives and gifts offered by the brokers and agents and (iv) easy availability of the NBFC's credit even at the doorstep of the depositors.

The Reserve Bank of India has less control over the Non-Banking Financial Companies in many respects. For instance if the RBI changes the bank rate and the lending rate or deposit rate, this will not affect the rate charged by the unregistered NBFCs. Moreover, any borrower can easily obtain a loan from the NBFC by offering any type of security. Above all this, the NBFCs are found to mislead people by way of advertisement. These have posed a problem for the RBI to effectively implement its fiscal and monetary policies. Hence, the RBI

was compelled to adapt several measures some which are as follows:

1. The RBI has set up a separate Department to deal with the transactions of the NBFCs. Previously, it was called the Department of Non-Banking Companies, but now it is called the Department of Financial Companies. Its head office is in Calcutta.
2. The RBI has also issued directives pertaining to the NBFCs from time to time in order to control the amount of deposits accepted by the Companies.
3. The RBI has also fixed upper limits of deposits accepted by the NBFCs. The companies can accept deposits to the extent of 10 times of their net owned funds.
4. The RBI has prescribed certain limits on the payment of brokerage to attract more deposits.
5. The RBI has issued directives concerning the compulsory registration of all the non-banking financial companies with net owned funds of Rs. 50 lakhs.
6. The RBI requires the submission of returns on various matters by the NBFCs to the RBI from time to time.⁶

With a view to reviewing the existing legislative and regulatory framework and to address to the problems faced by the NBFCs, the Union Government announced the setting up of a Task Force to look into the entire gamut of the working and functioning of the NBFCs.⁷

At present, the NBFCs are facing so many problems. First, the banks are encountering difficulties in obtaining resources from banks/financial institutions at reasonable rate of interest. As a result, they have to look even for funds at relatively higher cost. Secondly, the NBFCs is losing its creditability and confidence because of the failure of some NBFCs to meet the demands of their depositors. More than 10,000 complaints have been filed against 109 NBFCs. This has caused the RBI to prohibit more than 200 companies from accepting further deposits and has launched prosecution proceedings against a few NBFCs and filed winding up petitions against some NBFCs. Thirdly, the normal maturity period of their borrowings is ranging between 12 to 18 months. Fourthly, the refusal of credit facilities by the banking companies to NBFCs have deteriorated the liquidity position of the latter.

In order to reinforce the regulatory framework pertaining to NBFCs and to address to the problems faced by them, great changes were made which included amendments in the RBI Act in 1997.

The RBI Amendment Act, 1997⁸ has introduced compulsory registration of the NBFCs with the RBI and they have to meet certain capital requirements to be able to operate as an NBFC. The Act empowers the RBI to grant a registration to a NBFC after satisfying itself as to the character and competence of the management, the financial soundness and

the requirement of sound operation. According to the provision of the Act, the NBFCs already in operation before the commencement of the Amendment Act would have to make an application for registration with the RBI within six months i.e., by 9th July, 1997 failing which, they were required to cease operations. The NBFCs which apply for the registration can continue to operate, unless their application is rejected by the RBI. A new company desirous of working as an NBFC has to obtain prior registration with the RBI. New applicants are also prohibited from accepting public deposits for two years to enable the RBI to know their financial position. A company wishes to operate as NBFC should have a minimum Net Owned Funds (NOFs) of Rs. 25 lakhs, and the RBI has the power to increase this upto Rs. 2 crores. At present, about 28500 NBFCs do not have the required NOF of Rs. 25 lakhs. The Act gives them a period of three years to fulfil the minimum requirements and the RBI has been given the right to relax for a further period of three years. The period for attaining minimum NOF expires in January, 2000.⁹

As on March, 1998 the RBI had received about 37,500 applications for registration as an NBFC. In the estimation, out of this number, 900 have been found eligible for registration. The remaining applicants have not been able to meet the minimum NOF requirement of Rs. 25 lakhs.¹⁰ Companies whose applications are pending and who were in business on the date of commencement of the Amendment Act are allowed under law to continue working as an NBFC.

Prior to the setting up of the Task Force and the amendment of the RBI Act, the RBI has set up a number of Expert Committees during the last few years. Some of these Committees are the Shah committee, the Khanna Committee and the Shere Committee.¹¹ The main motive behind the RBI's efficient and effective regulation and supervision is to encourage the growth of a healthy NBFC sector on the one hand and to provide security and safety to unsecured depositors on the other hand. There is a need to encourage the growth of good NBFCs like leasing and hire-purchase finance companies as they play a conducive role to the economic well-being of the country.

The NBFCs, like the commercial banks, co-operative banks and other specialised financial institutions have their own unique role to play in hastening economic development. It should be noticed that 'chit funds' and 'finance companies', particularly in South India are undergoing a fundamental growth. There has also been a significant increase in the number of finance companies in Karnataka, Punjab, Gujarat, Andhra Pradesh and Madhya Pradesh.

Concluding Remarks

The NBFCs have emerged as significant players in the financial sector and have shown a much higher increase in growth of regulated deposits as compared to the scheduled commercial banks. The NBFCs have been able to cater to the

credit needs of sectors like equipment leasing, hire purchase, housing finance, loans, consumer finance, investments and other sectors. But the growth of the NBFCs has to be accompanied by an appropriate regulatory framework. This framework should be so designed to prevent problems from arising and to adhere to a quick response wherever problems arise. The investors' awareness and education is the need of the hour for which the RBI should have an important role to play. The healthy growth of NFBC sector is necessary for promoting the growth of an efficient and competitive financial sector in the economy. The Department of Financial Companies could be transformed into an autonomous Apex body to control and regulate the working of the NBFCs under the direction of the RBI.

Similar problems in the working of the NBFIs have been experienced in the State of Meghalaya which shall be dealt with in a subsequent chapter along with the working and performance of the NBFCs.

Notes and Reference

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2. Ibid.

3. William Diamond. *Development Banks*, (Baltimore, John Hopkins Press, 1957)pp.4-5.
4. Shirly Boskey. *Problems and Practices of Development Banks*, (Baltimore, John Hopkins Press, 1959) p.ix.
5. Quoted in Sikidar Sujit, *Development Banking. A study of the Working of State Financial Corporation* (S. Chand & Company Ltd, Ram Nagar, New Delhi – 11055-985) p.6.
6. Desai Vesant. *op.cit.*, pp.231-234.
7. *A Report on the Task Force of the Non-Banking Financial Companies*, Government of India, 1998, p.4.
8. *Ibid.* p.3.
9. *Ibid* p.14.
10. *Ibid.*
11. *Ibid.* p.49.

CHAPTER – IV

CHAPTER - IV

BANKING PERFORMANCE IN MEGHALAYA

After looking into the history of banking in the world and the growth of banking system in India in the preceding chapter, we now propose to study the working and performances of the banks in the State. This Chapter discusses the aggregate performance of all the banks in the State from 1972-73 to 1998-99. To analyse the aggregate performance of all the banks, we would utilise all the indicators like the growth of banks' branches, population per bank office, per capita deposit and credit, growth rate of deposits and advances and the credit-deposit ratio in the State.

Growth of banks' branches

We have mentioned in a preceding chapter that banking in Meghalaya existed well before the creation of the State in 1972. The banks which transacted banking activities before the year 1972 were the State Bank of India, the Bank of Baroda, the Central Bank of India, the Punjab National Bank, the United Bank of India and the United Commercial Bank. The total number of offices at the end of December 1972 was 17.¹

During the period of more than 25 years, there has been a considerable increase in the number of scheduled commercial

banks' offices. At the end of June 1982, there were 67 scheduled banks' offices in the State.² This shows that 50 more banks' offices were opened in a period of 10 years. There was an improvement in the growth of banks' branches in the state but the number of offices works out to 0.17% only of the total number of banks' branches in the whole country which stood at 39,177 as on June 1982.³ The Meghalaya Co-operative Apex Bank branches alone increase to 17 as on June 1982.

The number of banks' offices in the State as on 31st December, 1992 continued to increase to 203. This comprises 122 offices of scheduled commercial banks, 30 of Meghalaya Co-operative Apex Bank and 51 of Regional Rural Bank. Of these, 137 branches were in rural areas, 28 in semi-urban and 38 in urban areas.⁴

As on 30th March, 1999, 17 banks continued to carry on banking transactions in the State. These banks are Allahabad Bank (ALB), Bank of Baroda (BOB), Bank of India (BOI), Canara Bank (CNB), Central Bank of India (CBI), Federal Bank Ltd.(FED), Indian Overseas Bank (IOB), Indian Bank (INB), Punjab National Bank (PNB), State Bank of India (SBI), Syndicate Bank (SYN), UCO Bank (UCO), Union Bank (UNB), United Bank of India (UBI), Vijaya Bank (VJB), Khasi Jaintia Rural Bank (RRB) and Meghalaya Co-operative Apex Bank (MCAB).⁵ There are a total of 216 branches in the state comprising ALB(1), BOB(2), BOI(2), CNB(2), CBI(4),

FED(1), IOB(1), INB(2), PNB(6), SBI(85), SYN(1), UCO(4), UNB(3), UBI(12), VJB(2), RRB(51) and MCAB(37).⁶

The growth of banks' branches in the State from 1972 to 1999 is given next page in the following table 4:1.

**TABLE 4:1
BRANCH NETWORK⁷**

YEAR	NUMBER OF OFFICES	ACTUAL GROWTH	PERCENTAGE GROWTH RATE
1972	19	-	-
1982	85	66	347.37
1992	203	118	138.82
1999	216	13	6.40

Sources: (i) *RBI Bulletin*, April 1973 & 1983
(ii) *SLBC Reports*, March 1993 & July 1999

The above table clearly indicates the rapid increase in the number of offices in the early period upto 1992. The growth rate stood at 347.37 % for the period 1972 to 1982, which declined to 138.82 % for the period 1982-1992 and further to 6.40% for the period 1992-1999. The decline in the growth rate is mainly due to the decrease in the profitability made by the banks in recent years which is brought about by poor credit deployment by the banks in the State.

District-Wise Banks' Branches

The number of banks' branches in the seven districts of Meghalaya is shown in the table 4:2 on the next page.

TABLE 4:2**DISTRICT-WISE DISTRIBUTION OF BANKS IN
MEGHALAYA AS ON 31.03.1999**

SL. No.	NAME OF BANK	EKH	WKH	JH	RI-BHOI	EGH	WGH	SGH	TOTAL
1	ALB	1	-	-	-	-	-	-	1
2	BOB	2	-	-	-	-	-	-	2
3	BOI	1	1	-	-	-	-	-	2
4	CAN	2	-	-	-	-	-	-	2
5	CBI	3	-	-	-	-	1	-	4
6	FED	1	-	-	-	-	-	-	1
7	IND	1	-	-	9	-	-	-	2
8	IOB	1	-	-	-	-	-	-	1
9	PNB	6	-	-	-	-	-	-	6
10	SBI	22	5	55	9	13	26	5	85
11	SYN	1	-	-	-	-	-	-	1
12	UBI	5	-	4	2	1	-	-	12
13	UCO	4	-	-	-	-	-	-	4
14	UNB	1	-	-	-	-	2	-	3
15	VJB	2	-	-	-	-	-	-	2
16	RRB	21	15	13	2	-	-	-	51
17	MCAB	12	3	5	2	4	9	2	37
	TOTAL	86	24	27	16	18	38	7	216

The above table shows that the number of banks' branches in the seven districts of Meghalaya, namely, the East Khasi Hills, the West Khasi Hills in the Jaintia Hills, the Ri-Bhoi district, the East Garo Hills, the West Garo Hills and the South Garo Hills as on 31.03.1999 stood at 86, 24, 27, 16, 18, 38 and 7 respectively. The table shows that there is no equal distribution of banks' branches in the seven districts of the State.

Rural - Urban bank facilities

Most of the banks' branches are located in remote areas. As on 30.3.99, the number of scheduled commercial banks' branches in the state was 128, comprising 83 in rural areas, 14 in semi-urban and 31 in urban areas. As on the same date the MCAB had 15 branches in rural, 6 in semi-urban and 16 in urban areas. The RRB had a total of 51 branches with 43, 3 and 5 in rural, semi-urban and urban areas respectively. Despite a total network of 216 branches spread across the State, large area of Meghalaya still remained unbanked.

The number of banks' branches in rural, semi-urban and urban areas as on March, 1982, December 1992 and March 1999 is given in the table 4:3.

TABLE 4:3
NUMBER OF BANKS' OFFICES IN RURAL, SEMI-URBAN AND RURAL AREAS

YEAR (MARCH)	RURAL	PERCENTAGE GROWTH	SEMI-URBAN	PERCENTAGE GROWTH	URBAN	PERCENTAGE GROWTH
1982	42		24	-	19	-
1992*	137	226.19	28	16.67	38	100.00
1999	141	2.92	23	-17.86	52	36.84

* Data as on December, 1992.

Source: (i) Personal Collection
(ii) *SLBC Reports*, March'93
(iii) *SLBC Reports*, July'99

The above table reflects the highest number of branches located in rural areas in the three periods. As on March 1982, 42 branches were in rural areas, 24 in semi-urban and 19 in urban areas, yielding a total of 85 branches. Out of a total of

203 branches as on December 1992, 137 were in rural areas, 28 and 38 were in semi-urban and urban areas respectively. As at end march 1999, 141 banks' branches were in rural, 23 in semi-urban areas, accounting for 65.27 percent, 10.65 percent and 24.07 percent respectively.

After the nationalisation of the twenty major commercial banks in 1969 and 1980, more and more remote areas have been brought under the umbrella of banking network. This has led to the massive growth of banking facilities in rural areas. The share of rural offices in total commercial banks' offices in the State increased from 49.41 % as on March, 1982 to 65.28 % as on March 1999, registering a growth of 15.87 %. Moreover, one of the objective of nationalisation is to make the banks to cater to the needs of the common people by extending credit assistance to priority sectors, which were neglected by the private sector banks before 1969. Priority sectors include Agriculture, Small-scale Industries, Small business, Weaker Sections such as down-trodden, oppressed, neglected small and marginal farmers and others. This constitutes another factor responsible for the concentration of bank branches in rural areas.

Average population per bank office

The average population per bank office (APPBO) during the different decades is reflected in table 4:4 on the next page.

TABLE 4:4
AVERAGE POPULATION PER BANK OFFICE

YEAR	POPULATION	NUMBER OF BANK BRANCHES	PERCENTAGE GROWTH	POPULATION PER BANK OFFICE	PERCENTAGE DECLINE/GROWTH
1971	1011699	15		67446	
1981	1335819	79	426.67	16909	74.93
1991	1774778	189	139.24	9390	44.47
1998	2165014	216	14.29	10023	6.74

Sources: (i) *Statistical Hand-book of Meghalaya*, 1995.
(ii) *SLBC Records*, 1992 & 1999.

The table 4:4 shows that the number of banks' branches in the state is increasing from decade to decade but it has increased at a diminishing rate. The average population per bank office has declined for the two decades 1971-1981 and 1981-1991. This shows that the number of people served by a bank branch has reduced in the first two decades because of the increase in the number of branches. The growth in population by 75.43% was lower than the growth in banks' branches by 1160%. As shown in the above table, only 27 branches were opened during 1992-1999. This has caused the average population per bank office to increase from 9390 as per 1991 census to 10023 at the end March, 1999. During this period, the growth in population by 21.99% was higher than the growth in banks' branches by 14.29%.

Per Capita Deposit and Credit

The per capita deposit and credit as compared to North Eastern Region and the All India average for a three year period are shown in table 4:5 on the next page.

TABLE 4:5
PER CAPITA DEPOSIT AND CREDIT

(in Rs. / person)

STATE/ REGION/ COUNTRY	PER CAPITA DEPOSITS DURING			PER CAPITA CREDIT DURING		
	1991	1995	1997	1991	1995	1997
MEGHALAYA	2132	3242	4971	472	514	874
GROWTH RATE		52.06%	53.35%		8.79%	70.20%
NE REGION	1366	1745	N.A.	455	591	N.A.
GROWTH RATE		27.77%	-		29.89%	-
ALL INDIA	2362	4065	5204	1570	2466	2858
GROWTH RATE		72.10%	28.02%		57.07%	15.90%

Source: *North Eastern Institute of Bank Management (NEIBM)*, ⁸ September, 1997.

The table 4:5 shows that the per capita deposit in Meghalaya is much higher than that of the North Eastern Regional average while the per capita credit was lower than that of the North Eastern Region in 1995 and much lower to the All India average. Despite the huge amount of deposits collected in the State, it is still much lower than the All India average which indicates that there is substantial scope for deposit mobilisation.

In 1995, the per capita credit for Meghalaya stood at Rs.514, for the North East Region at Rs.591 and for the entire country at Rs.2466. It has increased to Rs.874 for Meghalaya and Rs.2858 for India during 1997.

Deposits, Advances and Credit-Deposit (C-D) Ratio of All Banks

The financial position of Scheduled Commercial Banks (SCBs), the Meghalaya Co-operative Apex Bank (MCAB) and the Regional Rural Bank (RRB) with regard to deposits, advances and C-D ratio in the state from 1972 to 1999 is given in the following table 4:6.

TABLE 4:6

DISTRIBUTION OF DEPOSITS, ADVANCES OF ALL BANKS AND C-D RATIO

NAME OF BANK	AS ON			(Rs.in lakhs)
	1972-73	1982-83	1992-93	1998-99
SCBs		66.16	40970.13	107014.43
(i)Deposits	15.22	14.97	7712.46	17775.24
(ii)Advances	1.65	22.63***	18.82	16.61
(iii)C-D ratio(%)	10.84*			
MCAB				
(i)Deposits	108.89	880.92	6960.15	20509.29
(ii)Advances	25.60	457.38	2779.46	7764.86
(iii)C-D ratio(%)	23.51**	51.92****	39.93	37.86
RRB				
(i)Deposits	-	-	2395.60	8173.84
(ii)Advances	-	-	657.95	2333.34
(iii)C-D ratio(%)	-	-	27.46	28.54

*As on June 1972; ** As on March 1972; *** As on December 1982; **** As on March, 1982.

Source: (i) *RBI, Bulletin*, 1973 and 1983

(ii) *MCAB Silver Jubilee Souvenir*, 1971-96

(iii) *SLBC Reports*, 1993 and 1999.

The table 4:6 reflects the highest level of deposits mobilised by the MCAB in 1972. More loans had also been advanced by the Bank during the year as its C-D ratio stood at

23.51 % which is 12.67 % more than that of SCBs. The MCAB could collect more deposits and advances more in 1972. Even in 1982, the Bank's position in respect of deposits, advances and C-D ratio was far better than other banks in the State during that period. The above table reveals that the MCAB's C-D ratio as on December 1992 and as on March 1999 was the highest in the State. The bank is a Meghalaya State's Co-operative bank more concerned with the development of the State's economy. Moreover, it is having branches only in the state and hence it becomes much easier for it to monitor its transactions. These are some of the factors that help the bank to secure highest C-D ratio in the State. Other banks are having branches all over the country and most of the time they rely on their respective central offices. Even if they incur losses they still continue with their operations. But MCAB cannot afford to lose as it has to be self-sufficient. We may analyse their performances period-wise in the succeeding sections.

Period up to 1972-73

We have mentioned earlier that 17 schedule banks' offices were already in existence as on June 1972. These banks could collect deposits amounted to Rs. 15.22 lakhs while the amount of their advances extended by them was only Rs. 1.65 lakhs. Hence, C-D ratio stood at 10.84 percent as shown in table 4.6. Meghalaya had just attained its statehood in 1972 and thus there was low demand for credit

during that period of time. Financial assistance was provided by the banks to the different sectors such as agriculture and allied activities, industry and trade. As at end March, 1972, the MCAB alone had collected Rs. 108.89 lakhs deposits and advanced Rs. 25.60 lakhs. With this quantum of deposits and advances the C-D ratio of the Bank stood at 23.51%.⁹

Period up to 1982-83

With the increase in the number of offices from 17 as on June 1972 to 94 as at end December, 1982 there has also been a growth in the amount of banks' deposits and advances. Deposit mobilisation of the scheduled commercial banks in the state aggregated to Rs. 66.16 lakhs and advances amounted to Rs. 14.97 lakhs as on December 1982. With Rs. 66.16 lakhs quantum of deposits and Rs. 14.97 lakhs quantum of advances, C-D ratio stood at 22.63%. The amount of deposits accepted by the MCAB as at end March 1982 aggregated to Rs. 880.92 lakhs. More than half of the total deposits collected i.e., an amount of Rs. 457.38 lakhs was advanced.¹⁰ The C-D ratio of the MCAB as at end March 1982 worked out to 51.92%.

Period up to 1992-93

After a decade there was a considerable expansion in the amount of deposit mobilisation of the scheduled commercial banks. Deposit mobilisation of these banks as on December 1992 aggregated to Rs. 40970.13 lakhs. The MCAB and the RRB collected an amount of Rs. 6960.15 lakhs and Rs.

2395.60 lakhs respectively as on the same date. The total financial assistance granted by SCBs, MCAB and RRB in the State as on December 1992 amounted to Rs. 7112.46 lakhs, Rs. 2779.46 lakhs and Rs. 657.97 lakhs respectively, giving a total of Rs. 10549.89 lakhs.¹¹ The C-D ratio of the three said banks worked out to be 18.82%, 39.93% and 27.46% respectively.

Period up to 1998-1999

As on 31.3.99, the total deposits collected by all the scheduled commercial banks in the State aggregated to Rs. 107014.43 lakhs. Deposit mobilisation of the MCAB and the RRB amounted to Rs. 20509.29 lakhs and Rs. 8173.84 lakhs respectively. This gives a total of Rs. 135697.56 lakhs deposits accepted by all the banks in the State. Aggregate advances extended by all the banks in the State stood at Rs. 27873.44 lakhs during the period. The SCBs accounted for Rs. 17775.24 lakhs, MCAB for Rs. 7764.86 lakhs and RRB for Rs. 2333.34 lakhs. As at end March 1999, the C-D ratio of the SCBs, the MCAB and the RRB stood at 16.61%, 37.86% and 28.54% respectively. The MCAB and the RRB C-D ratios were above the State's C-D ratio of 20.54%. The reason is that these two banks are to confine their advances only within the State and moreover they have less number of branches as compared to that of the SCBs.

Deposits and Advances of Scheduled Banks

The scheduled commercial banks have collected a huge amount of deposits in the State. The about deposits has increased from Rs. 24.71 lakhs in December 1976 to Rs.

10,56,41 lakhs in December 1997 and that of credit from Rs. 4.04 lakhs to Rs. 185,72 lakhs during the same period. The number of offices has increased from 37 to 128. This is evident from the following table 4:7.

TABLE 4:7

DISTRIBUTION OF DEPOSITS AND CREDIT OF SCHEDULED COMMERCIAL BANKS

(Rs.in lakhs)

YEAR (DEC)	NO.OF OFFICES	DEPOSITS	ANNUAL INCREASE	GROWTH IN %	ADVANCES	ANNUAL INCREASE	GROWTH IN %	C-D RATIO
1976	37	24.71			4,04			16.34
1977	43	26,89	218	8.82	5,01	0.97	24.00	18.63
1978	53	34,23	734	27.29	6,66	1,65	32.93	19.45
1979	55	47,52	1329	38.82	7,02	036	5.40	14.77
1980	56	54,27	675	14.20	8,18	116	16.52	15.07
1981	63	56,23	196	3.61	11,73	355	43.39	20.86
1982	76	66,16	993	17.65	14,97	324	27.62	22.62
1983	78	88,67	2251	34.02	18,50	353	23.58	20.86
1984	82	110,56	2189	24.68	26,26	776	41.94	23.75
1985	86	128,18	1762	15.95	31,97	571	21.74	24.94
1986	87	154,36	2618	20.42	54,72	2275	71.16	35.45
1987	89	204,63	5027	32.57	58,34	362	6.62	38.51
1988	93	161,69	4294	-20.98	57,18	-116	-1.99	35.36
1989	98	261,80	10011	61.91	63,53	635	11.12	24.27
1990	104	279,01	1721	6.57	64,09	56	0.88	22.97
1991	112	378,36	9935	35.61	83,77	1968	30.71	22.14
1992	122	409,70	3134	8.28	71,12	-1265	-15.10	11.35
1993	123	545,52	13582	33.15	80,06	894	12.57	14.67
1994	128	554,85	933	1.71	83,95	389	4.85	15.13
1995	128	650,34	9549	17.21	103,02	1907	22.72	15.84
1996	128	814,45	16411	25.23	106,35	333	3.23	13.05
1997	128	10,56,41	17099	19.31	185,72	2593	16.23	17.58

Sources: (i) *RBI Bulletin*, April, 1977-1992
(ii) *SLBC Reports*, 1992-1999
(iii) Data collected from primary sources

The table 4:7 indicates a growth in the amount of deposits accepted by all the scheduled banks in the State except for the year 1988. The decline in deposits from Rs. 204,63 lakhs to Rs. 161.69 lakhs during 1987-88 was due to the agitation which broke out in the State in the second half of 1987. The table reflects the increase in deposits from Rs. 24,71 lakhs as on December 1976 to Rs. 10,56,41 lakhs as on December 1997, recording a growth of 4175%. The increase in total deposits collected was mainly due to the increase in the number of offices which was rapid in the earlier years.

The table 4.7 also reveals a growth in the amount of advances extended by all the scheduled banks in the State from 1976 to 1997 except for 1988 and the year 1992. The decline in the amount of advances in the year 1998 was due to the agitation causing law and order problem while the fall in aggregate advances in the year 1992 was due to the decrease in the amount of loans granted by four banks viz., the Allahabad Bank, the Bank of Baroda, the UCO Bank and the Union Bank. Total advances registered a rise of 144305 % from 1976 to 1997. The increase was more in the earlier period than in the later period because there was a sharp rise in the number of offices from 1976 to 1987. The table shows that no new branches were opened from 1994 to 1997.

The table also reveals the increase in C-D ratio from 16.34 % as on December 1976 to 38.51 % as on December 1987, registering a rise of 22.17 %. In between, the C-D ratio

fell down twice in 1979 and in 1983. After a rise of 38.51 % in 1987, the ratio continuously decline in succeeding five years from 1988 to 1992 followed by continuous increase for three successive years upto 1995. Again it fell down in 1996 and then increased to 17.58 % in the following year, 1997 and never attained the level which was above 30% earlier although the stipulated norm is 60%.

The low credit-deposit ratio has become a mater of concern for policy makers and planners in Meghalaya. It is one of the important issues under discussion. In any economy with low levels of capital formation, credit has become an essential instrument in stepping investment for development. Unfortunately, the growth in credit has remained far from satisfactory for various reasons. Some of these reasons are as follows:

1. Agriculture which still remain an important occupation of the majority of the people in the State, could not yield good results in the absence of adequate investment. The per capita output of major crops is only 51.6% of the national average (1991).¹² Moreover, the per capita food grains production is only 43.4% of the national average and the per capita fertiliser consumption remained at 15 kgs/year as against the All India average of 72 kgs/year in 1991. In the State, the cultivated area as percentage to total area stood at 10.64% as against All India figure of 57.24% during 1994-95. The food grains production in the State during

1996-97 stood at 1346 kgs/hectare as against All India average of 1879 kgs/hectare. However, the contribution to State income of agriculture and allied activities remained higher at 50%.¹³ This shows the pre-dominant role played by the agricultural sector in the State. In spite of this significance, the scope of credit for the sector remains very low. Around 25% of the agricultural offices feel that lack of finance is affecting the productivity of crops. They are of the opinion that most of the reasons for low productivity are lack of important inputs like agriculture implements and fertiliser forcing the farmers to follow the traditional methods of farming.

The lack of information about the banks' schemes is the major factor for poor credit demand by the farmers. Poor accessibility of the banks, multiplicity of documents and delay by banks are other factors which led to the lower volume of credit enjoyed by the farmers.

2. The Lack of mortgage is another main cause of low C-D ratio in the State. Owing to relevant land laws, land belonging to a tribal could only be transferred to a tribal and because of this mortgage as a security was not finding favour with the banks. It is not for small loans that mortgage is required but for bigger loans and hence the problem arises. Because the peculiar land tenure system, land cannot be created an equitable mortgage for the purpose of bank loans.

3. The poor recovery of loans has been notified as another major factor which has adversely affected the credit flow. The main cause of poor recovery is that most of the beneficiaries treat the loan as a government grant rather than a refundable loan. There are even cases of the diversion of loans for other purposes for which the loan was never sanctioned. Loans have to be diverted because the borrowers receive the loans very late. For instance, disbursement of crop loan was always made after the cropping season is almost over. So, farmers have to use the loan for other purposes. Diversion of loans is followed by poor monitoring by the bank branches, poor infrastructure, poor communication problems, lack of feasible proposals, shortage of staff and lack of collateral security. There has also been a shift of credit facilities from the Agriculture and Tertiary Sector to the Personal Loan and Personal Service Sector due to high recovery rates in the latter sector. The personal loan is linked with salary and therefore it is considered to be a low risk loan. This has made most of the Bank's Managers more willing to lend to salaried employees than to the farmers.

If the present low rate of recovery continues, the situation would worsen with very low advances going to the priority sectors. For the situation to improve, the bank themselves have a major role to play. It is essential for the

bankers to motivate their branches for better recovery performance.

4. The level of industrialisation of the state is very low with the manufacturing sector contributing only 16.55% (1992-93) to State Domestic Product at current prices. During 1995-96, the percentage contribution of manufacturing sectors to Gross Domestic Product at current prices stood at 3.9 as against all India figure of 19.7. The percentage of industrial workers (manufacturing and household industries) to the main workers in the state during 1997-98 stood at only 0.2 whereas the All India percentage stood at 3.8.¹⁴ The slow progress of industrial development is another prominent factor hindering the flow of credit in the State. The State is industrially backward when compared with other states in the country. Industries could not be set up in the State because of lack of entrepreneurs. Entrepreneurs do not emerge because of lack of information about the different banks schemes. Lack of co-ordination between term lending institution and commercial banks is other important factor. The unavailability of bank funds is more severe in the Garo Hills region of the State.

5. The lack of planning at the grass root level is another factor which hampers the flow of credit in the State while in Meghalaya the credit plans are prepared at the bank level, the village plans were never prepare by the State

Government. Related to planning there is the absence of accurate data also at different levels. Not even a single Government Agency could give complete data on the level of investment by the different departments for the last ten years.

Despite the availability of various documents like credit plans and potential link plans, the district as well as the state level credit plans are nothing but simple fixation of targets and that too for Government sponsored programmes and schemes only. If the C-D ratio should serve as an indicator of bank's performance, it is required that the banks should decrease their mobilisation of additional deposits or some medium/large project should come up to absorb such a large credit availability in the State of Meghalaya.

6. The poor flow of credit is also caused by the poor economic environment in the state which does not promote development especially in the industrial sector. The poor credit flow being the prime concern among policy makers and planners, necessitates the creation of a conducive environment where there is a close co-ordination between the government officials and bankers. According to the available data, more than 70% of the government officials have interacted with the bankers only on occasions. Almost 80% of the agriculture officials did not know whether a farmer had defaulted in loan repayment.

Too much importance has been given by the Branch Managers to the problem of recovery. The bank officials were not imbued with the new objectives of banking and on the other hand they were more worried about the unsatisfactory recovery performance. A study reveals that only 18% of the Branch Managers are willing to give more emphasis to good customer service and big loans. And only 6% have decided to go for training of officers with respect to loans and advances. The rest 75% have placed recovery as their priority.¹⁵ This is another major factor which have caused a set back in the flow of credit.

7. Another major cause of the low level of advances in the state is the short stay of the Managers in a certain places. It is a fact that a longer stay at a particular place of work naturally develops a closer acquaintances with the local people. This will hasten the transactions of the banks and will inevitably stimulate the flow of credit in state. On the other hand, shorter tenures do not ensure such possibilities. Recent study shows that more than 40% bankers had a tenureship of less than one year in a branch and more 60% remain in one branch for less than 2½ years.¹⁶ This period is too short for the Managers and officers to get to know the locality. Moreover, managers and officers are more willing to work in the place of their interest. There is a concentration of bank employees in the urban centres. Hence, the rural areas do not have Branch Managers who

would take up their matter seriously. The flow of credit to agriculture and other related activities is bound to be low. It is also found that Managers are reluctant to come to North Eastern Region due to law and order problems.

8. As already mentioned, the delay in sanctioning of loans from the banks was one of the causes of the poor flow of credit in the State. Usually, it takes a pretty long time for the bank's fund to reach the hands of the entrepreneurs/farmers. Under these circumstances, the latter are compelled to look for different sources of credit. It is a fact that entrepreneurs and farmers are getting loans from the money lenders who are still playing a major role in supplying credit facilities to the public. This is evident from the following table 4:8.

TABLE 4:8
SOURCES OF FINANCE AVAILED BY
ENTREPRENEURS/FARMERS

(in percentage)

DISTRICTS	MONEY LENDERS	BANKS	OTHER SOURCES	NOT AVAILING LOANS
RI-BHOI	63.41	0	0	36.59
EAST KHASI HILLS	76.60	12.77	0	14.89
WEST KHASI HILLS	80.49	7.323	0	12.20
JAINTIA HILLS	57.14	0	0	42.86
EAST GARO HILLS	2.22	44.44	0	53.33
WEST GARO HILLS	2.63	21.05	0	76.32
SOUTH GARO HILLS		0	17.14	82.86
STATE TOTAL	11.22	13.62	2.15	43.01

Source: *Sample Survey*, NEIBM, 1996.

The table 4:8 reveals that the maximum amount of loans was advanced by money-lenders in Ri-Bhoi, East Khasi Hills, West Khasi Hills and Jaintia Hills districts. It is only in the East and West Garo Hills districts that the Bank took the lead. This is because most of the people residing in these districts are poor and cannot afford to pay higher interest. Hence, they have to depend much on the banks.

9. Last but not the least, most of the banks in the State have developed a bureaucratic attitude in the functioning. Lack of responsibility and initiative, red-tapism, inordinate delays are common features of banks in the State. In addition to this, political interference also disturbs the smooth working of the nationalised banks. Political pressure in the granting of loans to particular parties, the selection of personnel, opening of branches and others creates difficulties for these banks.

Owing to the low and declining trends of C-D ratio as indicated in foregoing paragraphs, major steps and measures have to be taken up by the State in strengthening its economic development, thereby improving the flow of credit. The measures may include the following:

1. In order to improve the agricultural productivity, the practice of Jhum or Shifting Cultivation in the State has to be replaced by permanent system of cultivation where

modern agricultural technology could be introduced. The State is very suitable for horticulture. Therefore, horticultural plantations along with multiple cropping system should be promoted .

It is also required to stimulate marketing facilities and for this purpose primary and secondary markets should be set up. Potential areas such as food processing units, meat production, fish production, leather and leather goods manufacturing should be encouraged. The horticultural plantation programmes are applicable to various crops like bamboo, broomsticks, medicinal plants, herbs, spices, fruits and others. This may enable the State to become an exporter of horticultural products even though it remains deficit in food grains. The horticultural planters should emerge who would increase the demand for bank loans.

2. In order to reduce the mortgage problem faced by the banks, it is also essential to establish a method of documenting ownership and tenancy rights over land. This calls for a change in the mindset of the banks by accepting the existing land laws. At the same time land system among the tribal people should also change by conferring ownership on themselves followed by proper cadastral surveys for the purpose of records of rights and registration of land rights. Hence, banks would have no excuse to refuse the granting of loans to the borrowers.

3. To improve upon the rate of recovery of loans, the banks should strictly enforce the Recovery of Debts Act, 1993. The banks should have to see that diversion of loans to purposes other than those for which the loans were applied for, should not be allowed. Stern action should be taken by the bank against willful defaulters. This may lead even to imprisonment of such defaulters. At the same time, the Government has to be serious in taken up the issue of Balkjas cases. With the improvement in loan recovery rate the banks would have no reason but to expand their advances to the prospective borrowers.

4. For a predominantly agricultural State like Meghalaya, development of industries is a must. It is now an established fact that material wealth and industrial growth go together. Negatively it is proved that less developed countries which lack industries are those whose people live in poverty. Industrial development alone can provide a secure basis for a rapid growth of income.

The State is rich in natural resources like favourable climatic conditions, rainfall, power, minerals, forest and others. Its mineral resources like coal, limestone and timber are even export outside the State. Being blessed with so many resources the State is in a position to set up industries. Unfortunately, the overall investment both in public as well as private sectors is not so high.

In order to raise investment and to step up industrial development, a strategy of long term basis should be adopted in the State. Different criteria for developed and less developed areas should be taken up. The government has to play an important role in the promotion of industries. Apart from setting up industries, the State Government should provide resources and facilities for the private sector to start industries on its own and/or jointly with the government in the areas earmarked for the private sector. Another important step to be taken by the State Government is to enable the industrial entrepreneurs to emerge.

5. Owing to lack of planning at the grass root level, it is expected that credit plans should be prepared by the banks for financing economic activity and village plans to be prepared by government agencies for financing infrastructure development. Both these plans were to be prepared at the district level and the Lead Bank Manager has to amalgamate the two. The present need of the banking industry in the state is to have a good data bank.
6. The promoting industrial development in the state creation of a conducive economic environment is required. It is high time perhaps for the government officials and the bankers to come together and explore an effective strategy in increasing the flow of credit in the State. Moreover, the socio-economic situation in the state should be such as would enable investors outside from the state as well as

from outside the country to come and invest in Meghalaya and thereby increasing banks' loans and advances for starting industries that could generate employment to local unemployed youths.

7. To increase the flow of credit in the State, a longer stay of the bankers at a particular place of work is important. This will help them to develop a better understanding with the emerging local entrepreneurs. This will inevitably stimulate the flow of credit to priority sector in the neglected areas.
8. To allure the farmers from turning to the village money-lenders, banks could simplify their operations. They could have sanctioned and disbursed their funds to the borrowers on time. Concentration of banks' loans in certain areas also could be checked. This would bring about an increase in the distribution of credit in the entire State.
9. To step up the C-D ratio in the State, political pressure could be channelised in such a way as to ensure the flow of credit to the deserving borrowers. It is also important for the politicians and the government officials to understand the policy of the bankers who are required to follow the directives given by the R.B.I. and to grant loans and advances only to profitable projects and schemes.

Over and above the measures that emerge out of the causes that hinders the flow of credit in the State, it is

believed that the banks themselves have a tremendous role to play in the matter. Higher credit flow should be the targets of the banks. For this to take place, the local Head Office of the Bank should allow the local office to develop its own plan for a State. In addition to this the bankers could take stern action against the defaulters in the repayment of bank loans by strictly enforcing the recovery laws.

A Sub-Committee of the SLBC meeting held on the 7th May, 1999 discussed in-depth the reasons for the low C-D ratio in the State and examined the ways and means to improve it. The general suggestions made and adopted by the SLBC are summarised as under:

- (i) All places in district headquarters in Meghalaya State to be notified as centres for creation of equitable mortgage.
- (ii) The borrowers and guarantors who avail of loans from Commercial Banks should be exempted from stamp duty for creation of registered mortgage of the property in favour of the Bank.
- (iii) Financing and recovery of bank loans through self-help groups and NGOs should be encouraged.
- (iv) All Banks to achieve the target under Annual Credit Plan.

- (v) Evolving of bankable schemes by the Government area-wise according to potential in each district.
- (vi) The Government should play a very important role in improving the C-D ratio through provision of infrastructural facilities, encouragement of entrepreneurs and helping banks in recovery of dues so as to enable them to recycle their funds.
- (vii) Government may consider approaching NABARD for more funds under their Rural Infrastructure Development Fund Scheme for improving the infrastructure in the State.
- (viii) National Equity Fund Scheme of SIDBI may be utilised by all financial banks.

If proper measures are taken up by the Banks at the right time, advances in the State can be increased and this would prevent the outflow of Credit to the other states.

Concluding remarks

After studying the performances of the different banks in the state of Meghalaya, it can be said at the end that the banks have been trying what they could in catering to the needs of the borrowers. But their achievement so far is not up to the mark. Advances remains at its low ebb. Immediate action should be taken to increase C-D ratio and the recovery rate.

Efforts should not only end up in discussion but a specific strategy could be implemented by the bankers in collaboration with the state government. It is high time for the bankers and government officials to emulate other states. For instance an exemplary effort made by a certain Sub-divisional Officer in West Bengal could be followed. The officer has launched a massive awareness drive amongst the borrowers to bring about the attitudinal change in the people. He also took up the matter at village/panchayat meetings and with elected representatives. Owing to this novel efforts, Rs. 1.64 crores was recovered in the recovery camp.¹⁷

The poor recovery rate in the State of Meghalaya has been responsible for the low C-D ratio which in turn leads to huge outflow of credit to other states. The recovery rate has therefore to be stepped up. Until the deposits of the banks are properly utilised within the state itself, the outflow of credit cannot be stopped. The financial institutions are liable to make interest payments to their depositors and therefore they are compelled to utilise their idle funds outside the state. If this continues to take place, the State stands to lose. The increase in advances means increase in money supply, but if there is no development activities taking place in the economy, it will result into inflation. Hence, it can be concluded that banks' advances is both the cause and the result of economic development.

Notes and References

- ¹ *RBI Bullettin*, April 1973.
- ² *RBI Bullettin*, April 1983.
- ³ Ibid.
- ⁴ *State Level Banker's Committee (SLBC) Report*, 24th March, 1993.
- ⁵ The names of Scheduled Commercial Banks (SCBs) are given in alphabetical order.
- ⁶ *SLBC Report*, 7th July, 1999.
- ⁷ The number of offices includes that of SCBs, MCAB and RRB.
- ⁸ NEIBM, *An enquiry into the Institutional Credit flow in Meghalaya*, sponsored by NEC, September, 1997.
- ⁹ MCAB, *Silver Jubilee Souvenir*, 1971 – 1996.
- ¹⁰ *RBI Bullettin*, 1983, Vol 6-12.
- ¹¹ SLBC Report for 24th March, 1993.
- ¹² Data of national average (1991) not available.
- ¹³ *Statistical Hand-Book*, Meghalaya 1998.
- ¹⁴ Ibid. p.133.
- ¹⁵ NEIBM, op.cit.
- ¹⁶ Ibid.
- ¹⁷ *SLBC Report*, 7th May, 1999.

CHAPTER – V

CHAPTER – V

PERFORMANCES OF INDIVIDUAL BANKS

After analysing the aggregated performance of all the seventeen banks taken together, in Meghalaya, we will now undertake the analysis of the performance of every individual bank in this crucial chapter. The chapter is divided into two principal sections – Section (A) and Section (B). A special treatment is being given to the performance of the State Bank of India and the Meghalaya Co-operative Apex Bank, being the premier banks in the State and having complete data for the period from 1967 to 1999 although complete data for a few years in between could not be obtained. The establishment of these two banks in the state is briefly discussed in the introductory paragraph before their performance are analysed in Section (A). Thereafter the study of 15 other scheduled commercial banks(SCBs) is undertaken in the alphabetical order in Section (B). The Regional Rural Bank performance is given after the analysis of the performance of the SCBs. The performance of these banks is analysed only with effect from 1991-92 to 1998-99 for lack of the relevant and complete data relating to their performances in the State from the date of their establishment up to March 1991. It must be mentioned at this stage that out of 17 banks, one bank is privately owned, namely, the Federal Bank Limited.

SECTION - A

STATE BANK OF INDIA (SBI)

Introduction

The State Bank of India, the biggest commercial bank in the country, was formed on 1st July, 1955 with the passing of the State Bank of India Act, 1955 by the nationalisation of the Imperial Bank of India. The setting up of the State Bank of India was the outcome of the recommendations of the All-India Rural Credit Survey Committee appointed by the Reserve Bank of India(RBI) in 1951. The Committee suggested the establishment of a State Bank with adequate number of branches spread throughout the country to provide sufficient remittance facilities for other banks and to follow a policy in accordance with national social goals and objectives. Ninety two percent of its shares were acquired by the RBI, and thus it had the distinction of becoming the first State-owned commercial bank in the country. The main motive behind the establishment of the SBI is to take banking to the countryside. In view of this necessity the State Bank was required to function as a development agency besides performing the traditional functions of a commercial bank. In addition to the development agency function, the State Bank was entrusted with the task of the RBI's agent. Hence it now has the right to receive and make payments on behalf of the Central and State governments.

The State Bank group comprising of State Bank of Hyderabad, State Bank of Jaipur, State Bank of Bikaner, State Bank of Mysore, State Bank of Travancore, State Bank of Saurashtra and State Bank of Patiala was created in 1960 after the passing of the State Bank of India (Associate Banks) Act in 1959. These banks opened new offices in semi-urban, rural and unbanked areas. This attempt yielded good results and their relative share in total deposits increased.

The SBI has made remarkable progress in branch expansion and in meeting the financial needs of small-scale industries and financing agriculture.¹ At the time of establishment, the SBI took over 466 branches from the Imperial Bank of India. As on March 31, 1996 it had 8,830 branches spread over the length and breadth of the country with a staff strength of 22,221. The income of the Bank as at the end of March, 1999 amounted to Rs. 22,392 crores. The expenditure as on the same date stood at Rs. 21,364.43 crores. This gives the net profit of the Bank at Rs. 1,027.80 crores.

The SBI and its subsidiaries play a pivotal role in the country's banking transactions. The share of the banking business with them was roughly 30 %. The SBI Act was amended in 1993 to enable it to have access to the capital market. The RBI share holding is now 67 % as against 92 % before.

THE STATE BANK OF INDIA IN MEGHALAYA

Before Meghalaya achieved its statehood, the SBI had only two branches – one at Shillong and the other at Tura. The Shillong branch of Imperial Bank was established in 1926 and the Tura branch of SBI was established in 1959. One sub-office of SBI was opened at Phulbari on the 29th December, 1970.

The State Bank of India has been designated as the Lead Bank for all the districts in the state of Meghalaya. Different forums have been formulated at different levels for effective implementation of the lead bank schemes. In these forums the representatives of the banks and state government officials meet and discuss various problems. The three forums are the district consultative committee, state level co-ordination committee and regional consultative committee.

As already stated, complete data for the period from 1970-71 to 1990-912 could not be obtained. Hence a separate analysis for the period from 1991-92 to 1998-99 is done in the succeeding section. The total amount of deposits mobilised, the amount of loans extended and the C-D ratio from 1967 to 1970 are shown in table 5:1 on the next page.

TABLE 5:1
AMOUNT OF DEPOSITS AND ADVANCES
DURING 1967 TO 1970

<i>(Rs. in lakhs)</i>						
YEAR (DEC)	TOTAL DEPOSITS MOBILISED	GROWTH RATE (%)	TOTAL ADVANCES DISBURSED	GROWTH RATE (%)	CREDIT- DEPOSIT RATIO	GROWTH RATE (%)
1967	561.58		85.60		15.24	
1968	527.01	-6.16	236.32	176.0 7	44.84	29.60
1969	755.62	43.38	384.09	65.53	50.83	5.99
1970	620.93	-17.83	289.03	-24.75	46.55	-4.28

Note: The position of the bank in the state with regard to deposits and advances for the period from 1926 to 1966 cannot be shown in the table as the data relating to this period are not readily available.

Source: Compiled from data taken from :

- (i) Lead Bank Scheme Survey report on United Khasi and Jaintia Hills District, Meghalaya, SBI Regional Office, Shillong, December, 1970.
- (ii) Lead Bank Scheme Survey report on Garo Hills District, Meghalaya, SBI Regional Office, Shillong, March, 1971.

The above table shows that there were fluctuations in the amounts of deposits mobilised every alternate year. But the total advances extended rose from Rs. 85.60 lakhs in December, 1967 to Rs. 384.09 lakhs in December, 1969 and then declined to Rs. 289.03 lakhs in December, 1970. The growth rate of advances was the highest in December, 1968 at 176.07% when disbursements jumped from Rs. 85.60 lakhs to Rs. 236.32 lakhs. It was negative at -24.75% in December,

1970. The table also shows that the growth in C-D ratio was declining from year to year. During 1968 and 1969, C-D ratio declined from 29.60% to 5.99% and negative in 1970. During 1969 and 1970, the fall in the advances was more than the decrease in deposits and this had brought about a decline in the growth of C-D ratio from 5.99% to - 4.28%.

The total deposit mobilisation, total advances and C-D ratio of the Bank from 1991-92 to 1998-99 is given in the following:

TABLE 5.2
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF THE SBI
FROM 1991-92 TO 1998-99

(Rs. in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio (%)	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C-D Ratio	Growth Rate (%)
31.3.92	21247.00		3737.00		17.58	
31.3.93	21135.00	-0.53	3412.00	-8.70	16.14	-1.44
31.3.94	23866.00	12.92	3774.00	10.61	15.81	-0.33
31.3.95	28456.00	19.23	4179.00	10.73	14.68	-1.13
31.3.96	32056.69	12.65	4594.44	9.94	14.33	-0.35
31.3.97	36624.20	14.25	5174.20	12.62	14.13	-0.20
31.3.98	44545.00	21.63	6589.00	27.34	14.79	0.66
31.3.99	48488.00	8.85	8125.00	23.31	16.76	1.97

Source: (i) Compiled from data collected from Finance Department, Government of Meghalaya, 1998.
(ii) SLBC Records.

The table 5:2 reflects a consistent increase in the amount of deposits mobilised by the Bank except for 1992-93. But the growth rate of deposits exhibits a fluctuating trend every two years.

The total amount of loans extended by the Bank similarly increased from year to year except for 1992-93. The maximum amount of Rs. 8125.00 lakhs was disbursed at end of March, 1999. But the growth rate of advances as in the case of deposits, exhibits a fluctuating trend every two years.

Surprisingly, C-D ratio fell down from 17.58 % as at end March 1992 to 14.13% as at end of March 1997, though there was an increase in both deposits and advances. This reveals the fact that the increase in advances was not commensurate with the increase in deposits. The C-D ratio rose to 14.79 % as on 31.3.98 and further to 16.76 % in the following year. But the rise was not satisfactory. The growth of C-D ratio was the lowest at 1.44 % in 1992-93 and highest at 1.97% in 1998-99.

On the basis of the statistical data with regard to total deposits, total advances and C-D ratio, an attempt is also made in finding out the variations in the total deposits, total advances and C-D ratio of the State Bank of India in relation to the time factor for subsequent the eight-year period under study. The statistical technique of time series analysis has

been made use of in analysing the relevant statistical data which have been collected. The exponential growth rates of the different variables of total deposits, total advances and C-D ratio have been calculated in order to determine their relative growth rates. The three variables have regressed on time and the variations explained by time factor have been taken into account.

The data so collected have been computed by fitting a simple linear regression equation as follows:

$$Y = ae^{rt}$$

Where 'Y' is the total deposits or total advances or credit-deposit ratio as the case may be, 'a' is a constant term, 'er' is the exponential growth rate and 't' is the time factor.

State Bank of India

The statistical data of SBI as given in the above table for the time period 31.03.92 to 31.03.99 were fitted which yield the following results.

$$\begin{array}{lll} Y_1 = 17071.72 + e^{0.13t} & R^2 = 0.9775 \\ Y_2 = 2810.24 + e^{0.12t} & R^2 = 0.8875 \\ Y_3 = 16.45 + e^{-0.01t} & R^2 = 0.1742 \end{array}$$

Where Y_1 is total deposits, Y_2 is total advances and Y_3 is Credit-Deposit ratio.

Summary of Results

DEPENDENT VARIABLE(Y)	a	e ^{rt}	R ²
(i) Total Deposits (Y1)	17071.72	0.013	0.9775
(ii) Total Advances (Y2)	2810.24	0.012	0.8875
(iii) Credit-Deposit Ratio (Y3)	16.45	-0.01	0.1742

The above results indicate that the exponential growth rates of SBI total deposits, total advances and credit-deposit ratio for the eight years under study stood at 13 %, 12 % and -01 % respectively. The above equations also reveal that 97.75 % of the total variations in total deposits, 88.75 % of the total variations in total advances and only 17.42 % of the total variations in credit-deposit ratio could be explained by time factor. The variations to the extent of 02.25 % in the case of total deposits, 11.25 % in the case of total advances and 82.58 % in the case of credit-deposit ratio are not accounted by time but by other factors besides time.

The variations in total deposits, total advances and credit-deposit ratio and the Co-efficient of Determination(R²) are shown below:

VARIATIONS	TOTAL DEPOSITS	TOTAL ADVANCES	CREDIT-DEPOSIT RATIO
(i) Explained Variations	97.75	88.75	17.42
(ii) Unexplained Variations	02.25	11.25	88.58
(iii) Total Variations	100.00	100.00	100.00
R ²	0.9775	0.8875	0.1742

The above result reveals that the linear relationship in total deposits and total advances is a good fit to the data but

that of credit deposit ratio is not so.

The graphical representation of the performances of the SBI is also shown in Fig-I on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the SBI in total deposits and total advances mobilised and disbursed by all Banks in the state is given in table 5:3.

TABLE 5:3
PERCENTAGE SHARE OF SBI IN TOTAL DEPOSTS AND
TOTAL ADVANCES OF ALL BANKS DURING 1991-92
TO 1998-99

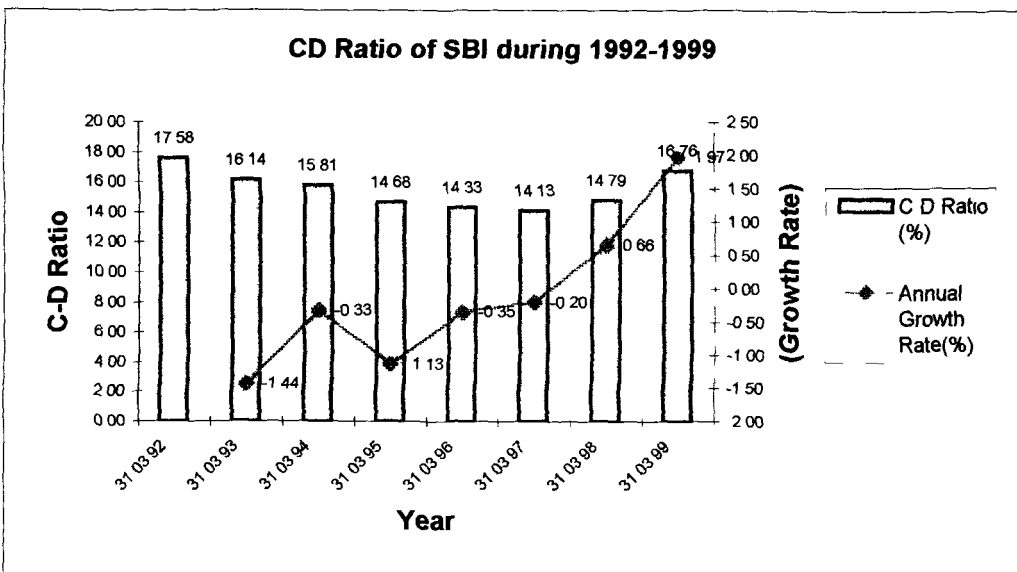
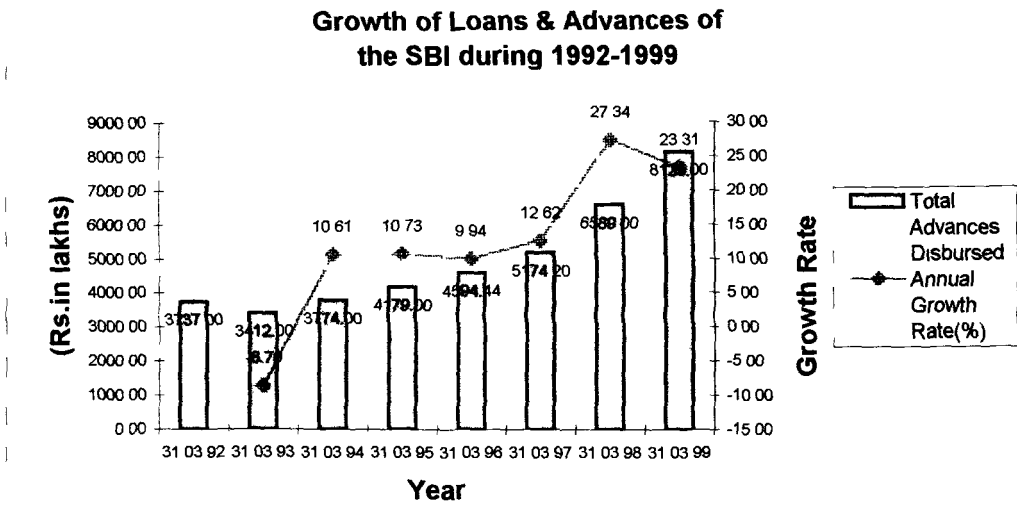
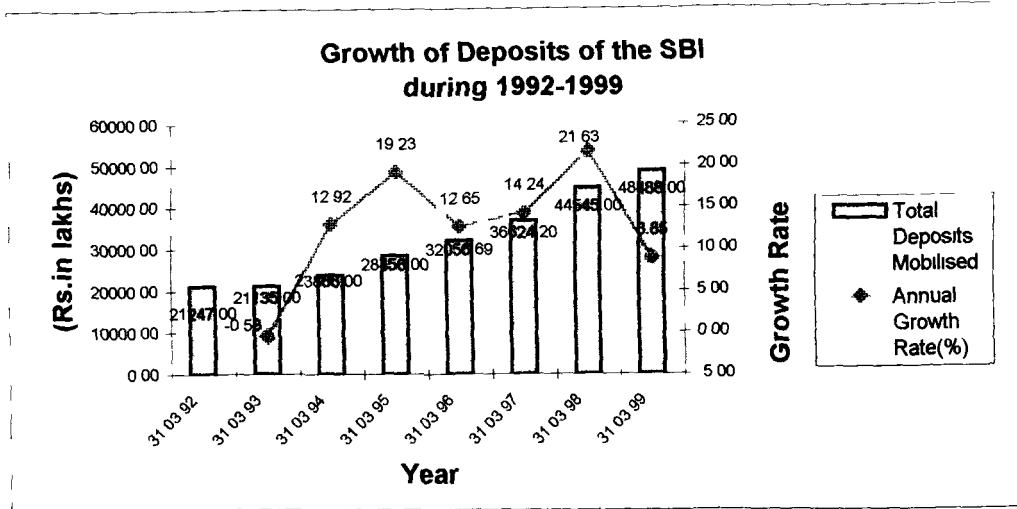
(Rs. in lakhs)

Year Ending	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the SBI	Percentage share of the SBI	Total Advances Disbursed by all the Banks	Total Advances Disbursed by the SBI	Percentage share of the SBI
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31.3.92	50196.15	21247.00	42.33	10536.79	3737.00	35.47
31.3.93	53330.82	21135.00	39.63	10781.59	3412.00	31.65
31.3.94	65842.21	23866.00	35.70	13163.94	3774.00	28.67
31.3.95	76030.00	28456.00	37.43	14464.76	4179.00	28.89
31.3.96	88292.23	32056.69	36.31	15660.86	4594.44	29.34
31.3.97	105641.22	36624.20	34.67	18572.36	5174.20	27.86
31.3.98	125635.85	44545.00	35.46	21386.46	6589.00	30.81
31.3.99	135697.56	48488.00	35.73	27873.44	8125.00	29.15

Source: Compiled from data collected from :

- (i) *Finance Department, Government of Meghalaya, 1998.*
- (ii) *SLBC Records*

Figure - I



The table 5:3 shows that as on 31.3.92 the amount of deposits mobilised by all the Banks in the state aggregated to Rs. 50196.15 lakhs and the amount of advances extended by them stood at Rs. 10536.79 lakhs as can be seen from above table. Hence, the state's C-D ratio stood at 20.99 %. The share of SBI in the total deposits and advances as on 31.3.92 amounted to 42.33 % and 35.47 % respectively.

It can also be seen that the percentage share of the Bank's deposit mobilisation in the total deposits had dropped down from 42.33 during 1991-92 to 34.67 in 1996-97, registering a decline of 18.10%. This is so because the increase in Bank's deposits could not keep pace with the increase in aggregate deposits mobilised in the State. The share rose to 35.46% and 35.73% in 1997-98 and 1998-99 respectively.

The percentage share of SBI's advances in total advances has shown a fluctuating trend. This is due to the growth in the SBI's advances which was not equivalent to the growth in the advances extended by all the Banks. It was the highest at 35.47 in 1991-92 and lowest at 29.15 in 1998-99. It is however obvious that SBI achieved a major chunk in both aggregate deposits and advances of all banks in the state. This is because SBI has got the highest number of branches in the state.

Advances to Priority Sector

A major portion of the advances extended by the Bank has been to priority sector. The priority sector advances constitute the loans extended by the Banks to Agriculture, Women Entrepreneurs, Minorities, and also the loans granted under different Government schemes. These schemes are Self Employment for Educated Unemployed Youth (SEEUY), Schemes of Urban Micro Enterprise (SUME) and Integrated Rural Development Programme (IRDP). SEEUY was replaced by Prime Minister Rozgar Yojana (PMRY) in 1993-94. Likewise SUME and IRDP were replaced by Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Swarna-jayanti Gram Swarozgar Yojana (SGSY) in 1999 and 2000 respectively. Loans disbursed by the Bank to Priority Sector is shown in the following table:

TABLE 5:4
ADVANCES TO PRIORITY SECTOR BY SBI

(Rs. in lakhs)

Year Ending	Total Advances	Advances to Priority Sector	Percentage of (3) to (2)	Personal Banking and Commercial Finance (%)
(1)	(2)	(3)	(4)	(5)
31.12.92	3825.00	2185.00	57.12	42.88
31.12.93	3690.00	3112.00	84.34	15.66
30.01.94	3888.00	2471.00	63.55	36.45
31.06.95	4260.00	2685.00	63.03	36.97
31.12.96	5281.23	3004.57	56.89	43.11
31.12.97	6535.00	3321.00	50.82	49.18
31.03.98	6589.00	3712.00	56.34	43.66
31.03.99	8125.00	4525.00	55.69	44.31

Source: SLBC Records, Meghalaya, 1992-99.

The table 5:4 shows that in all the years, SBI has crossed the stipulated norm of 40% in their advances to Priority Sector. The percentage share of advances to Priority Sector in the total advances reached the peak at 84.34% in the calendar year 1993. Thereafter it shows a downward trend continuously for four years when it reached the lowest at 50.82 % in the calendar year 1997. During this year, more loans could be advanced to Personal and Commercial Sector. SBI has got more branches in the state as compared to the other banks and this had caused the advances to Priority Sector to figure high in the table. In fact, the percentage had dropped down from 57.12% in 1992 to 55.69% in 1998-99.

The SBI in Meghalaya as at the end of March '99 was earning profits. Hence, it was not a problem for the bank to cross 40% in their advances to Priority Sector.

SBI branches in Meghalaya

As on 31.3.99, the number of SBI branches stood at 85. Of these, 28 are in Khasi Hills, 5 in Jaintia Hills, 43 in Garo Hills and 9 in Ri Bhoi District. The list of SBI branches in Meghalaya is furnished in the following page.

LIST OF SBI BRANCHES IN MEGHALAYA

AS ON 31.12.99

REGION - I

A. EAST KHASI HILLS	B. WEST KHASI HILLS
(i) Barabazar	(i) Mawnai
(ii) DGAR (Assam Rifles)	(ii) Mairang
(iii) G S.Road	(iii) Mawkyrwat
(iv) Garikhana	(iv) Nongstoin
(v) Happy Valley	(v) Ranikor
(vi) Kench's Trace	
(vii) Laitumkhrach	C. JAINTIA HILLS
(viii) Mawlai Datbaki	(i) Jowai
(ix) Meghalaya Secretariat	(ii) Amlarem
(x) Malki	(iii) Dawki
(xi) Polo Bazar	(iv) Mynso
(xii) Cherrapunjee	(v) Raliang
(xiii) Jongksha	
(xiv) Laitkor	
(xv) Laitryngew	
(xvi) Mawsynram	
(xvii) Mawngap	
(xviii) Pynursla	
(xix) Pomshutia	
(xx) Thynroit	
(xxi) Mawlong	

REGION - II

A. East Garo Hills		B. West Garo Hills	
(i) Bajengdoba	(i) Tura Bazar	(xiv) Hallidayganj	
(ii) Bainadubi	(ii) Chandmari	(xv) Garobadha	
(iii) Mendipathar	(iii) Dobasipara	(xvi) Betasing	
(iv) Resubelpara	(iv) New Tura	(xvii) Ampati	
(v) Rongsak	(v) Rongram	(xviii) Borkona	
(vi) Samanda	(vi) Jengtal	(xix) Upper Damalgiri	
(vii) Williamnagar	(vii) Dadenggiri	(xx) ZikZak	
(viii) Mendal	(viii) Tikrikilla	(xxi) Nogorpara	
(ix) Songsak	(ix) Sellsella	(xxii) Mahandraganj	
(x) Adokgiri	(x) Phulbari	(xxiii) Kalaichar	
(xi) Kharkutta	(xi) Chibinang	(xxiv) Brengapara	
(xii) Mangsang	(xii) Rajabala	(xxv) Purakasia	
(xiii) Rongjeng	(xiii) New Baitbari		

C. South Garo Hills	
(i) Chokpot	(iv) Nangwalbibra
(ii) Gasuapara	(v) Rongara
(iii) Baghmar	

REGION - V

1. Ri Bhoi District	
(i) Barapani	(vi) Jorabat
(ii) Umroi Canteen	(vii) Khanapara
(iii) Nayabunglow	(viii) Zeropoint
(iv) Nongpoh	(ix) Patharkmah
(v) Byrnihat	

Note: Regions III and IV relate to Mizoram and Nagaland respectively.

Source: Data collected from SBI Regional Office, Shillong.

Concluding Remarks

C-D Ratio

The overall performance of the State Bank of India in the state of Meghalaya is far from satisfactory. There has been a sharp decline in the C-D ratio. The C-D ratio has not reached even 20%. This has become a matter of great concern.

The Assistant General Manager, Reserve bank of India recently observed that while deposits mobilised by the SBI have gone up, its credit performance was not improving. He also opined that while Government sponsored schemes might have some impact towards improving C-D ratio, banks and government agencies concerned should work in close co-ordination to find out some big projects for investment. He also suggested to find out ways and means that would help bankers to finance trade, housing, transport operations and other activities. The avenues for fresh loans have to be expanded in the state.²

The SBI being the predominant bank in the State could sincerely look into the internal causes of its low C-D ratio and take steps to identify more viable projects and extend finance to them. In the course of our investigation, we came across information that certain small industries have been denied loans by the SBI and all other banks even where the recovery of loans was assured. It is the task of the SBI being the Lead Bank in the state to rectify the lacunae.

C+I:D ratio

In fact, the C-D ratio alone cannot be taken as a real indicator of banking development. Since investment is also an influencing factor of economic development, investment has also to be taken into account for assessing the performance of bank. Therefore, Credit+Investment:Deposit (C+I:D) ratio can be considered as a better indicator of bank performance. The C+I:D ratio for the SBI as on 31.03.99 stood at 37.03%. This calls for the bank to look for more investment opportunities in increasing its level of investment and thereby raising C+I-D ratio in the State.

Low Recovery Rate

The low recovery rate is one of the factors that hinders the operation of the SBI. There are many factors that contribute to low recovery rate. Some of them are (i) improper selection/identification of applicants (ii) lack of supervision on the part of the bank (iii) ignorance on the part of rural borrowers and (vi) political pressure.

In order to improve recovery performance of the bank, the borrowers have to be properly educated about being misguided by political vested interest. They should rather be made familiar with the procedures of timely repayment of the loans so that they would be sooner or later free from debt burden. It also happened that some borrowers in remote areas refused altogether to repay the loans. All these have to be

taken up by the bank seriously, otherwise, the situation is going to deteriorate further.

The above problems however, cannot under-estimate the great role played by the SBI in Meghalaya. It has emerged as a very important bank in providing financial assistance to different sectors in the state. The SBI has the largest number of branches in the state and it has accounted for a major chunk from the total deposits and advances constituting about 36% and 29% on 31.3.1999 made by all the banks in the state. Hence, the importance of its role in the state's economy can hardly be over-emphasized.

MEGHALAYA CO-OPERATIVE APEX BANK LIMITED (MCAB)

Introductory

In India, Co-operative Banking came into existence in the early part of the 20th century. During the British rule the Madras government appointed Sir F. Nicholson to conduct a special enquiry with regard to the establishment of co-operative credit societies. This was done with an aim at meeting the credit needs of the agriculturists and also to encourage the habit of thrift and self-help. Dupernex, who was appointed by the U.P. government also suggested the establishment of co-operative credit societies under the patronage of the government. But this had to wait till the

report of the committee appointed under Sir Edward Law by Lord Curzon and the Co-operative Credit Societies Act was passed in 1904. Thus began the Co-operative Movement in India in 1904. The objective of the Act was to establish co-operative credit societies to "encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means".

According to the Act of 1904, a co-operative credit society could be instituted for a village or a group of villages or for a tribe or caste. The sources of funds are fees, sale of shares, deposits from members and loans from outside. Only the members of the society would get loans. There are two types of societies classified by the Act - rural and urban. The distinction between the two is based on the membership i.e., 4/5th of the members being agriculturists or non-agriculturists. A rural co-operative credit society was required to keep all its profits in a reserve fund. On the contrary the urban co-operative credit societies were required to transfer only 4/5th profits to a reserve fund. The remaining 1/5th was allowed to be distributed as dividend among shareholders.

The Provincial Government was empowered by the Act to appoint a Registrar of Co-operative Credit Societies for every province. The task of the Registrar included organisation, registration and supervision of co-operative credit societies. Under the Act of 1904, a number of small primary credit

societies were set up in several parts of the country. Unfortunately, these societies could not meet the growing demand for loans by the members. This led to the passing of a new Act in 1912. The Co-operative Societies Act, 1912 provided for the establishment of a Central Co-operative Bank or the banking unions with headquarters in urban centres. By 1912 there were about 8,000 co-operative societies with 4 lakhs members and Rs. 3.5 crores of working capital. The Act made provisions for starting co-operative societies for other purposes other than credit. As a consequence, irrigation societies, joint farming societies, better living societies and so on were started. The Act of 1912 removed the old distinction between rural and urban societies and introduced a new classification viz., societies with limited liability. The Provincial governments were also empowered to formulate rules and laws for smooth functioning of Co-operative societies.

In 1914, the Government of India appointed a Committee under Sir Edward Maclayan to survey the progress of co-operation movement in the country. The committee submitted its report in 1915, with several recommendations. The most important recommendation of the Maclayan committee pertained to the establishment of Provincial Co-operative Banks (Apex Banks). Most of the provinces established Provincial Co-operative Banks to serve as an apex at the head of Co-operative Credit Societies.

Under the Montague - Chelmsford Reform Act, 1917, the Provincial governments laid great emphasis on primary co-operative credit societies, unions and central banks and on apex banks. They also implemented several measures for the spread of co-operative movement and they appointed committees of enquiry that made important suggestions.

In 1926, the Royal Commission on Agriculture studied the progress of Co-operative movement in India and found out that the main hindrance to the co-operation movement was the lack of education and adequate supervision. According to the Commission, it would be better to set up single -purpose societies rather than multi-purpose societies. The Committee of Enquiry appointed by the Madras government in 1927 suggested the division of agriculture loans into short-term and long-term loans, conversion of loan and sale societies into full-fledge marketing societies, etc. By 1932-33 there were more than 1.05 lakhs co-operative societies in India with working capital amounting to Rs. 95 crores. The membership rose 4.2 million during the same period.

During the Great Depression of 1929-33 the co-operative Movement had to face several difficulties. Such problems were increase in over dues due to fall in agriculture prices and the decline in working capital. This led the government of India to hold an All-India Co-operative Conference in Delhi in

the year 1934. The conference recommended several measures and one of the recommendations was the passing of All India Co-operative Societies Act and of Central Co-operative Board under the Central government.

The Co-operative banking in India is a three-tier system. At the top there is the state co-operative bank which is the apex bank at the state level. At the intermediate level there are the central unions or the central co-operative banks. At the third level there are primary credit societies which cover the small towns and villages.

In the present structure of co-operative banking, the co-operative credit institutions can be classified into two broad categories - agricultural and non-agricultural. The major portion of the credit facilities are provided by agricultural credit institutions. They are sub-divided into long-term and short-term agricultural credit institutions. They are of a three-tier federal structure: (a) at the apex, there is the State Co-operative Bank in each state, (b) at the district level there are central co-operative banks, (c) at the village level, there are primary agricultural credit societies.

The state co-operative banks (SCBs) occupy a distinct and higher position in co-operative banking. Their functions are (a) they provide a link through which the Reserve Bank of India supplies credit to the co-operatives, (b) they mobilise the surplus funds of central co-operative banks as these banks

are not allowed to borrow or lend among themselves and (c) they control, supervise and finance the central co-operative banks and through them, the primary credit societies.

At the district level, the Central co-operative banks are classified under two categories: (i) co-operative banking unions whose membership is opened only to co-operative societies. Such co-operative unions can be found in Haryana, Punjab, Rajasthan, Orissa and Kerala. (ii) mixed central co-operative banks whose membership is opened to both individuals and co-operative societies. The rest of the states have this type of co-operative bank. Loans are being provided by central co-operative banks to primary co-operative banks and in certain cases to individuals and others.

The Primary Agricultural Credit Society (PACS), is a village level institution and it is directly related to the rural credit needs. Its functions are to encourage savings, accept deposits, advancing loan and collect payments. It also acts as an intermediary between the ultimate borrowers i.e., rural people, on the one hand, and the higher agencies i.e., central co-operative bank, state co-operative bank and the Reserve bank of India on the other hand.

Land Development Banks (LDBs)

The Land development banks provide long-term agricultural credit. The Land development banks too are also

functioning at of three levels. At the top there is the State Land Development Banks(SLDBs), in the middle, the Central Land Development Banks(CLDBs) and at the third level, the Primary Land Development Banks(PLDBs).

The first land development bank came into existence in the year 1920 in Jhang (Punjab). Unfortunately, it could not function well. The second land development bank was set up in Tamil Nadu in 1925. At the beginning of the First Five Year Plan, there were only five CLDBs operating in Madras, Bombay, Mysore, Orissa and Cochin. By the second plan all states had an apex land development bank.

At present, the LDBs have a two-tier structure: (a) at the state level, there are state or central land development banks, which were formerly known as central land mortgage banks (b) at the local level there are branches of the state land development banks and the primary land development banks. The primary land development banks differ from state to state. The land development banks at the national level have also formed a union called the All-India Land Development Banks Union.

The land development banks derive their funds from share capital, reserves, deposits, loans and advances, and debentures. The LDBs grant long-term loans on the security of agricultural properties. The period of the loans runs to several years, say 20 to 30 years. The amount of loans raised by these

banks was Rs. 867 crore in 1991-92. In recent years the farmers have been borrowing from the LDBs for improvement of land, for the purpose of sinking wells, for purchase of agricultural implements and costly machinery.

The co-operative credit societies have made a remarkable progress in spite of many bottlenecks. The main hindrance is the scarcity of funds. It was difficult for them to raise funds from the market by selling shares and debentures. Their organisation is complex and beyond understanding of common people, who found it difficult to organise them. Another factor which stands on the way is the prevalence of different land systems in different states. Therefore, Land Mortgage banks were found to be useless for the vast majority of cultivators in India.

Co-operative banks in Meghalaya

Prior to the creation of the Meghalaya State in 1972, the Assam Co-operative Apex Bank Ltd. was set up on the 7th December, 1948 at Shillong. The Shillong Urban Co-operative Bank Ltd. came into existence with effect from 8th February, 1965.

The Co-operative movement in the United Khasi & Jaintia Hills District in the 1960's did not progress much. During 1968-69, there were 444 Co-operative Societies in the district. The different types of Co-operatives in existence at

the end of 1969 is given in the following table 5:5.

TABLE 5:5
CO-OPERATIVE SOCIETIES IN MEGHALAYA AS ON
DECEMBER 1969

Types of Co-operative Societies	No. of Co-operative Societies	Total No. of Members	Share Capital (Rs)
Service Co-Operatives	115	4,331	86,226.00
Rural Credit Societies	34	1,462	29,780.00
Credit Union	9	184	11,735.00
Marketing Societies	49	3,175	4,89,278.00
Farming Societies	11	254	16,945.00
Consumer's stores	38	5,216	1,44,891.00
Industrial Co-operative	62	2,513	1,73,545.00
Multipurpose Co-operative	22	744	48,612.00
Weaving Co-operative	12	922	4,280.00
Trading Co-operative	13	1,505	38,045.00
Urban Credit Societies	39	7,694	9,96,660.00
Other types	19	743	8,700.00
Fishery Co-operatives	6	232	29,510.00
Milk Producer's Co-operatives	15	258	26,158.00
Total	444	29,233	21,04,365.00

Source: Assistant Registrar, Co-operative Societies , Shillong.

The above table shows that the Service Co-operatives had the largest number of societies as at end of 1969 followed by Industrial Co-operatives. But the Urban Credit Societies

had the largest number of members with the largest amount of share capital at Rs. 9,96,660.00 as on the same date.

The amount of loans issued by the different types of co-operative societies during 1968-1969 is given in the following table 5:6 next page.

The table 5:6 reflects an amount of Rs. 7,19,595.00 was extended by the Co-operative Societies during 1968-69. The largest amount of Rs. 6,36,600.00 was advanced by the 39 Urban Credit Societies and the lowest amount of Rs. 4000.00 was extended by the 11 Farming Societies.

TABLE 5:6
LOANS AND ADVANCES DURING 1968-69

Name of Societies	Number of Societies	Loans and Advances issued (Rs)
Service Co-operatives	115	31,830.00
Rural Credit Societies	34	24,780.00
Credit Unions	9	5,000.00
Farming Societies	11	4,000.00
Urban Credit Societies	39	6,36,600.00
Milk Producers Co-operatives	15	17,385.00
Total	224	7,19,595.00

Source: Assistant Registrar, Co-operative Societies, Shillong.

After the creation of a separate Autonomous state of Meghalaya on the 2nd April, 1970, the Government of

Meghalaya established a State Co-operative Bank which was registered in Shillong on the 6th February, 1971 under the name "Meghalaya Co-operative Apex Bank Ltd" (MCAB). The bank was incorporated under the Meghalaya Co-operative Societies Act.³ The bank started its operation from 1st July, 1971 after obtaining a licence from the Reserve Bank of India under section 56 of the Banking Regulation Act, 1949. The main objectives of the bank are as follows:

- (i) To promote the economic interest of the co-operatives according to the Co-operative principles.
- (ii) Promoting banking and thrift among the people by extending banking services in the rural and semi-urban area through branches and the affiliated co-operative societies which are spread all over the state.
- (iii) To finance the co-operative institutions, particularly the agricultural credit societies for the ultimate benefit of the agriculturists and other weaker sections of the state.
- (iv) To serve as a banking centre for all co-operatives in the State.
- (v) Performing other general banking services.

The Meghalaya Co-operative Apex Bank took over the assets and liabilities of the Shillong and Tura branches of the Assam Co-operative Bank which were shifted to Gauhati on the re-organisation of the State of Assam. The bank has been

launching new schemes and programmes from time to time to cater to the needs of the public in general and the farmers and weaker sections of the rural and urban areas in particular.

The MCAB inherited all the weaknesses of the Co-operative credit structure of the composite state of Assam, as far as the areas falling within the newly constituted state of Meghalaya are concerned. The Assam Government had organised 472 credit and non-credit societies prior to the creation of the state of Meghalaya. The majority of these societies were in a critical stage due to many problems faced by them. Some of the problems are:

- (i) Ill Management
- (ii) Lack of supervision
- (iii) Poor agricultural production
- (iv) Absence of transport facilities
- (v) Lack of co-operative education
- (vi) Concentration of power on a few hands

In Meghalaya, a two-tier co-operative credit structure has been working with the Apex Bank at the top and the Service Co-operative Societies (SCSs) at the base level. There is no separate land development bank in the state. The medium and long-term credit needs of the farmers have to be taken care of by the Meghalaya Co-operative Apex Bank through its land development banking division. This division was established in 1977. An Industrial Wing was also set up to

finance industrial and weaver co-operative societies under a trained personnel. In addition to land development section and industrial wing, there are five state level co-operative organisations. They are as follows:

1. Meghalaya State Co-operative Marketing and Consumer's Federation Ltd.
2. Meghalaya State Co-operative Union.
3. Meghalaya State Co-operative Housing Financing Society.
4. Meghalaya State Co-operative Handloom Weavers and Handicrafts Federation Ltd.
5. Meghalaya Supervision and Cadre Management Co-operative Society Ltd.

At present, there are many co-operative institutions carrying on banking transactions in the state. The number of credit societies has increased to 241 and non-credit societies to 550. The credit societies have a total membership of 1,21,000 while the non-credit societies have a membership of 49,000.⁴ The Meghalaya Co-operative Apex Bank is now functioning with 37 branches. When the Co-operative Apex Bank started its banking business in 1971, there were only two branches, one at the headquarters (Shillong) and the other at Tura. This reveals that the number of branches has increased by 1700%. The details of branches and the number of members of the staff during 1972-1991 are shown next page in the following table 5:7.

TABLE 5:7
Number of Branches and Staff of the MCAB
during 1972-1999

YEAR	NUMBER OF BRANCHES	NUMBER OF STAFF
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
1972	2	48
1973	3	55
1974	4	67
1975	6	53
1976	8	97
1977	10	109
1978	11	159
1979	11	170
1980	14	188
1981	16	254
1982	17	322
1983	21	364
1986	23	414
1987	24	414
1988	25	419
1989	26	426
1990	26	430
1991	27	463
1992	28	483
1993	30	522
1994	31	535
1995	32	535
1996	34	544
1997	35	548
1998	36	552
1999	37	554

Source: MCAB SILVER JUBILEE SOUVENIR, 1971-1996

The table 5:7 shows that the number of branches of the Bank has increased from 2 in 1972 to 37 in 1999. The number of member staff has increased from 48 to 554 during the same period.

Most of the agricultural loans which were outstanding at the time of transfer of assets and liabilities from the Assam Co-operative Apex Bank to the Meghalaya Co-operative Apex Bank turned out to be bad and could not be recovered. In spite of this, the Meghalaya Co-operative Apex Bank had to carry on its mission in meeting short-term agricultural loans to the existing credit societies. After lending for some years, the Meghalaya Co-operative Apex Bank took up the issue of re-organisation of the Primary Agricultural Credit Societies with the state government. A Master Plan was formulated by the Reserve Bank of India in 1974 after consultation with the state government and the Meghalaya Co-operative Apex Bank for re-organisation of base level primary co-operatives. The implementation of the Master Plan had brought about the emergence of 180 re-organised service Co-operative Societies in the entire state. These 180 societies cater to the credit needs of 1,29,611 members residing in 5164 villages.⁵ All the 180 re-organised Service Co-operative Societies have their own full-time secretaries. Their main functions are provision of credit, distributing seeds, fertilisers and other inputs, supplying consumer goods, marketing of agricultural products and so on.

The bank has been providing financial assistance for agriculture and allied services such as land development, minor irrigation, farm-mechanisation, piggery, poultry, goatery, dairy, horticulture and plantation schemes. In addition, the bank has been extending financial assistance for

procurement and marketing, handloom and weaving, transport, housing, consumer durables, tourism development and various other approved economic activities. Besides extending credit facilities, the bank has been rendering other services too, such as advancing loans against Term Deposits, collection of cheques and bills, issue of bank drafts, banker's cheques and other facilities. Apart from these, the MCAB has been extending refinance assisting the credit needs of their members. The MCAB has also been providing finance to whole-sellers dealing in fair price commodities, doctors, chartered accountants and others. Programmes have been conducted by the bank for the un-employed youth according to the guidelines issued by the RBI/NABARD from time to time.

The financial position etc., of the MCAB from 1972 to 1991 is given in the table 5:8 on the next page:

It can be seen from the table 5:8 that the paid-up share capital of the bank rose from Rs. 17.27 lakhs in 1972 to Rs. 171.77 lakhs in 1991. Reserve fund and other reserves increased from Rs. 0.01 lakh to Rs. 98.13 lakhs. Deposits rose from 108.89 lakhs to Rs. 5834.05 lakhs, registering a growth of 52.58 %. Borrowing rose from Rs.40 lakhs in 1973 to 344.51 lakhs in 1991. Cash and bank balances stepped up from Rs. 83.75 lakhs in 1972 to Rs. 519.05 lakhs in 1991. Money at call and short notice increased from Rs. 7.00 lakhs to Rs. 2413.49 lakhs during the same period. Investment in Securities rose from Rs. 8.00 lakhs to Rs. 1231.97 lakhs. The

amount of loans extended by the bank jumped from Rs. 25.60 lakhs in 1972 to Rs. 2012.47 lakhs in 1991. The net profit of the bank rose from Rs. 0.22 lakhs in 1972 to Rs. 9.52 lakhs in 1991. The C-D ratio worked out to be 23.50 % in 1972 and 34.49% in 1991. The table also shows that the highest amount of net profits was earned in 1982, which stood at Rs. 12.68 lakhs.

TABLE 5:8
FINANCIAL POSITION OF
MEGHALAYA CO-OPERATIVE APEX BANK LIMITED
(1972 to 1991)

(Rs.in lakhs)

YEAR	PAID-up share capital	Reserve Fund & Other Reserve	Deposits	Borrowings	Cash & bank Balances	Money-at-call & Short Notice.	Investment in Govt.& Trustee Securities	Loans & Advances	Working capital	Net Profit	C-D Ratio
1972	17.27	0.01	108.89	-	83.75	7.00	8.00	25.60	129.52	0.22	23.50
1973	22.96	0.01	197.04	40.00	61.42	86.00	23.19	86.48	268.05	0.58	43.88
1974	33.03	2.83	214.78	-	40.64	57.00	30.49	110.18	258.30	0.73	51.29
1975	37.71	7.14	240.70	-	37.46	52.00	40.62	136.39	297.00	0.85	56.66
1976	42.98	4.77	281.81	25.00	38.44	100.00	51.55	147.96	366.98	1.02	52.20
1977	51.46	6.35	325.16	15.12	40.02	100.00	63.61	175.12	417.17	1.18	53.85
1978	64.29	6.35	425.52	11.01	73.34	114.00	65.71	223.00	536.70	8.54(L)	52.40
1979	72.27	9.20	530.84	33.10	84.15	162.00	74.71	290.67	688.38	2.87(L)	54.75
1980	75.22	2.76	699.84	32.60	139.54	221.00	85.71	347.81	885.77	.65	46.69
1981	82.84	6.16	739.42	33.06	79.29	237.00	165.71	340.91	942.29	0.86	46.10
1982	87.77	27.22	880.92	28.92	83.94	269.00	192.71	457.38	1086.97	12.68	51.92
1983	100.85	28.22	1081.09	39.26	119.03	232.50	225.61	628.65	1317.34	2.76	58.14
1984	110.83	-	457.65	35.09	138.80	382.00	343.62	710.69	1720.75	1.48	48.75
1985	119.35	39.83	1734.35	30.42	139.43	437.00	418.66	901.64	2024.05	3.58	51.98
1986	128.91	44.34	2041.65	44.02	168.03	458.00	495.73	1051.23	2351.56	2.74	51.48
1987	135.08	47.48	2521.58	35.50	220.80	666.00	597.96	1137.66	2887.81	2.82	45.11
1988	140.11	64.6	3003.78	47.02	268.85	809.00	720.96	1261.34	3426.32	3.48	41.99
1989	144.09	70.46	3895.59	131.68	352.18	1219.00	912.97	1472.40	4457.95	3.78	37.79
1990	161.17	79.24	4803.61	173.64	403.22	1596.00	1142.97	1761.20	5518.27	5.73	36.66
1991	171.77	98.13	5834.05	344.51	519.05	2413.49	1231.97	2012.47	6829.57	9.52	34.49

Source:MCAB Silver Jubilee Sovenir, 1971-96

Position from 1991-92 to 1998-99

The performance of the MCAB in terms of the total deposits mobilised, total advances extended and C-D ratio of the bank from 1991-92 to 1998-99 is depicted in the following table.

TABLE 5:9
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF THE MCAB
DURING 1991-92 TO 1998-99

(Rs. in lakhs)

Year	Deposits		Advances		Credit Deposit Ratio	
	Total Deposits Mobilised	Growth Rate(%)	Total Advances Disbursed	Growth Rate(%)	C-D Ratio (%)	Growth Rate(%)
31.03.92	7512.41		2943.00		39.18	
31.03.93	7153.31	-4.78	2823.75	-4.05	39.47	0.29
31.03.94	8095.75	13.17	3779.41	33.84	46.68	7.21
31.03.95	9770.00	20.68	4092.00	8.27	41.89	-4.79
31.03.96	13083.75	33.92	4850.97	18.55	37.08	-4.81
31.03.97	15381.29	17.56	5390.67	11.13	35.05	-2.03
31.03.98	16628.41	8.11	6506.96	20.71	39.13	4.08
31.03.99	20509.29	23.34	7764.86	19.33	37.86	-1.27

Source: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) MCAB, Shillong, 1999.

The above table 5:9 shows the increase in the amount of deposits mobilised by the bank from year to year except for 1992-93. Deposit mobilisation rose from Rs. 7512.41 lakhs in March'92 to Rs. 20509.29 lakhs in March'99 recorded a

growth rate of 173 %. The highest growth rate of deposits stood at 33.92% in 1995-96, when deposits jumped from Rs. 9770.00 lakhs in March'95 to Rs. 13083.75 lakhs in March'96. It was the lowest at -4.78 % in 1992-93, when deposits declined from Rs. 7512.41 lakhs in March'92 to Rs. 7153.31 lakhs in March'93. Total advances disbursed by the bank rose from Rs. 2943.00 lakhs in March'92 to Rs. 7764.86 lakhs in March'99, registered a growth rate of 164 %. It increased from year to year except for 1992-93. The growth rate of advances reached the peak at 33.84% during 1993-94, when there was a sudden jump in advances from Rs. 2823.75 lakhs in March'93 to Rs. 3779.41 lakhs in March'94. It was the minimum at -4.05 % in 1992-93. The decline in advances during this year was due to the - 4.78 % fall in deposits. The C-D ratio of the bank increased from 39.18% in March'92 to 37.86% in March'99. It was the highest at 46.68 % during 1993-94 brought about by the maximum growth rate in advances of 33.84%. The C-D ratio was the lowest at 35.05 % in 1996-97. This is because the increase in advances of 11.13 % was less than the increase in deposits of 17.56% by 6.43% during 1996-97. The growth of C-D ratio was the highest at 7.21% in 1993-94 and the lowest at -4.81 % in 1995-96. The bank achieved a higher C-D ratio than other banks almost every years. As on 31.03.99, the C-D ratio of the bank was higher than the state average of C-D ratio which stood at 20.54%.

The statistical data of MCAB with regard to total deposits, total advances and credit-deposit ratio were fitted which yields the following equation.

$$\begin{array}{llll}
 Y_1 & = & 5556.95 & + e^{0.16E} & R^2 & = & 0.9567 \\
 Y_2 & = & 2343.62 & + e^{0.15E} & R^2 & = & 0.9749 \\
 Y_3 & = & 42.17 & + e^{-0.02t} & R^2 & = & 0.1846
 \end{array}$$

Where Y_1 is total deposits, Y_2 is total advances and Y_3 is Credit-deposit ratio. The summary of results are given as follows.

Summary of Results

DEPENDENT VARIABLE(Y)	$a e^{rt}$	R^2
(i) Total Deposits (Y_1)	0.016	0.9567
(ii) Total Advances (Y_2)	0.015	0.9749
(iii) Credit-Deposit Ratio (Y_3)	-0.02	0.1846

The about result reveals that the exponential growth rate of total deposits, total advance and C-D ratio stood at 16%,15% and -02% respectively for the eight years under study. The result above also indicates that 95.67 % of the total variations in total deposit, 97.49 % of the total variations in total advances and only 18.46 % of the total variations in credit – deposit ratio are explained by time factor. The variations to the extent of 04.33 % in total deposit, 02.51 % in total advances and 81.54 % in credit deposit ratio are not explained by time factor or are accounted

by other factors besides time.

The variations in total deposits, total advances and credit – deposit ratio and the Coefficient of Determination (R^2) are as follows:

VARIATIONS	TOTAL DEPOSITS	TOTAL ADVANCES	CREDIT-DEPOSIT RATIO
(i) Explained Variations	95.67	97.49	18.46
(ii) Unexplained Variations	04.33	02.51	81.54
(iii) Total Variations	100.00	100.00	100.00
R^2	0.9567	0.9749	0.18.46

The above result indicates that the linear relationship in both total deposits and total advances is a good fit to the data. The linear relationship in the case of credit–deposit ratio is not a good fit to the data.

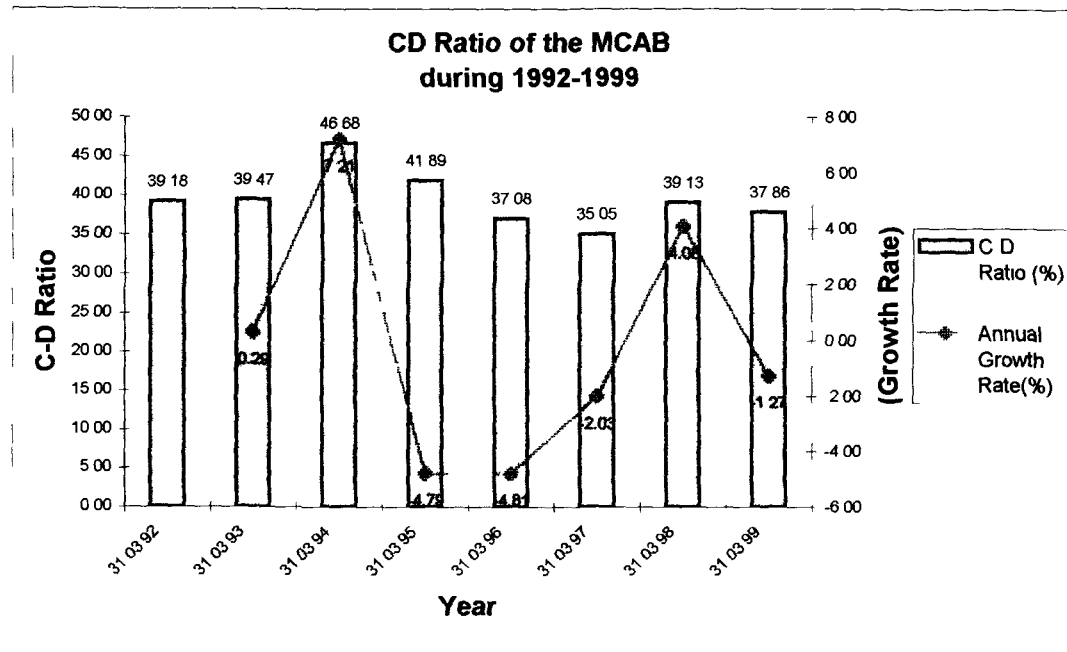
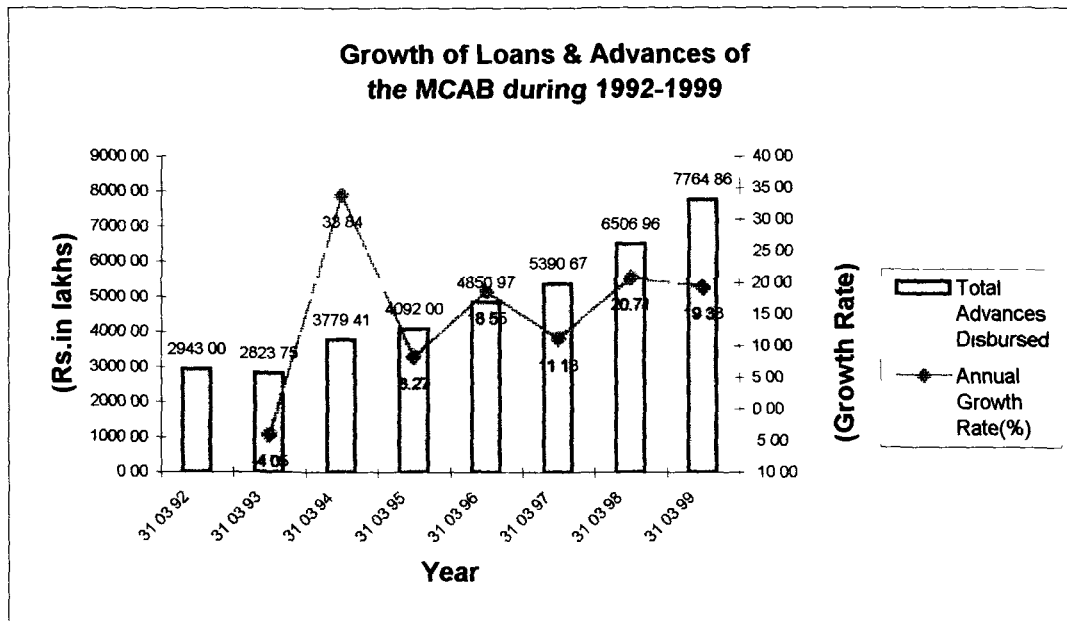
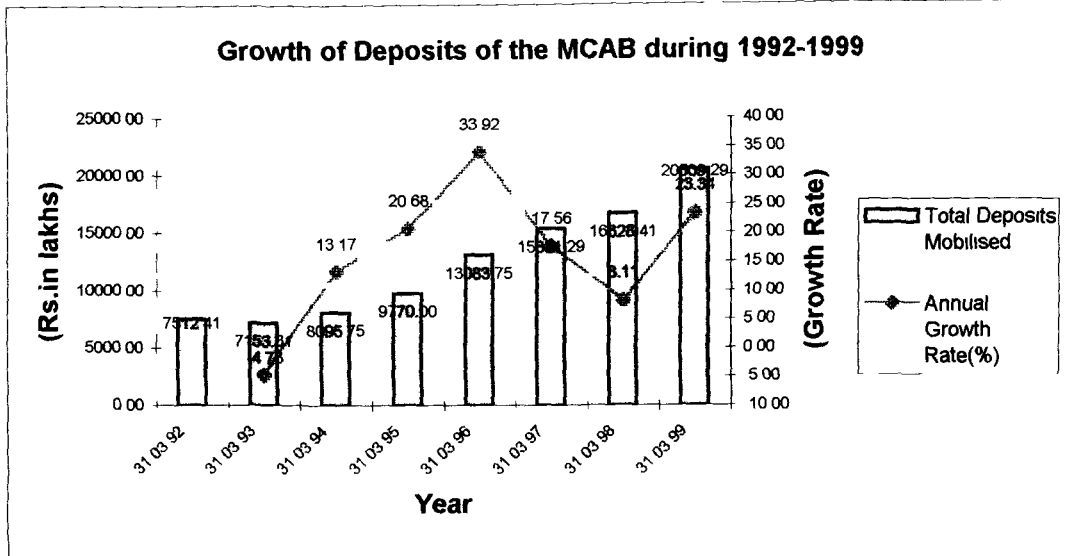
The graphical representation of the performances of the MCAB is also shown in Fig.II on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the MCAB in total deposits, total advances of all Banks is depicted in table 5:10 on the next page.

In the total deposits mobilised by all the banks in the state as on 31.03.92, the MCAB accounted for a share of

Figure - II



14.97%. In the total advances disbursed by all the banks it accounted for a share of 27.93% as on the same date.

TABLE 5:10
SHARE OF MCAB IN TOTAL DEPOSITS AND TOTAL ADVANCES

(Rs. in lakhs)

Year	Total Deposits Mobilised by all the Banks	Total Deposits Mobilised by the MCAB	Percentage of MCAB	Total Advances Disbursed by all the Banks	Total Advances Disbursed by the MCAB	Percentage of MCAB
(1)	(2)	(3)	(4)	(5)	(6)	(7)
31.3.92	50196.15	7512.41	14.97	10536.79	2943.00	27.93
31.3.93	53330.82	7153.31	13.41	10781.59	2823.75	26.19
31.3.94	66842.21	8095.75	12.11	13163.94	3779.41	28.71
31.3.95	76030.00	9770.00	12.85	14464.76	4092.00	29.28
31.3.96	88292.23	13083.75	14.82	15660.86	4850.97	30.96
31.3.97	105641.22	15381.29	14.56	18572.36	5390.67	29.03
31.3.98	125635.85	16628.41	13.24	21386.46	6506.96	30.43
31.3.99	135697.56	20509.29	15.11	27873.44	7764.86	27.86

Source: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *SLBC Records*

The table 5:10 shows that the percentage share of MCAB in total deposits mobilised by all the banks in Meghalaya fluctuated from time to time. It was 14.97 as on March' 92 and declined during the succeeding two years and increased again in 1995 but not to the level as in 1992. It fell again in the succeeding two years and then rose to 15.11 in 1999. The performance of the MCAB in the percentage share of deposits mobilised tends to be constant in spite of the fact that there

was an increase in the number of its branches while the number of other banks' branches remains constant from 1994 onwards. The decline in the percentage share is because the increase in all banks' deposits of 25.33% was greater than the increase in the MCAB's deposits of 13.17% during 1993-94.

The percentage share of the bank in total advances also fluctuated from time to time. It was almost 28 in 1991-92 which declined by about 26 in the following year. Thereafter it rose marginally for three consecutive years from 1993-94 to 1995-96. It fell in the subsequent year 1996-97 and rose again in 1997-98 but declined in 1998-99.

As shown in the table 5:10, the percentage share of the bank in total advance was higher than the percentage share of the bank in total deposits. This is the only bank in which the percentage share of advances was greater than the percentage share of deposits right from 1992-93 to 1998-99 as can be seen in the analysis of each individual bank in the succeeding sections.

Advances to Priority Sector

The Priority Sector, Personal and Commercial loans extended by MCAB from December'92 to March'99 is given in the table 5:11 next page.

TABLE 5:11

ADVANCES TO PRIORITY SECTOR BY MCAB

(Rs.in lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of (3) to (2)	Personal Banking and Commercial Finance (%)
(1)	(2)	(3)	(4)	(5)
31.12.92	2779.46	2570.51	92.48	208.95
31.12.93	3099.74	2913.96	94.00	185.78
31.09.94	3879.33	3416.55	91.11	732.78
31.06.95	3873.82	3120.73	80.56	753.09
31.12.96	5491.88	3529.43	64.27	1962.45
31.12.97	6518.19	3992.58	61.25	2525.61
31.03.98	6506.96	3956.30	60.80	2550.66
31.03.99	7764.86	5082.85	65.46	2682.01

Source: SLBC records, Meghalaya, 1992-99.

The above table shows that MCAB being the Co-operative bank, extended more loans to the Priority Sector but at a declining percentage proportion from 1993-94 till 1997-98. The percentage share of Priority Sector advances in total advances declined from 92.48% in December'92 to 60.80% in March'98 and rose again to 65.46 % in the following year. The declines were due to the fact that advances extended by the bank for personal and commercial purposes increased from year to year except in 1992-93. The above table also shows the fluctuations in the Priority Sector advances. The Bank being a Co-operative bank was compelled to advance more loans to Priority Sector. But it had to reduce advances to this Sector during 1996 to 1998 because of the huge losses incurred by the bank during these years and because new

prudential norms as applied to Co-operative banks were introduced by RBI. Complying with these norms the MCAB had to make provisions for the Non-Performing Assets pertaining to un-realised portion of interest and bad and doubtful debts. By 1998-99, the bank again enjoyed a net profit of about Rs. 5.00 lakh and this had enabled the bank to increase its Priority Sector advances during the year.

Expansion of Branches

The total number of bank branches of the MCAB including Head Office stood at 37 as on 31.3.99 which are listed as follows.

1	Shillong	20	Smit
2	Tura	21	Tikrikilla
3	Jowai	22	Mawkyrwat
4	Phulbari	23	Balat
5	Mendipathar	24	Khliehriat
6	Cherrapunjee	25	Iewduh (Shillong)
7	Baghmara	26	Bajengdoba
8	Nongstoin	27	Goeragiri
9	Dawki	28	Mawkhar (Shillong)- women Branch
10	Mairang	29	Meghalaya Civil Secretariat (Shillong)
11	Williamnagar	30	Laitumkhrah (Shillong)
12	Garobadha	31	Araimile (Tura)
13	Rongjeng	32	Pynursla
14	Nongpoh	33	Ladthalaboh (Jowai)
15	Nartiang	34	Bishnupur (Shillong)
16	Dalu	35	Chandmari (Tura)- Women Branch
17	Umsning	36	Mawlai (Shillong)
18	Chokpot	37	Mawiong (Shillong)
19	Mohendraganj		

Concluding Remarks

The Meghalaya Co-operative Apex Bank has become a very important Bank in the State. Since its incorporation on 16th February, 1971 the Bank has been able to extend its services all over the state with 37 branches. The bank has contributed greatly to the growth and development of the state. During the past years the bank has been able to organise farmers into co-operatives and to provide the required credit to the farmers. It has achieved a rapid growth in its resources and advances portfolios and hence it has attained a high place in the economy of the state of Meghalaya. From a tiny bank in 1971, MCAB has emerged as one of the important State Co-operative banks in the North-Eastern Region as well as among the two tier Short-term co-operative credit structure in the country by providing useful services to the farming community, weaker sections of the society and the general public in the State. The bank has been maintaining the highest credit-deposit ratio vis-a-vis commercial and rural banks and has received prestigious National Awards from NAFSCOB for Social Goal Development/ Overall Best Performances.

Recently, the Bank has won the Best Performance Award from the National Bank for Agriculture and Rural Development (NABARD) for the year 1996-97. The winning of this award reflects the good track record of the MCAB right from its inception in 1971. Its CD ratio as on 31st March,

1998 stood at over 39 % as against 14 % of Commercial and other banks.

However, the MCAB as a leader of the co-operative structure in the State, could give more emphasis to revitalisation of primary credit societies and make them instruments of growth in rural areas. The loaning policy and procedures should not be complex but should be simple so that the ordinary farmers can feel at ease in approaching the bank for liberal financial assistance. Short-term loan can be converted into medium term loan and supplied to those farmers affected by natural calamities.

The MCAB is now on a strong footing and it is improving its performance continuously. It has a greater responsibility to step up credit flow in the state in order to meet the emerging needs and also achieve the credit targets in the IX plan. Its role is significant as it is a major player with a dominant presence in the North Eastern State unlike the other credit agencies.

SECTION - B

After analysing the performance of the two premier banks in the preceding section, we shall now take up the analysis of the individual performance of the remaining 15 banks in the alphabetical order.

ALLAHABAD BANK(ALB)

The ALB Bank was set up in Meghalaya in 1974 with only one branch office in Bara Bazar, Shillong. The number of staff stood at 12 as on 31st March 1999. Its performance during the 8 year period is depicted in the following table:

TABLE 5:1
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF ALB BANK
IN MEGHALAYA
DURING 1991-92 TO 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate(%)	Total Advances Disbursed	Growth Rate(%)	C-D Ratio(%)	Growth Rate(%)
31.3.92	364.50		25.20		6.91	
31.3.93	494.48	35.65	38.30	51.98	7.75	0.84
31.3.94	796.00	60.97	48.00	25.32	6.03	1.72
31.3.95	949.00	19.22	54.76	14.08	5.77	-0.26
31.3.96	699.00	-26.34	72.00	30.48	10.30	4.53
31.3.97	600.00	-14.16	69.91	-2.90	11.65	1.35
31.3.98	675.89	12.64	100.39	43.59	14.85	3.20
31.3.99	659.23	-2.46	141.32	40.77	21.42	6.57

Source : Compiled from data collected from:

- (i) Finance Department, Government Of Meghalaya, 1998.
- (ii) *S.L.B.C. Record.*

The table 5:1 shows that the total amount of deposits collected by the Bank in the State as on 31.03.92 aggregated to Rs. 364.50 lakhs. As on 31.03.99 the amount of deposits increased to Rs.659.23 lakhs, recording a growth of 80.86 %. Total advances has registered a growth of 460.79 %, as it increased from Rs.25.20 lakhs to Rs.141.32 lakhs during the same period. The C-D ratio of the Bank has increased from 6.91 % in 1991-99 to 21.42 % in 1998-99.

The table 5:1 also reveals that the highest amount of deposits was collected during 1994-95 which stood at Rs.949.00 lakhs. The lowest amount of Rs.364.50 lakhs was mobilised during 1991-92. The table also shows the increasing trend in the amount of deposits mobilised by the Bank from 1992-95 and the fluctuations during 1996 to 1999, thus reflecting a negative growth for three years.

The total advances disbursed by the Bank, however, reflect the annual growth except for 1996-97 when it fell down from Rs.72.00 lakhs to Rs.69.91 lakhs recording a decline of 2.90 %. The highest amount of advance of Rs.141.32 lakhs was disbursed during 1998-99 and the lowest quantum of loans of Rs.25.20 lakhs was disbursed during 1991-92. The highest growth of advances stood at 51.98 % during 1992-93 and the only negative growth of -2.90 % was during 1996-97.

The table also shows the decline in C-D ratio in the last four years. The highest C-D ratio of the Bank was as at end of

March 1999 at 21.42 %. Growth rate of C-D ratio was negative as on 31st March 1994 and 1995 as the growth rate in total advance was less than the growth rate in total deposits. The growth rate of C-D ratio came down from 4.53 % to 1.35% during 1996-97 because both deposits and advances had decreased during this year. The C-D ratio of the Bank has again gone up in the last two years because of the increase in advances and the relatively higher recovery percentage of the Bank, which stood at 64.56 per cent as on 31.03.99.

As on 31.03.98 the total deposits and advances of the ALB in India aggregated to Rs. 13,541 crores and Rs.5,724 crores respectively, yielding a C-D ratio of 42.27%.⁶ In the State the total deposits and advances of the ALB amounted to Rs. 675.89 lakhs and Rs. 100.39 lakhs. With this quantum of deposits and advances, the C-D ratio worked out to 14.85% which is 27.42% below the All-India average.

The linear relationship between total deposits (Y_1) a function of time (t); between total advances (Y_2) as a function of time (t) and between C-D ratio (Y_3) with time (t) yielded the following equation:

$$\begin{array}{ll}
 Y_1 = 495.08 + e^{0.06t} & R^2=0.2057 \\
 Y_2 = 22.73 + e^{0.22t} & R^2=0.9632 \\
 Y_3 = 4.593 + e^{0.16t} & R^2=0.7445
 \end{array}$$

The results reveals that the exponential growth rate of total deposits, total advances and C-D ratio of the Allahabad Bank during the eight years under study stood at 06%, 22% and 16% respectively. 20.57%, 96.32% and 74.45% of the total variations in Y_1 , Y_2 and Y_3 are explained by time factor. The rest of the three percentages are accounted by other factors besides time.

The graphical representation of the performances of the ALB Bank is also shown in Fig-III on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the ALB Bank in total deposits and total advances of all Banks is shown in table below:

TABLE 5: 2
PERCENTAGE SHARE OF ALB BANK
IN TOTAL DEPOSITS
AND TOTAL ADVANCES OF ALL BANKS

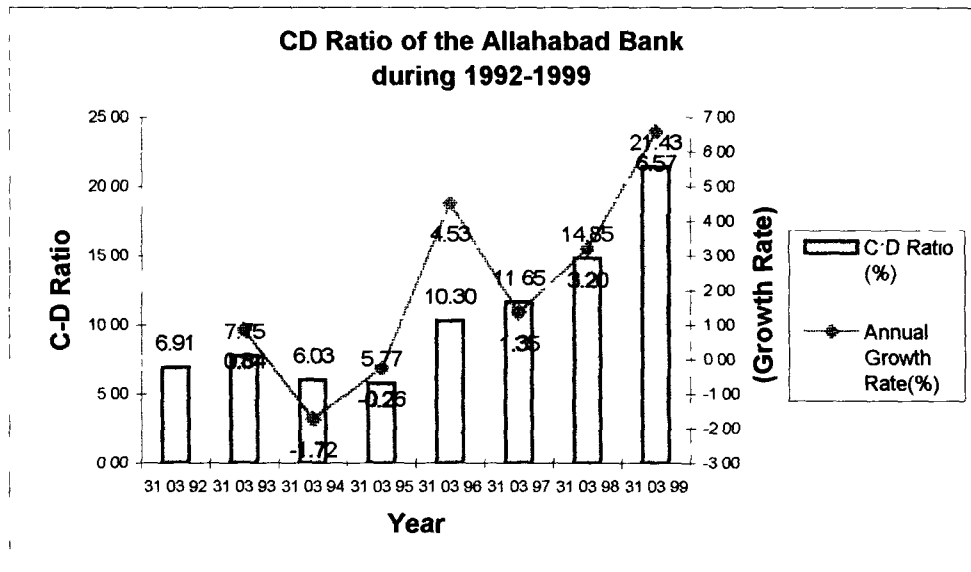
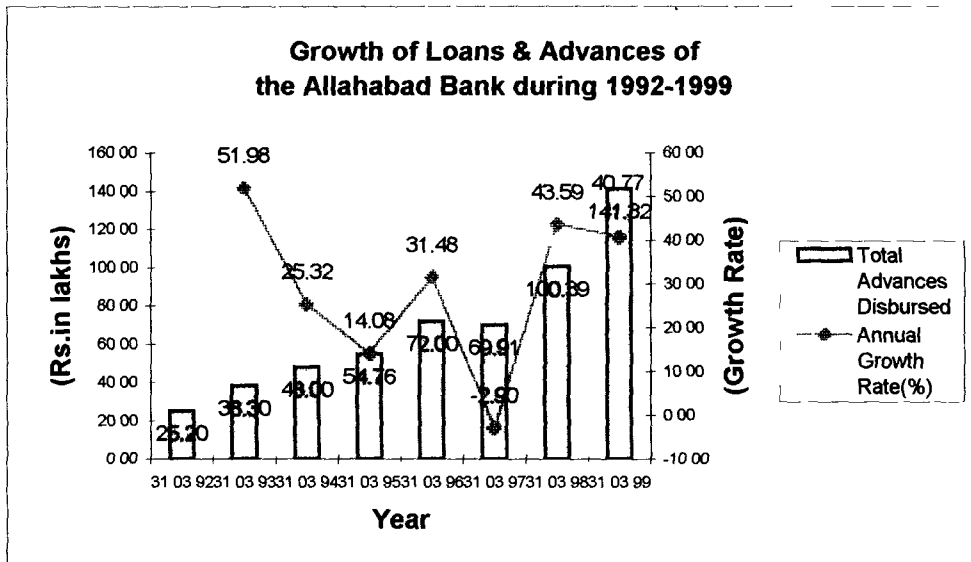
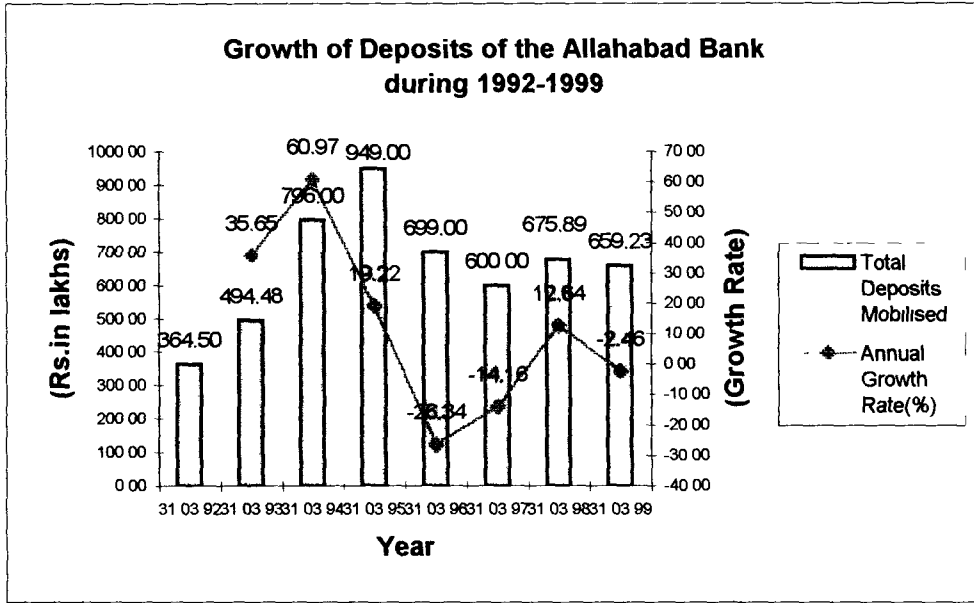
(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the Banks	Total Deposits Mobilised by ALB	Percentage Share of ALB	Total Advances Disbursed by all the Banks	Total Advances Disbursed by ALB	Percentage Share of ALB
1	2	3	4	5	6	7
31.3.92	50196.15	364.50	0.72	10536.79	25.20	0.23
31.3.93	53330.82	494.48	0.92	10781.59	38.30	0.35
31.3.94	66842.21	796.00	1.19	13163.94	48.00	0.36
31.3.95	76030.00	949.00	1.24	14464.76	54.76	0.37
31.3.96	88292.23	699.00	0.79	15660.86	72.00	0.45
31.3.97	105641.22	600.00	0.56	18572.36	69.91	0.37
31.3.98	125635.85	675.89	0.53	21386.46	100.39	0.46
31.3.99	135697.56	659.25	0.48	27873.44	141.32	0.50

SOURCES : Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) S.L.B.C. Records.

Figure - III



The table 5:2 shows the total amount of deposits mobilised by all the Banks in the State aggregated to Rs.50,196.15 lakhs and the amount of advances extended by all the Banks stood at Rs.10,536.79 lakhs as on 31.03.92.

The percentage share of the ALB Bank in the total volume of deposits collected by all the banks in the State exhibits an increasing trend for the first four years and a decline during the last four years. This is because there was a fluctuating trend in the amount of deposits mobilised by the banks.

Looking at the total advances disbursed by the Bank, the percentage had increased from year to year except for 1996-1997 due to fall in Bank's deposits during this year. As the amount of loans extended by the Bank has increased from year to year except in 1996-97, so also its percentage share in total advances has gone up from year to year except in 1996-97.

Advances to Priority Sector

The ALB being the nationalised bank has to extend loans to Priority Sector also. The major portion of its loans has been advanced to this sector in the first six years as depicted in table 5:3 on the next page.

TABLE 5: 3
ADVANCES TO PRIORITY SECTOR

(Rs.in lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal Commercial Banking
1	2	3	4	5
31.12.92	32.20	24.96	77.51	7.24
31.12.93	43.00	31.00	72.00	12.00
30.09.94	48.00	29.00	60.42	19.00
30.06.95	54.76	37.69	60.83	17.07
31.12.96	72.00	43.00	59.72	29.00
31.12.97	91.68	46.47	50.69	45.26
31.3.98	103.39	41.90	41.74	61.49
31.3.99	141.32	42.91	30.36	98.41

SOURCE : *S.L.B.C. Records*, Meghalaya, 1992-99

The above table reflects the declining percentage growth of the Bank's advances to Priority Sector during the whole period of 8 years except in 1994-95. Though the advances to this Sector has declined from year to year, still it is above the stipulated norm of 40% except for the year ending 31.03.99 during which the advances to the Priority Sector was below 40%. Because of the decrease in the percentage share of loans extended to Priority Sector, there had been a positive growth rate in the amount of loans extended for Personal and Commercial Banking during the whole period except in the year ending 31.06.95. The amount had increased from Rs.7.24 lakhs as on 31.12.92 to Rs. 98.41 lakhs as on 31.03.99 in respect of advances for personal and commercial purposes.

BANK OF BARODA (BOB)

The Bank of Baroda was set up on the 5th June 1968 in Meghalaya with only one branch office in Police Bazar, Shillong. By the 31st March 1999 the Bank opened one more branch at Upper Shillong. The member of staff has increased from 3 as on the date of establishment to 50 as at end of March 1999.

The performance of the Bank in terms of total deposits, total advances and credit-deposit ratio, is reflected in the following table 5: 4..

TABLE 5: 4
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF BOB
DURING 1991-92 TO 1998-99.

(Rs. in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	1840.20		360.00		19.56	
31.3.93	2481.50	34.85	429.43	19.28	17.30	-2.26
31.3.94	3887.76	56.67	479.52	11.66	12.33	-4.97
31.3.95	4224.00	8.65	892.00	86.02	21.12	8.79
31.3.96	3160.00	25.19	654.00	26.68	20.70	-0.42
31.3.97	2645.68	16.28	604.05	7.64	22.83	2.13
31.3.98	4786.88	80.93	359.35	40.51	7.51	-15.32
31.3.99	3328.30	30.47	378.41	5.30	11.37	3.86

SOURCE: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) Bank of Baroda, Shillong, 1999.

The above table reveals that the total deposit mobilized by the Bank as on 31.03.92 i.e. for 1991-92 amounted to

Rs.1840.20 lakhs and the amount of loans disbursed by the Bank in the State during the year aggregated to Rs.360.00 lakhs. With this quantum of deposits and advances, the C-D ratio of the Bank works out to 19.56 %. The C-D ratio went down to 11.37 % as on 31.03.99, in which the amount of deposits and advances aggregated to Rs.3328.30 lakhs and Rs.378.41 lakhs respectively. During the period of eight years the table reveals a growth of 80.87 % in the total deposits. This shows that there is ample scope for the deposits to be utilised in the State.

The table 5: 4 further shows that the deposit mobilisation of the Bank has increased from year to year except for 1995-96, 1996-97 and 1998-99. The amount of loans extended by the Bank reached the peak at Rs.892.00 lakhs as on 31.03.95 and then dropped down to Rs 378.41 lakhs as on 31.03.99 accounting for 57.58 %.

The table 5: 4 also shows that the amount of loans disbursed by the BOB in the State as on 31.03.92 amounted to Rs. 360.00 lakhs and rose to Rs.378.41 lakhs as on 31.03.99. During the period of eight years, the table reflects a growth of 5.11% in total advances. The growth rate of advances reflects a fluctuating trend during the eight year period. The highest growth of advances was during 1994-95 at 86.02 % and the lowest growth was during 1997-98 at -40.51 %.

The C-D ratio was the highest at 22.83 % as on 31.03.97 in spite of the fall in advance. This is because the decline in total advances was less than the decline in total deposits by 8.63 %. The highest growth of C-D ratio stood at 8.79 % as on 31.03.95, brought about by the highest growth of advances during 1994-95. The lowest growth rate of -15.32 % as at end of March'98 was due to the highest decline of -40.51 % in total advances.

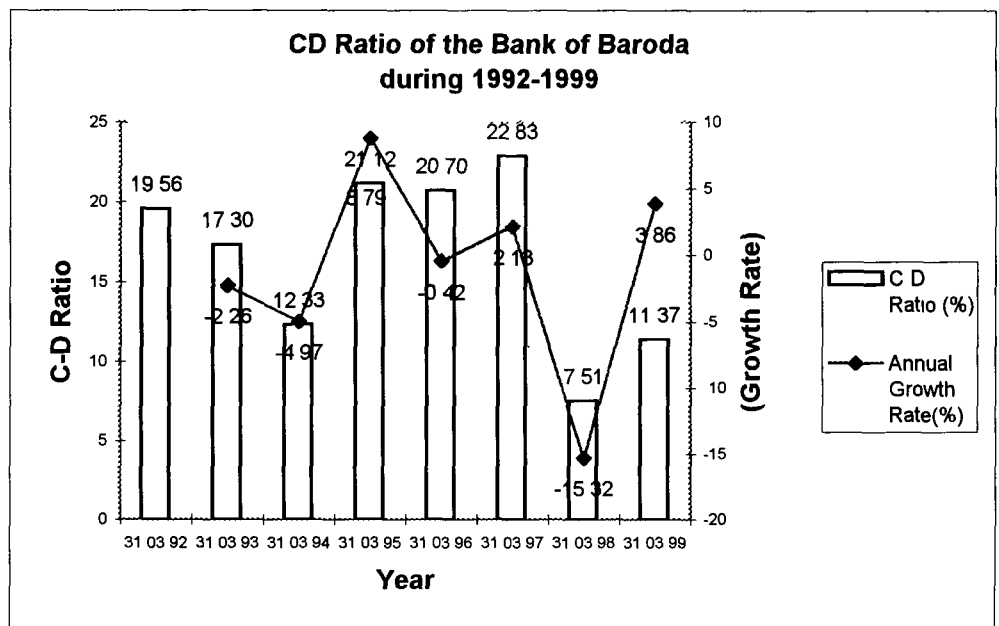
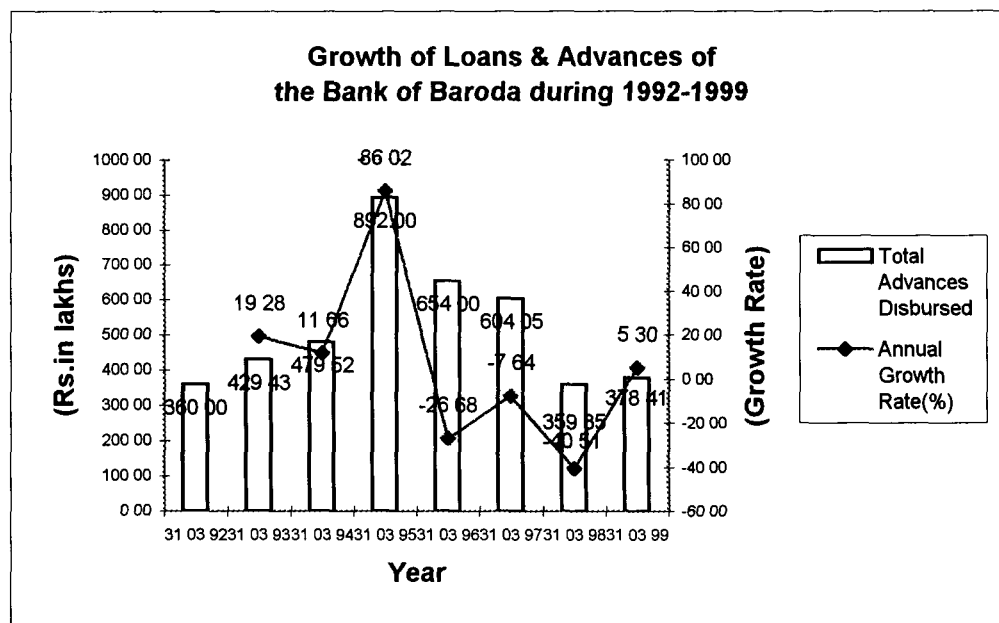
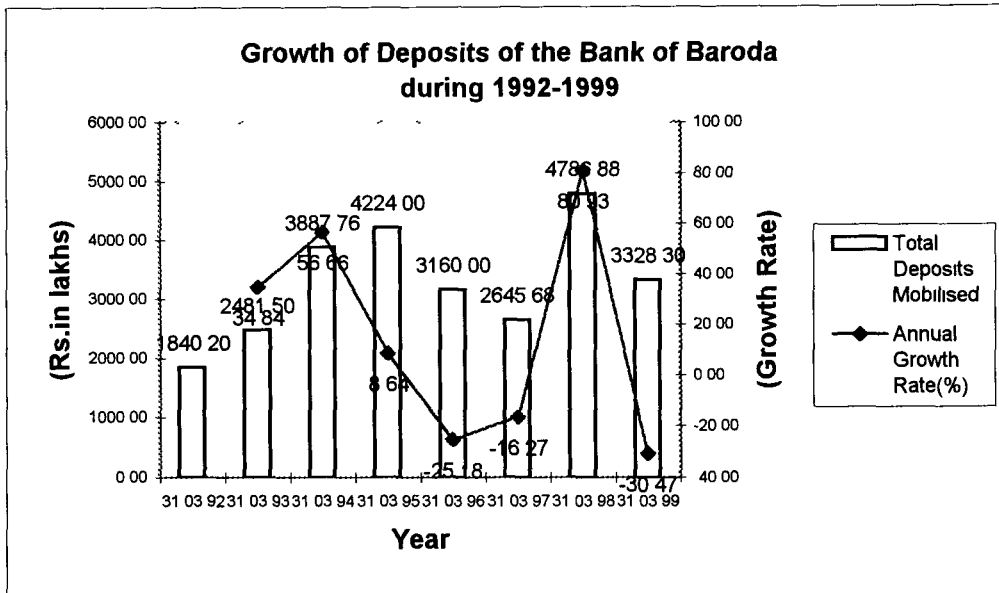
The linear relationship between total deposits (Y_1) a function of time (t); between total advances (Y_2) as a function of time (t) and between C-D ratio (Y_3) as a function of time (t) has yielded the following results:

$$\begin{array}{ll}
 Y_1 = 2294.11 + e^{0.07t} & R^2=0.3118 \\
 Y_2 = 498.33 + e^{-0.00t} & R^2=0.0184 \\
 Y_3 = 21.71 + e^{-0.07t} & R^2=0.2101
 \end{array}$$

The above results implies that the exponential growth rate of total deposits, total advances and C-D ratio of the Bank of Baroda during the eight years under study stood at 07%, 00% and -07%. Of the total variations in total deposits, total advances and C-D ratio, 31.18%, 01.84% and 21.01% respectively is explained by time factor.

The graphical representation of the performances of the BOB is also shown in Fig-IV on the next page.

Figure - IV



Share in Total Deposits and Advances of all Banks.

The percentage share of the BOB in the total deposits and advances of all banks is shown in the following table.

TABLE 5: 5
PERCENTAGE SHARE OF BOB IN TOTAL DEPOSITS AND ADVANCES OF ALL BANKS

(Rs.in lakhs)

Year	Total Deposits Mobilised by all the Banks	Total Deposits Mobilised	Percentage (of 3 to 2) Share of BOB	Total Advances Disbursed by all the Banks	Total Advances Disbursed by the Bank	Percentage (of 6 to 5) share of BOB
31.3.92	50196.15	1840.20	3.67	10536.79	360.00	3.42
31.3.93	53330.82	2481.50	4.65	10781.59	429.43	3.98
31.3.94	66842.21	3887.76	5.82	13163.94	479.52	3.64
31.3.95	76030.00	4224.00	5.56	14464.76	892.00	6.17
31.3.96	88292.23	3160.00	3.58	15660.86	654.00	4.18
31.3.97	105641.22	2645.68	2.50	18572.36	604.05	3.25
31.3.98	125635.85	4786.88	3.81	21386.46	359.35	1.68
31.3.99	135697.56	3328.30	2.45	27873.44	378.41	1.36

Source: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table shows that as on 31.03.92 the amount of deposit mobilised by all the Banks in the State aggregated to Rs.50196.15 lakhs and the amount of advances extended by them stood at Rs.10536.79 lakhs. As shown in the above table the share of the Bank in the total deposits and advances as on 31.03.92 amounted to 3.67 % and 3.42 % respectively. The percentage share of the Bank's deposit mobilisation in the

total deposits had increased in the early 90s and reached its peak of 5.82 as on 31.03.94 and dropped to 2.45 in the last decade of the year. This is so because the increase in Bank's deposit mobilisation could not keep pace with the increase in aggregate deposits mobilised in the State.

There has been a consistent increase in the total amount of loans disbursed by all the Banks in the State, whereas total advances disbursed by the Bank of Baroda shows inconsistency in its growth. It increased from Rs.360.00 lakhs in 1991-92 to Rs.892.00 lakhs in 1994-95 and then dropped down to Rs.359.35 lakhs in 1997-98. It again rose to Rs.378.41 lakhs in the last decade of the year. The table also shows that it is during 1994-95 that the Bank accounted for the largest share in the total advances because it disbursed the highest amount during this particular year.

Advances to Priority Sector

Like other nationalised commercial banks, part of the BOB funds has been extended to the Priority Sector. The rest of the funds has been advanced to Commercial Sector and for Personal service. This is evident from the following table 5.7 on the next page.

TABLE 5: 6
ADVANCE TO PRIORITY SECTOR
(Rs. in Lakhs)

Year	Total Advances	Advances to Priority	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	451.13	95.62	21.20	355.51
31.12.93	499.59	108.00	21.62	391.59
31.04.94	429.41	86.66	20.18	342.75
31.06.95	882.00	113.00	12.81	769.00
31.12.96	669.77	81.95	12.24	587.82
31.12.97	597.95	81.59	13.64	516.36
31.03.98	359.35	79.83	22.22	279.52
31.03.99	378.41	99.81	26.38	278.60

SOURCE : S.L.B.C. Records, Meghalaya, 1992-1999

The above table clearly shows that the advances disbursed by the BOB to the Priority Sector has been far below the stipulated norm of 40 % right from 1992 to 1999. Most of its loans has been granted by the BOB to commercial sector and for personal use. The Bank has played a part in promoting trade and commerce in the State as most of its loans has been extended to merchants and traders of the State. No doubt, the Bank has been playing a major role in accelerating economic development in the State, but it is also important for the Bank, being the nationalised bank, to lend 40 % of its funds to Priority Sector. The Bank as on March 99 has earned profits around 45 lakhs. This demands the Bank to increase its advance to Priority Sector.

BANK OF INDIA (BOI)

The Bank of India was set up in 1973 in Meghalaya with a branch at Police Bazar, Shillong. At the time of establishment there were six employees working in the Bank. The number has increased to 31 as on 31st March, 1999. The Motinagar branch, Shillong was established on 20th January, 1993.

The performances of the BOI in terms of total deposits, total advances and C-D ratio is shown in the table given below:

TABLE 5: 7
TOTAL DEPOSITS, TOTAL ADVANCES AND CREDIT-DEPOSIT RATIO OF BOI DURING 1991-1992 TO 1998-99

(Rs.in lakhs)						
Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate	Total Advances Disbursed	Growth Rate	C.D. Ratio (%)	Growth Rate
31.3.92	675.00		110.00		16.30	
31.3.93	725.00	7.41	125.00	13.64	17.24	0.95
31.3.94	767.65	5.88	163.34	30.67	21.28	4.03
31.3.95	1148.00	49.55	197.00	20.61	17.16	-4.12
31.3.96	1292.00	12.54	253.00	28.43	19.58	2.42
31.3.97	1589.00	22.98	969.00	283.00	60.98	41.40
31.3.98	1910.00	20.20	314.00	-67.60	16.44	-44.54
31.3.99	2592.39	35.72	370.17	17.89	14.28	-2.16

SOURCE : Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table shows that as on 31.3.92, the total deposits of the bank aggregated to Rs. 675.00 lakhs and increase to Rs.2592.39 lakhs as on 31.03.99, recorded a growth

of 284% for a period of eight years. The growth rate of deposits was the highest at 35.72 % during 1998-99 and the lowest at 7.41% in 1992-93.

The table 5: 7 also shows that the total advances disbursed by the bank has increased by 237 % for a period of eight years. Loans extended by the bank has increased from year to year except for 1997-98. The growth rate of advances was the highest at 283.00 % as at end March 1997, when advances jumped from Rs. 253.00 lakhs in March'96 to Rs. 969.00 lakhs in March'97. It was negative only in March'98 at -67.60%.

The table 5: 7 further reveals that the C-D ratio of the BOB dropped down from 16.30 % as on 31.3.92 to 14.28% as on 31.3.99. It was the highest at 60.98% as on 31.3.97 as the Bank could advance more during 1996-97 with 283 % growth rate of advances. The C-D ratio of the Bank except for 1996-97 was far below the stipulated norm of 60%.

The total deposits of the BOI as at end March'99 stood at Rs. 44,430 crores recorded a growth of 12.94% during 1998-99. Total advances aggregated to Rs. 24,327 crores registered a growth of 10.47 % for 1998-99. This gives a C-D ratio of 54.75 of the bank in the entire country as on 31.3.99.⁷ The C-D ratio of the Bank in Meghalaya as on the same date stood at 14.28%, which is 40.47 % less than the All India figure.

The linear relationship between total deposits (Y_1) a function of time (t); between total advances (Y_2) as a function of time (t) and between C-D ratio (Y_3) as a function of time (t) has yielded the following results:

$$Y_1 = 495.30 + e^{0.20t} \quad R^2=0.7200$$

$$Y_2 = 89.68 + e^{-0.22t} \quad R^2=0.6063$$

$$Y_3 = 18.10 + e^{-0.25t} \quad R^2=0.0181$$

The above results implies that the exponential growth rate of the BOI, total deposits, total advances and C-D ratio during the eight years under study stood at 20%, 22% and 25% respectively. The total variations of total deposits, total advances and credit-deposit ratio which has been explained by time factor stood at 72.00%, 60.63% and 01.81% respectively. The rest of the three percentages are accounted by other factors.

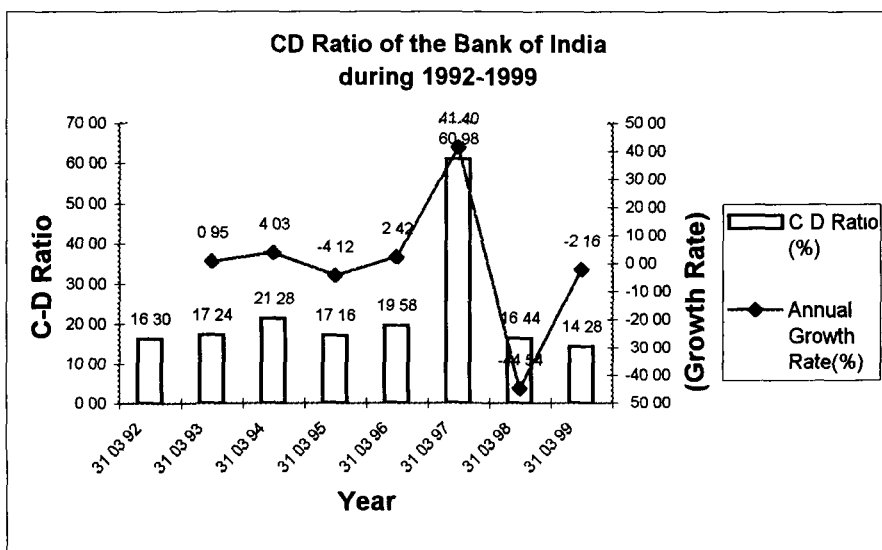
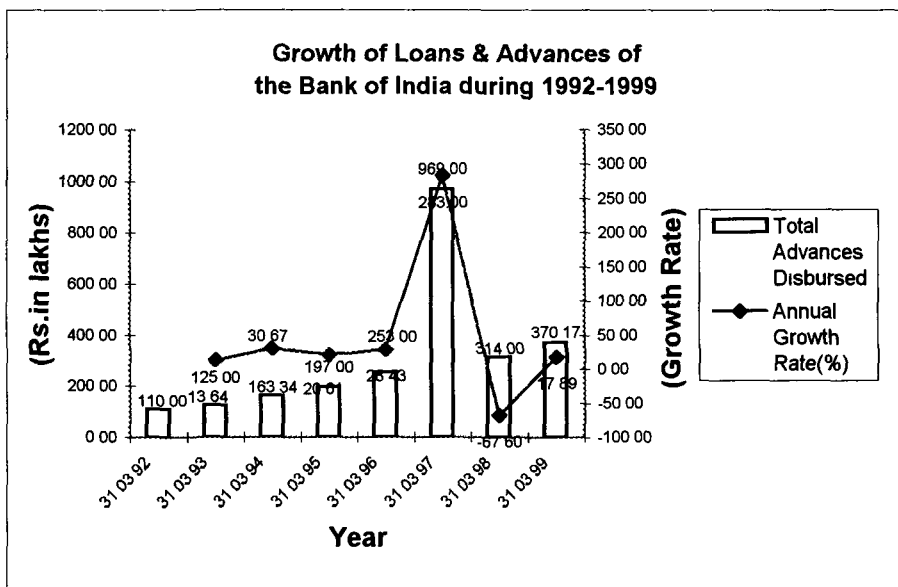
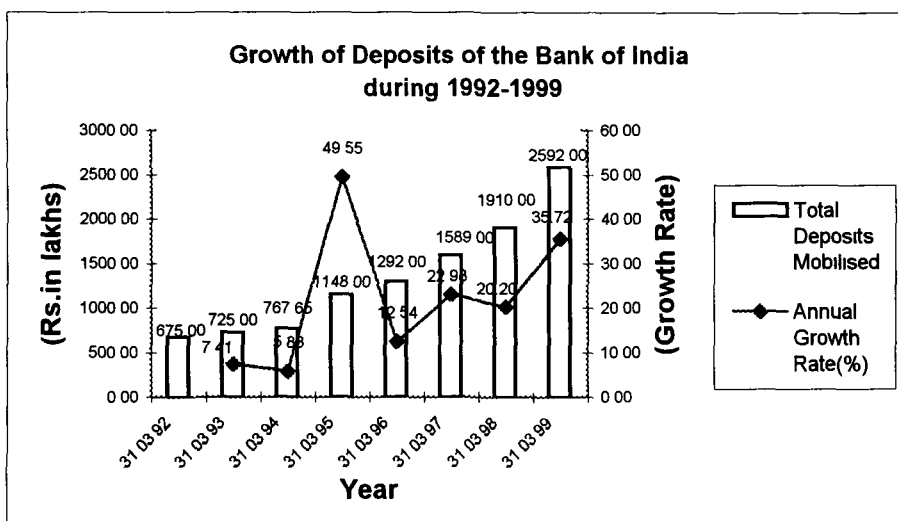
The graphical representation of the performances of the BOI is also shown in Fig-V on the next page.

Share in Total Deposits and Advances and C-D ratio.

The percentage share of the Bank of India in total deposits, total advances and credit-deposit ratio of all banks is given next page in table 5: g .

The table 5: g reveals that the percentage share of the Bank of India in total deposits does not increase from year to

Figure - V



year during the period of eight years under study. It fell down on 31.03.94 and again on 31.03.96. Thereafter it keeps on increasing.

In the case of advances, the BOI share increases from year to year till it recorded the highest amount of 5.22% on 31.03.97 and then fell down during the succeeding two years.

TABLE 5: 2
**PERCENTAGE SHARE OF BOI IN TOTAL DEPOSITS
AND TOTAL ADVANCES**

(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the Bank	Total Deposits Mobilised by the BOI	Percentage share of BOI	Total Advances Disbursed by all the Bank	Total Advances Disbursed by the BOI	Percentage share of BOI
1	2	3	4	5	6	7
31.3.92	50196.95	675.00	1.34	10536.79	110.00	1.04
31.3.93	53330.82	725.00	1.36	10781.59	125.00	1.16
31.3.94	66842.21	767.65	1.15	13163.94	163.34	1.24
31.3.95	76030.00	1148.00	1.51	14464.76	197.00	1.36
31.3.96	88292.23	1292.00	1.46	15660.86	253.00	1.62
31.3.97	105641.22	1589.00	1.50	18572.36	969.00	5.22
31.3.98	125635.85	1910.00	1.52	21386.46	314.00	1.47
31.3.99	135697.56	2592.39	1.91	27873.44	370.17	1.33

SOURCES : Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

Both in terms of deposits and advances the share has been very small not even 2% except for 1996-97. One of the reasons for a marginal share of the bank in total deposits and advances is that the bank has got only 2 branches in the State. The bank should not be content with the prevailing quantum of deposits

and advances but it should make an effort in collecting and advancing more.

Advances to Priority Sector

Bank of India being one of the nationalised banks has to provide finance to Priority Sector. The amount of loans given by the Bank to Priority Sector and to Personal and Commercial banking is shown in the following table.

TABLE 5: 7
ADVANCESTO PRIORITY SECTOR

(Rs.in Lakhs)

Year	Total Advances	Advances to Priority	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	125.00	31.00	24.80	94.00
31.12.93	156.00	90.00	57.69	66.00
30.09.94	134.00	61.00	45.52	73.00
30.06.95	214.00	75.00	35.05	139.00
31.12.96	259.00	120.00	46.33	139.00
31.12.97	299.00	153.00	51.17	146.00
31.03.98	314.00	168.00	53.50	146.00
31.03.99	370.17	214.24	57.88	155.93

SOURCE : S.L.B.C. Records of Meghalaya 1992-1999

The above table 5: 7 reflects that the bank has granted loans to the Priority Sector above the stipulated norm of 40% except for 1991-92 and 1994-95. Advances had increased from year to year except for 1993-94 when it fell down from Rs. 90.00 lakhs in December, 1993 to Rs. 61.00 lakhs in September, 1994. The decline is because the record for this year was

presented only for 9 months. The Bank in recent years has been earning profits. Net profits of the Bank had increased from Rs. 33.36 lakhs during 1997-98 to Rs. 45.05 lakhs during 1998-99. This implies the fact that it is of no harm for the bank to continue lending more to Priority Sector carrying concessional rate of interest. But if the profits starts to decline, the bank should try to lend more to the other sectors carrying a higher rate of interest in order to increase its profits.

CANARA BANK (CNB)

The Canara Bank was set up in Meghalaya in 1978 at G.S. Road, Shillong. Another branch was opened at Garikhana, Shillong in 1995. The number of staff has increased from 10 in 1978 to 42 as on 31.3.99.

The performance of the CNB in terms of total deposits, total advances and credit-deposit ratio is shown in table 5: *10* on the next page.

TABLE 5: *to*
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF CAN BANK
DURING 1991-92 AND 1998-99

(Rs. In lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	1680.00		280.00		16.67	
31.3.93	1778.00	5.83	294.00	5.00	16.54	-0.13
31.3.94	2300.00	29.36	390.00	32.65	16.95	0.41
31.3.95	2548.00	10.78	338.00	-13.33	13.27	-3.68
31.3.96	2449.00	-3.89	365.00	7.99	14.90	1.63
31.3.97	3162.47	29.13	424.32	16.25	13.42	-1.48
31.3.98	3559.00	12.54	402.00	-5.26	11.30	-2.12
31.3.99	4626.64	29.30	415.82	3.44	8.99	-2.31

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The table 5: *to* shows that the total deposits of CAN Bank as on 31.3.92 aggregated to Rs. 1680.00 and rose to Rs. 4626.64 lakhs as on 31.03.99. The table shows that deposits mobilised by the Bank increased from year to year except for 1995-96. Deposit mobilisation of the Bank recorded a growth rate of 175% during a period of eight years. The growth rate of deposits reached the peak at 29.36% as on 31.03.94 but the growth of deposits was negative at -3.89 % as on 31.3.96.

Total advances disbursed by the bank reveals a fluctuating trend as shown in the above table. It reached the peak at Rs. 424.32 lakhs during 1996-97. The lowest amount of loans was disbursed during 1991-92, which stood at Rs. 280.00 lakhs. The highest growth with regard to advances was during 1993-94 at

32.65 % and the lowest growth was during the following year at -13.3%.

The table also reflects the decline in the growth rate of C-D ratio in the latter years. Since the increase in advances could not keep pace with the increase in deposits, C-D ratio fell down from 16.67 % to 8.99 %, registered a decline of 7.68%. As seen from the table, the C-D ratio of the bank is very poor not reaching even 20%. The main cause of low C-D ratio and the decline in its growth rate is the poor recovery performance of the CAN and the hesitancy on the part of the Bank to lend more in the latter years.

The linear relationship between total deposits (Y1) as a function of time (t); total advances (Y2) as a function of time (t) and credit-deposit ratio (Y3) with time from 31.03.92 to 31.03.99 gives the following results:

$$\begin{array}{ll} Y_1 = 1417 + e 0.14t & R^2 = 0.9530 \\ Y_2 = 280.28 + e 0.06t & R^2 = 0.7406 \\ Y_3 = 19.77 + e -0.08t & R^2 = 0.8068 \end{array}$$

The results shows that the exponential growth rates of the Canara Bank total deposits, total advances and credit-deposit ratio stood at 14%, 06% and -08% respectively. Variations to the extent of 95.30% in total deposits, 74.06% in total advances and 80.68% in credit-deposit ratio are explained by time factor.

The graphical representation of the performances of the CAN Bank is also shown in Fig-VI on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the CAN in total deposits and total advances mobilized and disbursed by all the banks in the State is reflected in the following table:

TABLE 5: L
PERCENTAGE SHARE OF CAN BANK IN
TOTAL DEPOSITS
AND TOTAL ADVANCES

(Rs. in Lakhs)

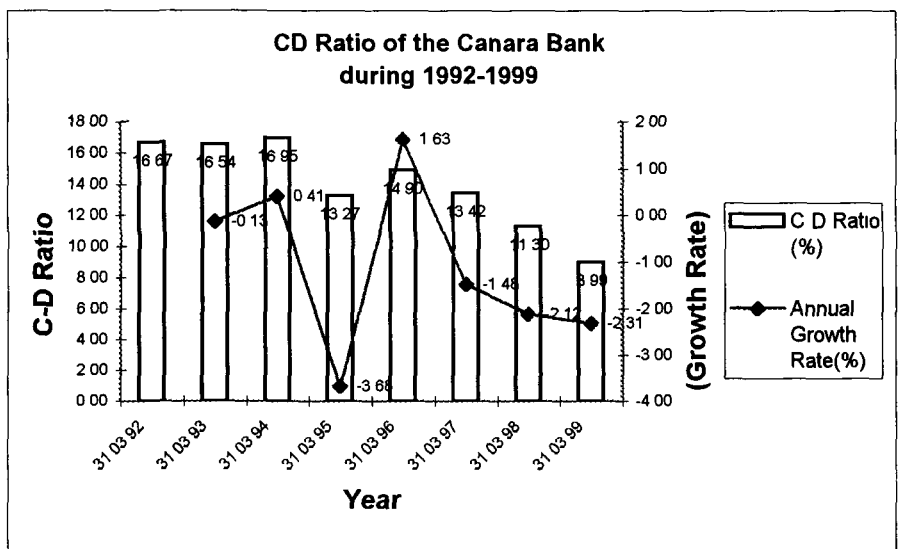
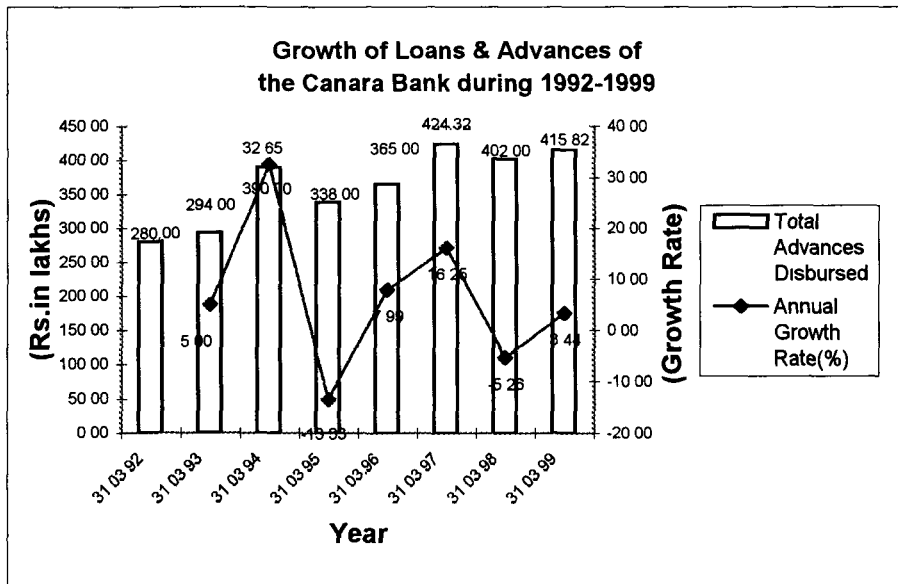
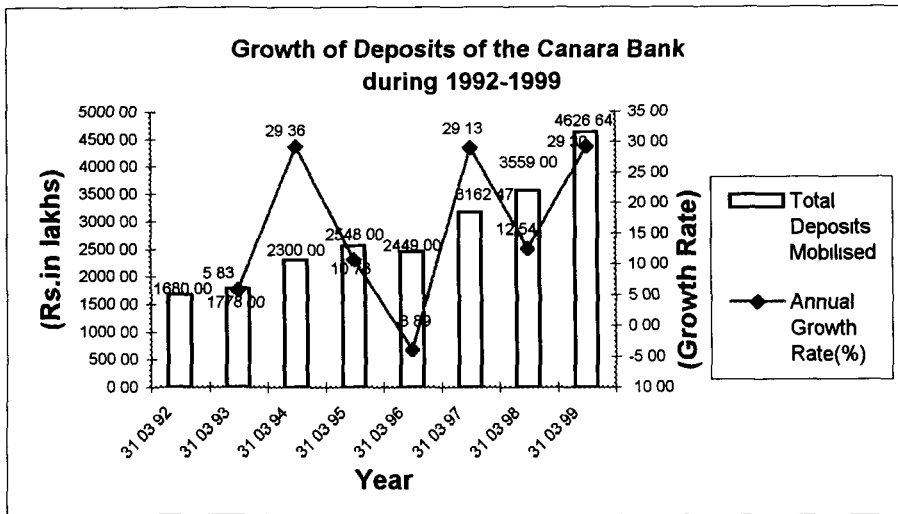
Year	Total Deposits Mobilised by all the Banks	Total Deposits Mobilised by the CNB	Percentage share of CNB	Total Advances Disbursed by all the Banks	Total Advances Disbursed by the CNB	Percentage share of CNB
1	2	3	4	5	6	7
31.3.92	50196.15	1680.00	3.35	10536.79	280.00	2.66
31.3.93	53330.82	1778.00	3.33	10781.59	294.00	2.73
31.3.94	66842.21	2300.00	3.44	13163.94	390.00	2.96
31.3.95	76030.00	2548.00	3.35	14464.76	338.00	2.34
31.3.96	88292.23	2449.00	2.77	15660.86	365.00	2.33
31.3.97	105641.22	3162.47	2.99	18572.36	424.32	2.28
31.3.98	125635.85	3559.00	2.83	21386.46	402.00	1.88
31.3.99	135697.56	4626.64	3.41	27873.44	415.82	1.49

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

It can be seen from the above table that as on 31.3.92, the bank's share in total deposit mobilisation and total

Figure - VI



disbursement stood at 3.35% and 2.66 % respectively. But its share during the 8 year period fluctuated from time to time., It share in total disbursements increased continuously during the first three years but keeps on decreasing during the last five years under study. The table 6:18 indicates that the percentage share of the bank in total deposits was the highest during 1993-94 at 3.44 and the lowest percentage share was during 1995-96 at 2.77.

The percentage share of the bank in total advances was the highest during 1993-94 at 2.96 % and the smallest share stood at 1.49 % in 1998-99. In fact, the share of the bank in total advances had declined from March, 1994 to March, 1999. The table also reveals that the bank's share in total advances is less than the share in total deposits during all the years. This clearly implies that the bank did not increase its advances although there was an increase in the deposits mobilised especially during the last three years of the period under study.

Advances to Priority Sector

The amount of loans extended by Canara Bank to Priority Sector, Personal and Commercial Sectors is shown in table 5: 22 on the next page.

TABLE 5: 12
ADVANCE TO PRIORITY SECTOR
(Rs. In Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	276.00	151.00	54.71	125.00
31.12.93	380.00	163.00	42.89	217.00
31.09.94	352.00	159.00	45.17	193.00
31.06.95	345.00	149.00	43.19	196.00
31.12.96	403.00	201.00	49.88	202.00
31.12.97	370.00	242.00	65.41	128.00
31.03.98	402.00	275.00	68.41	127.00
31.03.99	415.82	211.49	50.86	204.33

SOURCE : S.L.B.C. Records, Meghalaya 1992-1999

The above table shows that the bank has exceeded the norm of 40% in their advances to Priority sector but the actual amounts advanced did not increase from time to time. They fell down for two years consecutively as on 31.09.94 and as 31.06.95. During 1991-92 and during December, 1997 to March, 1999 more advances were extended by the bank to Priority Sector. On the other hand during December, 1993 to December 1996, the bank had diverted more loans for personal purposes and to commercial units. The Bank's advances to Priority Sector stood the highest at Rs. 275.00 lakhs as on 31.3.98 and the advances to the other sectors stood the highest at Rs.217.00 lakhs as on 31.12.93. The Bank in the State was incurring losses in recent years, so it would be advisable on the part of the Bank to stick to the norm of 40% in their advances to Priority Sector.

CENTRAL BANK OF INDIA (CBI)

The CBI was established in 1969 in Meghalaya. By the end of March, 1999 the Bank has 5 branches including 1 extension counter in the State. The branches are (1) Bara Bazar, Shillong (2) G.S. Road Branch, Shillong (3) Laitumkhrah Branch, Shillong (4) Tura Branch and (5) St. Anthony's College (ext. counter, Shillong). The member of the staff stood at 58 as on 31.03.99.

The performance of the CBI in terms of total deposits, total advances and credit-deposit ratio from 1991-92 to 1998-99 is given in the following table.

TABLE 5:13
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF CBI
DURING 1991-92 AND 1998-99

(Rs. in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	1559.13		176.96		11.35	
31.3.93	1596.35	2.39	173.83	-1.77	10.89	0.46
31.3.94	1825.49	14.35	189.18	8.83	10.36	-0.53
31.3.95	2052.00	12.41	278.00	46.95	13.55	3.19
31.3.96	2131.50	3.87	276.09	-0.69	12.95	-0.60
31.3.97	3747.00	15.79	415.00	50.31	11.08	-1.87
31.3.98	5621.00	50.13	821.00	97.83	14.60	3.52
31.3.99	3108.55	-44.70	676.42	-17.61	21.75	7.15

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) Central Bank of India, Shillong, 1999.

The table 5:13 reflects that the aggregate deposits of the Bank amounted to Rs. 1559.13 lakhs as at end March'92. After a period of eight years, the amount of deposits increased by 99.38% and the amount of advances increased by 288 %. The growth of advances was higher than the growth of deposits because there was a sudden decline in the amount of deposits mobilised by the bank during 1998-99. The table 6:20 indicates the positive growth rate in the Bank's deposit mobilisation from year to year except for 1998-99. The highest growth rate of deposit mobilisation was achieved by the bank during 1996-97, which stood at 75.79 %. The only negative growth rate was during 1998-99 at -44.70 %.

The total advances extended by the Bank stood at Rs. 176.96 lakhs as at end March'92 and rose to Rs. 676.42 lakhs as on 31.03.99, registering an increase of 288%. The table also reveals the inconsistent growth rate of the bank's disbursement. Total advances reached its peak at Rs. 821.00 lakhs as on 31.3.98, but it dropped down to Rs. 676.42 lakhs in the following year due to a sharp fall in the bank's deposit mobilisation. The highest growth rate of the bank's advances at 97.83 % was during 1997-98 and the lowest growth rate at -17.61% was during 1998-99.

The C-D ratio has increased from 11.35 % as on 31.3.92 to 21.75% as on 31.3.99, registering a growth of 10.40 %. During 1998-99, the growth rate of C-D ratio was the highest at 7.15 %. During 1996-97, the table shows an increase in both deposits

and advances but C-D ratio has declined. This is because the increase in deposits was more than the increase in advances. On the other hand, during 1998-99, the table reveals a decline both in total deposits and total advances but C-D ratio had increased. This is because the fall in advances during this particular year of 17.6 % was less than the fall in deposits of 44.70%.

As on 31.3.98, total deposits mobilised by the bank in the entire country aggregated to Rs. 253.00 crores and total advances amounted to Rs. 118.00 crores yielded a C-D ratio of 46.64%.⁸ As on this particular date the C-D ratio of the Bank in the state stood at only 14.60 %. This implies that the Bank in the State is not doing well in terms of advances. It is essential for the Bank to increase their total advances and thereby step up its C-D ratio.

The linear relationship between total deposits (Y_1) with time (t); between total advances (Y_2) with time (t) and between credit-deposit ratio (Y_3) as a function with time (t) for the period from 31.03.92 to 31.03.99 gives the following results:

$$\begin{aligned}
 Y_1 &= 1200.60 + e^{0.16t} & R^2 &= 0.7272 \\
 Y_2 &= 111.66 + e^{0.23t} & R^2 &= 0.8852 \\
 Y_3 &= 09.30 + e^{0.07t} & R^2 &= 0.5579
 \end{aligned}$$

The exponential growth rates of the Central Bank of India in total deposits, total advances and credit-deposit ratio as

reflected in the above equations stood at 16 %, 23% and 07% respectively. R^2 of the three items is equal to 72.72, 88.52 and 55.79 respectively indicating that 27.28% of the total deposits, 11.48 %of total advances and 44.21% in credit-deposit ratio are not explained by time factor.

The graphical representation of the performances of the CBI is also shown in Fig-VII on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the CBI in total deposits and total advances is reflected below:

TABLE 5: 14
PERCENTAGE SHARE OF CBI IN TOTAL DEPOSITS
AND TOTAL ADVANCES

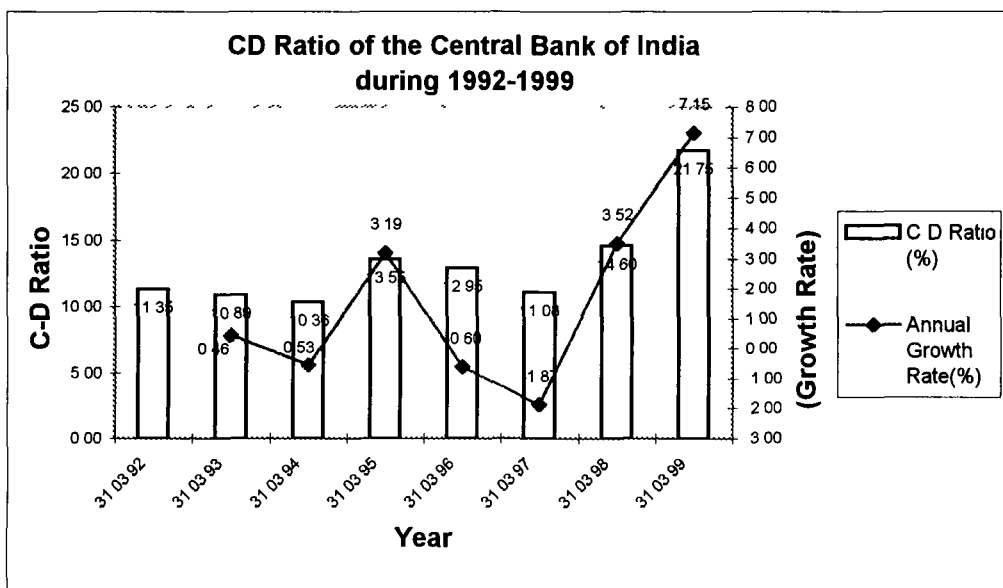
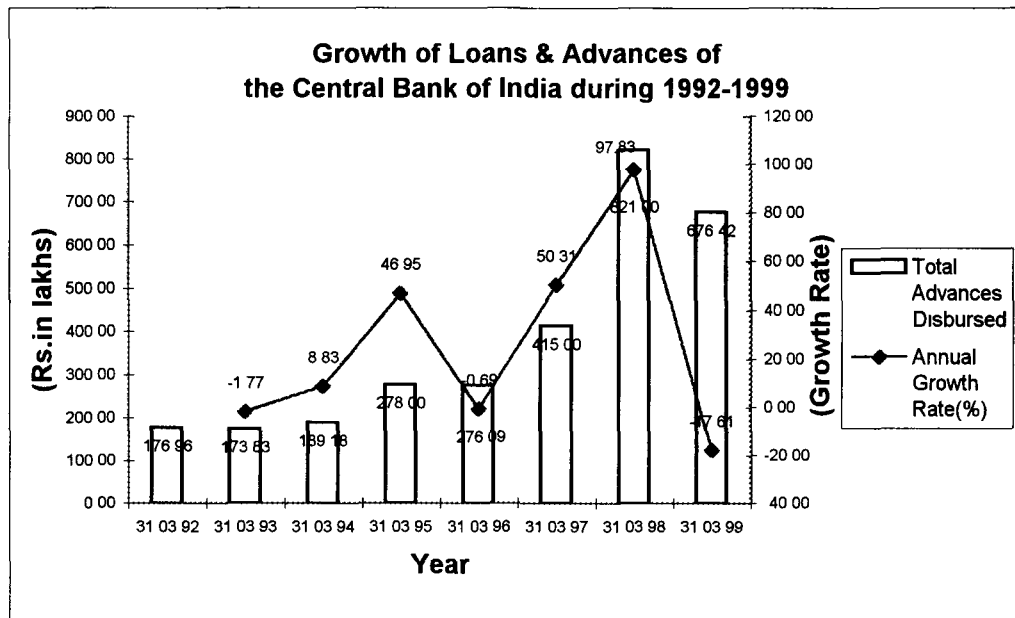
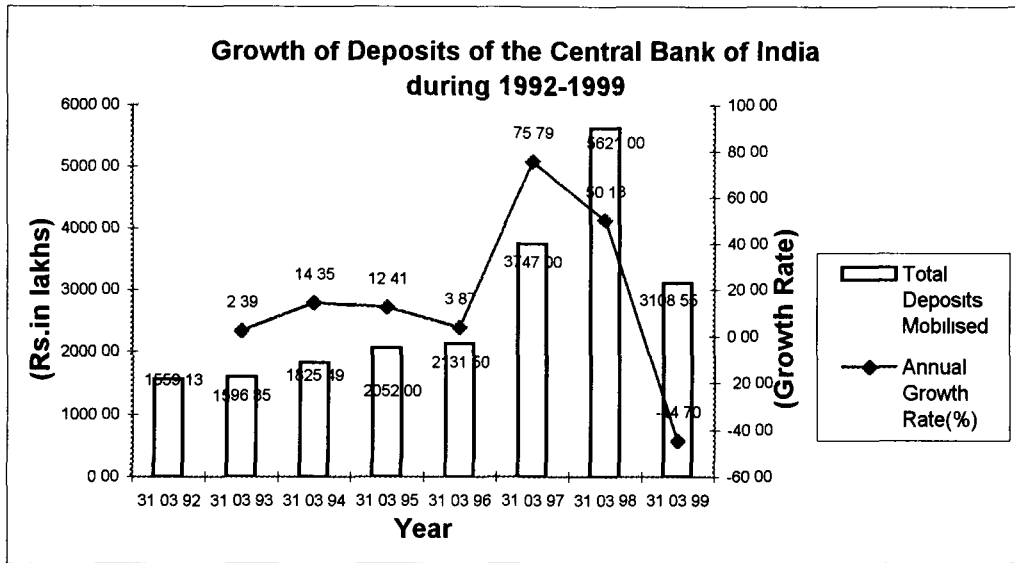
(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the CBI	Percentage share of CBI	Total Advances Disbursed by all the banks	Total Advances Disbursed by the CBI	Percentage share of CBI
1	2	3	4	5	6	7
31.3.92	50196.15	1559.13	3.11	10536.79	176.96	1.68
31.3.93	53330.82	1596.35	2.99	10781.59	173.83	1.61
31.3.94	68842.21	1825.49	2.66	13163.94	189.18	1.44
31.3.95	76030.00	2052.00	2.70	14464.76	278.00	1.92
31.3.96	88292.23	2131.50	2.40	15660.86	276.09	1.76
31.3.97	105641.22	3747.00	3.55	18572.86	415.00	2.23
31.3.98	125635.85	5621.00	4.47	21386.46	821.00	3.84
31.3.99	135697.56	3108.55	2.90	27873.44	676.42	2.43

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

Figure - VII



The table 5:14 shows that the Bank accounted for a share of 3.11 % in total deposits and 1.68% in total advances in the state as on 31.3.92. After a period of eight years the share in total deposits fell down to 2.90% and a share in total advances rose up to 2.43 %.

The table also reveals that the share of CBI in total deposits exhibits a fluctuating trend. The Bank's share in total deposit mobilisation was the highest during 1997-98 at 4.47 % and the lowest during 1995-96 at 2.40 %. Though, the amount of deposits mobilised by the Bank increased from year to year except for 1998-99, the share of the Bank in total deposits did not change correspondingly. This is because the increase in the Bank's deposits could not match with the increase in the deposits mobilised by all the banks in the State.

The percentage share of the bank in total advances also exhibits a fluctuating trend. It reached the boom at 3.84 during 1997-98, which was brought about by sharp increase in the amount of loans advanced by the bank in the state during this year. It was the lowest at 1.44 during 1993-94, when there was only an 8.83% increase in the amount of loans disbursed by the Bank in the State compare to 22.10 % increase in the amount of loans granted by all the banks in the State.

Advances to Priority Sector

The amount of advances extended by the CBI to Priority, Personal and Commercial Sectors is depicted in the following table.

TABLE 5:~~16~~
ADVANCESTO PRIORITY SECTOR

(Rs.in lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	177.06	52.69	29.75	124.37
31.12.93	168.04	56.23	33.46	111.81
30.09.94	194.07	69.04	35.57	125.03
30.06.95	279.70	69.05	24.68	210.67
31.12.96	338.67	121.44	35.86	217.67
31.12.97	518.00	212.00	40.93	306.00
31.03.98	821.00	256.00	31.18	565.00
31.03.99	676.42	366.39	54.17	310.03

SOURCE : S.L.B.C. Records of Meghalaya 1992-1999

Looking at the table 5: ~~16~~ we find that the advances of CBI to Priority Sector had increased from year to year i.e., from Rs. 52.69 lakhs as on 31.12.92 to Rs. 366.39 lakhs as on 31.3.99. Personal and Commercial credit had also gone up from 1993 to 1998. The table shows that the bank did not cross the norm with regard to advances to Priority Sector except for December 1996-1997 and March 1998-1999. The major chunk of the Bank's loans has been extended to businessmen and commercial units and this has caused the amount advanced to this sector to figure high in the above table in all the years except for 1998-99. The bank in Meghalaya was enjoying profits as on March'99. This enables the Bank to increase their advances to Priority Sector during 1998-99.

THE FEDERAL BANK LIMITED (FED)

In Meghalaya, the Federal Bank Limited was established in 1973 at Police Bazar, Shillong. As on the date of its inception, there were only 6 employees working for the bank. By 31.3.99, the number increased to 31 employed in two branches, the Police Bazar branch and Motinagar branch. The Motinagar branch was set up in 1979 in the State.

The performance of the FED Bank in terms of total deposits, total advances and credit-deposit ratio is reflected in the table 5:16 next page.

The table 5:16 shows the total deposits collected by the Bank in the State as on 31.3.92 aggregated to Rs. 879.54 lakhs and rose to Rs. 3780.00 lakhs as on 31.03.99.

The table 5:16 reveals the increase in Federal bank's deposit mobilisation from year to year except for 1994-95. In a period of eight years, deposits mobilised by the Bank had recorded a growth of 330 %. The growth rate of total deposits collected by the bank was the highest at 84.43 % during 1993-94, when deposits jumped from Rs. 1131.90 lakhs to Rs.2087.58 lakhs in 1994 to Rs.1619.00 lakhs in 1995.

TABLE 5: 16
TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF THE FED BANK
DURING 1991-92 AND 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	879.59		104.79		11.71	
31.3.93	1131.90	28.68	152.43	45.08	13.43	1.72
31.3.94	2087.58	84.43	640.71	321.4	30.69	17.26
31.3.95	1619.00	-22.45	215.00	-66.44	13.28	-17.41
31.3.96	2382.00	47.13	240.00	11.63	10.08	-3.20
31.3.97	2706.00	13.60	228.00	-5.00	8.43	-1.65
31.3.98	3118.00	15.22	246.00	7.89	7.89	-0.54
31.3.99	3780.00	21.23	342.00	39.02	9.05	1.16

SOURCE: Compiled from data collected from:

- (i) Finance Department of Meghalaya, 1998
- (ii) Federal Bank, Shillong, 1999.

The total advances made by the Bank had also increased from year to year except from 1994-95 and 1996-97 as shown in the above table. Advances declined in these two years because of the acute fall in deposits in 1994-95 and marginal increase in the advances in 1996-97. The growth rate of advances reached the peak at 321.43 % in 1993-94 which was brought about by a sharp increase in advances from Rs.152.03 lakhs in March'93 to Rs. 640.71 lakhs in March 94. The growth rate of advances was the lowest at -66.44 % in 1994-95 due to a sharp decline in advances from Rs.640.71 lakhs in March'93 to Rs. 215.00 lakhs in March'95. The increase in the growth rate of deposit in 1993-94 was caused by the 84.43 % increase in advances during this year. Likewise the decrease in the growth rate of deposits in 1994-95 was caused by the sharp fall in deposits of -22-45%.

The table also shows that the C-D ratio of the Bank dropped down from 30.69% in March'93 to 7.89% in March 98. The Bank could achieve the highest C-D ratio of 30.69 % during 1993-94 because of the highest growth both in deposits and advances. The table also shows that C-D ratio of the Bank rose from 7.89 % in March'98 to 9.05 % in March'99. Though the C-D ratio increased the picture as a whole does not reveal satisfactory performance of the Bank in respect of its advances.

The all-India deposit mobilisation of the Bank as at end March 98 aggregated to Rs.6424 crores and advances amounted to Rs.3921 crores. Hence the all-India (figure) C-D ratio of the Bank as on 31.03.98 stood at 61.03%,⁹ whereas the C-D ratio of the Bank in the State stood at only 7.89%. This clearly indicates that the advances made by the Bank in the State is very poor compare to that in the entire country.

The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) and (t) and credit-deposit ratio (Y_3) and time (t) during the eight years under study has yielded the following results:

$$Y_1 = 828.94 + e^{0.20t} \quad R^2 = 0.9087$$

$$Y_2 = 157.21 + e^{0.09t} \quad R^2 = 0.1763$$

$$Y_3 = 18.96 + e^{-0.10t} \quad R^2 = 0.3454$$

The results shows that the exponential growth rates of Federal Bank Limited total deposits, total advances and credit-deposit ratio from 31.03.92 to 31.03.99 stood at 20%, 09% and

-10%. The variations to the extent of 90.87% in total deposits, 17.63 % in total advances and 34.54% in credit-deposit ratio are explained by factor time and the rest of the three percentage are explained by other factors.

The graphical representation of the performance of the FED Bank is also shown in Fig-VIII on the next page.

Share in Total Deposits and Advances of all the Banks.

The percentage share of the FED in total deposits and total advances mobilized and disbursed by all the banks in the State is given in the table 5:17 in the next page.

The table 5:17 reflects the increase in the Bank's share in total deposit mobilised by all the banks in the State from 1.75% in 1991-92 to 2.79 % in 1998-99, registered a growth rate of 59.43 %. During 1993-94 the share was the highest because of a sharp rise in the Bank's total deposits. It was the lowest at 1.75% in 1991-92.

Figure - VIII

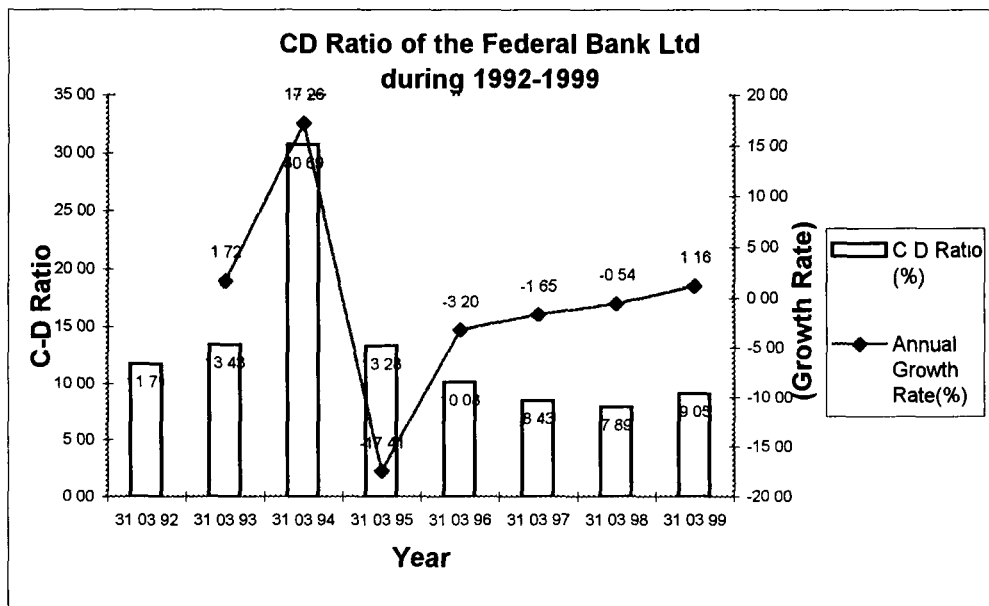
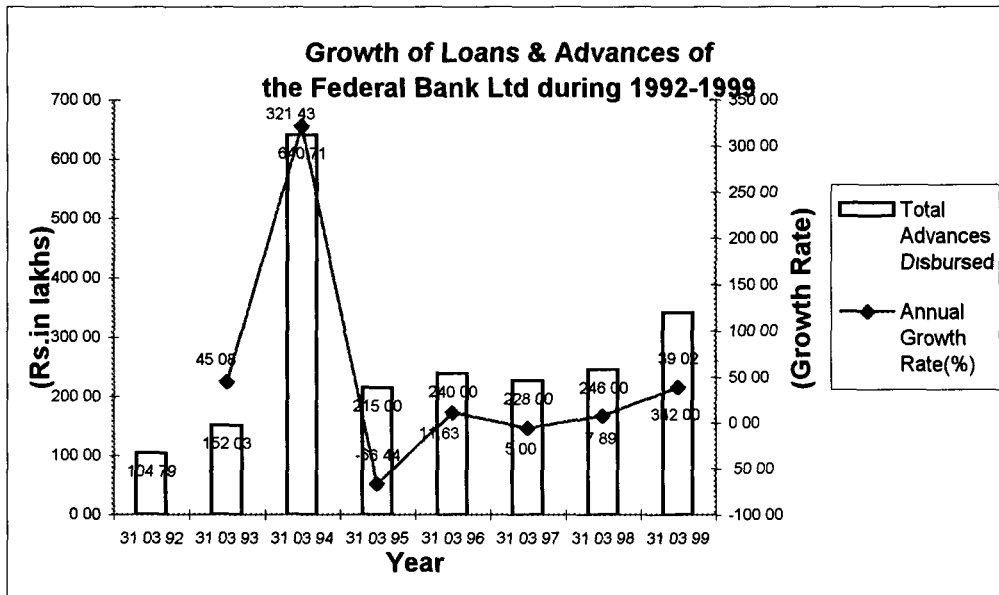
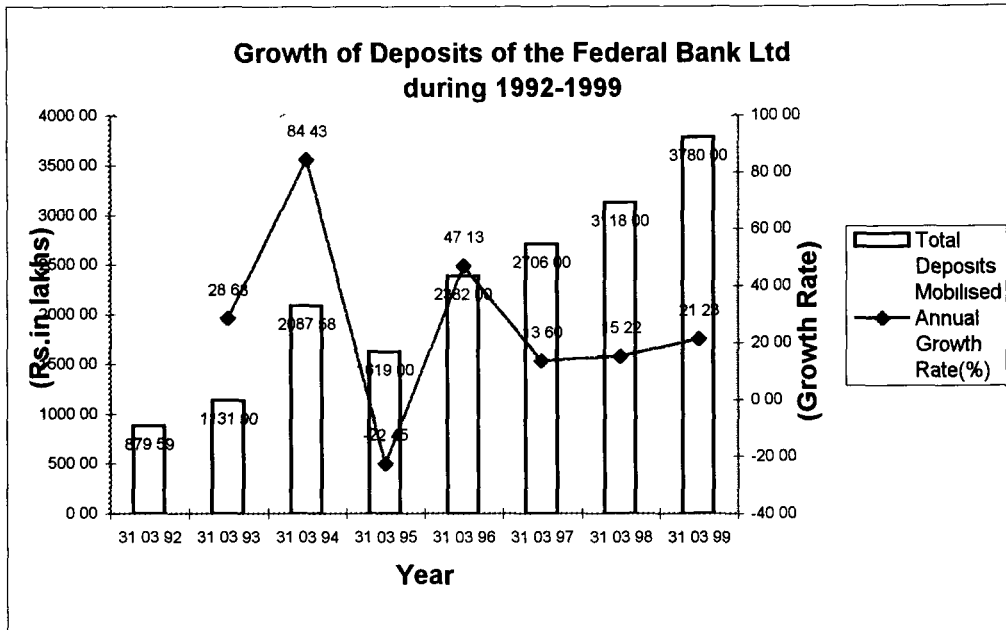


TABLE 5: 13
PERCENTAGE SHARE OF THE FED BANK
IN TOTAL DEPOSITS
AND TOTAL ADVANCES

(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by FED	Percentage share of FED Bank	Total Advances Disbursed by all the banks	Total Advances Disbursed by FED	Percentage share of FED Bank
1	2	3	4	5	6	7
31.3.92	50196.15	879.59	1.75	10536.79	104.79	0.99
31.3.93	53330.82	1131.90	2.12	10781.59	152.03	1.41
31.3.94	66842.21	2087.58	3.12	13163.94	640.71	4.87
31.3.95	76030.00	1616.00	2.12	14464.76	215.00	1.49
31.3.96	88292.23	2382.00	2.70	15660.86	240.00	1.53
31.3.97	105641.22	2706.00	2.56	18572.86	228.00	1.23
31.3.98	125635.85	3118.00	2.48	21386.46	246.00	1.15
31.3.99	135697.56	3780.00	2.79	27873.44	342.00	1.23

SOURCES : Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The share of the Bank in the total advances disbursed by all the Banks in the State rose from 0.99 % in 1991-92 to 1.23% in 1998-99, recorded a growth rate of 24.24 %. The highest percentage of 4.87 was during 1993-94 brought about by a sharp rise in Bank's disbursement and the lowest percentage of 0.99 was during 1991-92. The rise and fall in the share of the Bank in total deposits was followed by a rise and fall in the share of the Bank in total advance.

Advances to Priority Sector

Like any other commercial banks, the FED Ltd though it is not a nationalised bank it is advancing to the Priority Sector.

The picture of this type of credit given by the Bank is known in the following table along with Personal and Commercial Banking.

TABLE 5: 18
ADVANCESTO PRIORITY SECTOR

(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	184.79	16.24	8.79	168.55
31.09.93	164.24	14.64	8.91	149.60
30.06.94	214.75	29.71	13.83	185.04
30.12.95	215.00	29.71	13.82	185.29
31.12.96	205.00	22.00	10.73	183.00
31.12.97	258.00	31.00	12.02	227.00
31.03.98	246.00	35.00	14.23	211.00
31.03.99	342.00	48.00	14.04	294.00

SOURCE : S.L.B.C. Records of Meghalaya 1992-1999

The above table shows that the Bank has advanced very less to the Priority sector. More of its advances has been extended to the commercial sector and for personal services. The Bank being a private sector bank is more interested in making profits and hence it tends to lend more to those units where the recovery percentage turns to be high. The table also reveals that the Bank has extended more loans for personal services like housing and car loans in which the repayment is deducted from the salary of the borrowers. Even though small amounts has been advanced by the Bank to Priority Sector. The table shows an increase in priority sector advances from Rs. 16.24 lakhs in Dec'92 to Rs.48.00 lakhs in March'99. This

shows that Federal Bank though it is not a nationalised bank is catering to the needs of the common people in the State.

INDIAN OVERSEAS BANK, (IOB)

Indian Overseas Bank came into existence on September 1976 in the state of Meghalaya. 40 years after it was established in India. The Bank has only one branch in the State with a staff strength of 25 as on 31st March 1999.

The performance of the IOB in terms of total deposits, total advances and credit-deposit ratio is reflected at table 5: ~~29~~ below.

TABLE 5: ~~29~~

TOTAL DEPOSITS, TOTAL ADVANCES AND CREDIT-DEPOSIT RATIO OF IOB DURING 1991-92 AND 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C-D Ratio (%)	Growth Rate (%)
31.3.92	1380.00		170.00		12.32	
31.3.93	1482.00	7.39	183.00	7.65	12.35	0.03
31.3.94	2818.96	90.21	153.49	-16.13	5.44	-6.91
31.3.95	2503.00	-11.21	374.00	143.66	14.94	9.50
31.3.96	2727.33	8.96	243.40	-34.92	8.92	-6.02
31.3.97	4191.45	53.68	416.65	71.18	9.94	1.02
31.3.98	6533.45	55.88	274.69	-34.07	4.20	-5.74
31.3.99	5937.56	-9.12	2488.30	805.85	41.91	37.71

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) Indian Overseas Bank, Shillong, 1999.

The table 5: ~~29~~ shows that the total deposits of the Bank went up from Rs.1380.00 lakhs as on 31.03.92 to Rs.5937.56 lakhs as on 31.03.99. recorded a growth of 330 % in a period of eight years. The table also shows that the Bank collected the highest deposits during 1997-98 amounting to Rs. 6533.45 lakhs. The growth rate of Banks deposits rose from 7.39 % in 1992-95 to 55.88 % in 1997-98 and then fell down to -9.12 % during 1998-99. The decline in the growth rate of deposit during this year was due to the sharp fall in total deposits from Rs.6533.45 lakhs in March'98 to Rs.5937.56 lakhs in March'99.

The total advances rose up from Rs. 170.00 lakhs to Rs. 2488.30 lakhs during the same period, registering a growth rate of 1364%. The total advances disbursed by the Bank exhibits a fluctuating trend. It was the lowest at Rs.153.49 lakhs in 1993-94 and the highest at Rs.2488.30 lakhs during 1998-99. It was only during 1998-99 that advances registered a growth rate of 805.85 % brought about by a rapid increase in advances during 1998-99 that C-D ratio went up from 4.20 % in 1997-98 to 41.91 % in 1998-99 and the growth rate of C-D ratio was the highest at 37.71 % during this year.

As on 31.03.98 total deposits mobilised by all the branches to the Bank in the Country amounted to Rs.19328 crores and advances extended by them aggregated to Rs.8670 crores.¹⁰ Hence C-D ratio of the Bank in the country as on this date stood at 44.86 %. In the state of Meghalaya the C-D ratio of the Bank as on the same date stood at only 4.20 %. This

implies that the Bank has a lot more to do in stimulating the economic development of the State either directly or indirectly.

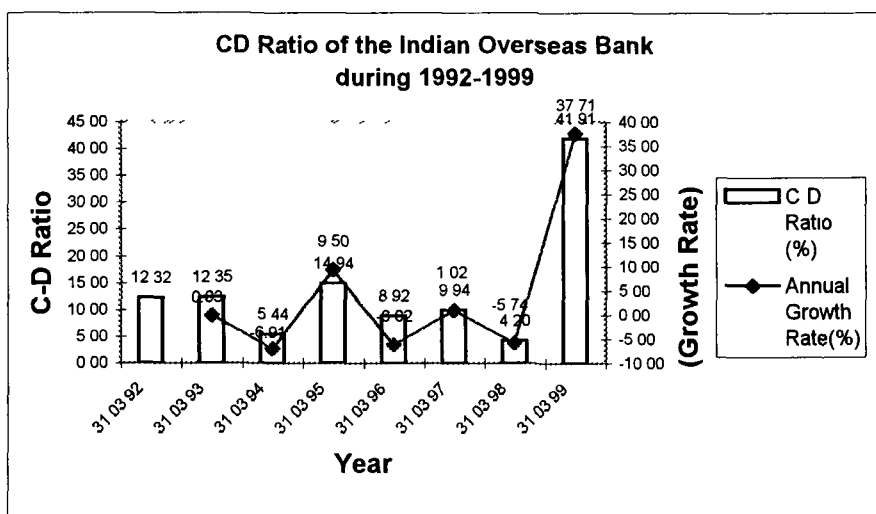
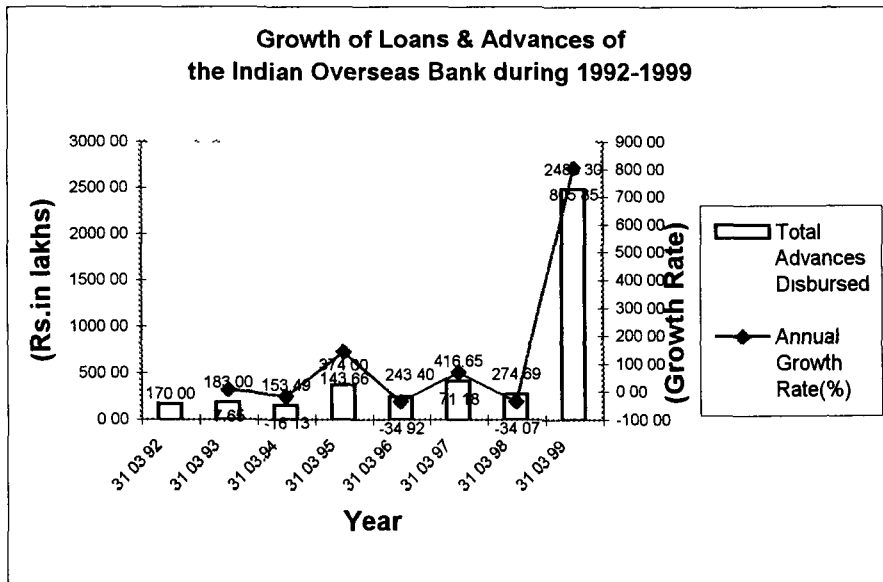
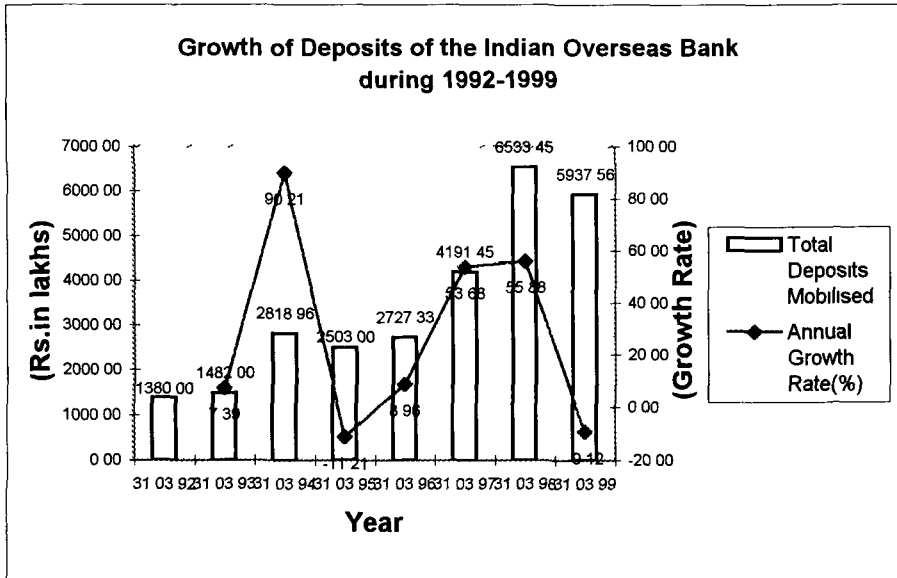
The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and credit-deposit ratio (Y_3) as a function of time (t) for eight years, from 31.03.92 to 31.03.99 has given the following results:

$$\begin{aligned} Y_1 &= 1086.06 + e^{0.23t} & R^2 &= 0.9134 \\ Y_2 &= 92.80 + e^{0.28t} & R^2 &= 0.5760 \\ Y_3 &= 8.54 + e^{0.05t} & R^2 &= 0.0351 \end{aligned}$$

The above results reveals that the exponential growth rates of the Indian Overseas Bank total deposits, total advances and C-D ratio for the eight years under study stood at 23 %, 28% and 05% respectively. Variations to the extent of 91.34% in total deposits, 57.60% in total advances and 03.51 % in credit-deposit ratio are explained by time factor, the rest are explained by other factors.

The graphical representation of the performances of the IOBis also shown in Fig-IX on the next page.

Figure - IX



Share in total deposits and advances of all banks.

The percentage share of the IOB in total deposits and total advances mobilised and disbursed by all the banks in the State is depicted in the following table 5:20.

TABLE 5:20
PERCENTAGE SHARE OF THE IOB IN TOTAL DEPOSITS
AND TOTAL ADVANCES

(Rs. in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by IOB	Percentage share of IOB	Total Advances Disbursed by all the banks	Total Advances Disbursed by IOB	Percentage share of IOB
1	2	3	4	5	6	7
31.3.92	50196.15	1380.00	2.75	10536.79	170.00	1.61
31.3.93	53330.82	1482.00	2.79	10781.59	183.00	1.69
31.3.94	66842.21	2818.96	4.22	13163.94	153.49	1.17
31.3.95	76030.00	2503.00	3.29	14464.76	374.00	2.59
31.3.96	88292.23	2727.33	3.09	15660.86	243.40	1.55
31.3.97	105641.22	4191.45	3.97	18572.36	416.65	2.24
31.3.98	125635.85	6533.45	5.20	21386.46	274.69	1.28
31.3.99	135697.56	5937.56	4.38	27873.44	2488.30	8.93

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

From the above table, it can be seen that the Bank constituted a share of 2.75 % in the State's total deposits and a share of 1.61 % in the States total disbursement. By 31.03.99 the share in total deposits rose to 4.38 % and a share in total advances rose to 8.93 %.

The table 5:20 reveals that the share of the IOB in total deposits has increased by 1.63 % in a period of eight years. The percentage share stood the highest at 5.20 % during 1997-98. This is due to the rise in the IOB's deposits from Rs.4191.45 in March'97 lakhs to Rs.6533.45 lakhs in March'98. In terms of advances the share of the Bank has increased by 7.32 % in a period of eight years.

The table 5:20 depicts the highest percentage share of the Bank in total advances during 1998-99 because of the major rise in advances during this year. As shown in the above table the share of the Bank in total deposits was greater than the share of the Bank in total advances in all the years except for 1998-99. This implies the fact that the Bank is not advancing according to the increase in deposits collected by it.

Advances to Priority Sector

The advances of the IOB to the Priority, Personal and Commercial Sector is shown in table 5:21 on the next page.

TABLE 5: 21
ADVANCE TO PRIORITY SECTOR

(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	183.00	40.00	21.86	143.00
31.12.93	238.00	18.13	7.62	219.87
30.09.94	117.46	30.27	25.77	87.19
30.06.95	374.00	31.97	8.54	342.03
31.12.96	467.40	32.31	6.91	435.09
31.12.97	233.00	39.48	16.94	193.52
31.03.98	274.69	39.28	14.30	235.41
31.03.99	2488.30	67.19	2.70	2421.11

SOURCE : S.L.B.C. Records, of Meghalaya, 1992-1999

The above table shows that the Bank has not achieved the stipulated norm of 40 % in their lending to Priority Sector except for 1991-92 and 1998-99. The percentage share of Priority sector advances to total advances reveals a fluctuating trend. It was the highest at 25.77 % as on 30.09.94 and the lowest at 2.70 % as on 31.03.99. Though there was a sharp increase in total advances of the Bank during this year, the advances to Priority sector was very small. It is important for the Bank being the nationalised bank to lend to the Priority Sector up to 40 %. In this way it can serve the needs of the poor and common people. As on March'99 the Bank was earning profits and hence it is essential for the Bank to increase Priority Sector Advances.

INDIAN BANK (INB)

The Bank was established in the month of July in Meghalaya. At the time of establishment, the Bank had only one branch with a staff strength of 8. By 31st March'99. The Bank had two branches one in Shillong and the other in Umden (Ri-Bhoi) with a staff strength of 28.

The performance of the INB in terms of total deposits, total advances and credit-deposit ratio for eight year period is shown in table 5:22 below.

TABLE 5:22
TOTAL DEPOSITS, TOTAL ADVANCES AND CREDIT-DEPOSIT RATIO OF INB DURING 1991-92 AND 1998-99

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	650.00		110.00		16.92	
31.3.93	779.75	19.96	139.26	25.46	17.86	0.94
31.3.94	995.85	27.71	169.73	21.88	17.04	-0.82
31.3.95	1284.00	28.94	228.00	34.33	17.76	0.72
31.3.96	1387.40	8.05	134.65	-40.94	9.71	-8.05
31.3.97	1396.90	0.68	166.03	23.30	11.89	2.18
31.3.98	2043.41	46.28	169.83	2.28	8.31	-3.58
31.3.99	3362.94	64.57	500.53	194.72	14.88	6.57

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

From the table 5:22, it shows that the Bank could collect aggregate deposits of Rs.650.00 lakhs as on 31.03.92 and total deposits of the Bank rose up to Rs.3362.94 lakhs. The table also shows the consistent increase in the amount of deposits collected by the Bank in a period of eight years i.e. from 1991-1999. The growth rate of deposits stood the highest at 64.57% during 1998-99 due to a substantial increase in deposits from Rs.2043.41 lakhs as on 31.03.98 to Rs.3362.94 lakhs as on 31.03.99. The lowest growth rate of deposits stood at only 0.68 % in 1996-97.

The table 5:22 also shows the irregular trend in the amount of loans extended by the Bank. It increased from Rs. 110.00 lakhs in 1991-92 to Rs.228.00 lakhs in 1994-95 fell down to Rs.134.65 lakhs in the following year and then rose up again to Rs.500.53 lakhs in 1998-99. The highest growth rate in advances of 194.72% was during 1998-99 brought about by a major rise in deposit mobilisation of the Bank.

The C-D ratio exhibits a fluctuating trend. It was the highest at 17.86 % in 1992-93 and the lowest at 8.31 % in 1997-98. The growth rate of C-D ratio was the highest at 6.57 % in 1998-99. The table reveals that the overall performance of the Bank in respect of C-D ratio is very poor not touching even 20 % in all the years.

As at end March'98 all the branches of the Bank in the country could mobilise Rs.140.22 crores deposits and out of

this amount the Bank as a whole extended Rs.5,746 crores.¹¹ Hence C-D ratio stood at 40.97 % as on 31.03.98. As on this particular date the Bank's C-D ratio in the State was only 8.31%, which is 32.66 % less than the Bank's all-India C-D ratio. This shows that the Bank's performance in the State with regard to advances is very poor.

The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and credit-deposit (Y_3) and time (t) for the period from 31.03.92 to 31.03.99 has yielded the following results:

$$Y_1 = 515.03 + e^{0.21t} \quad R^2=0.9354$$

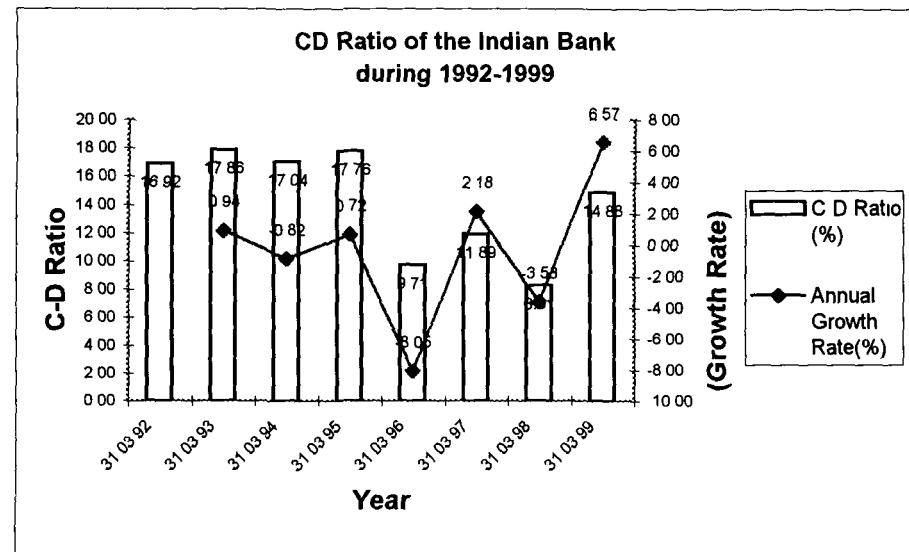
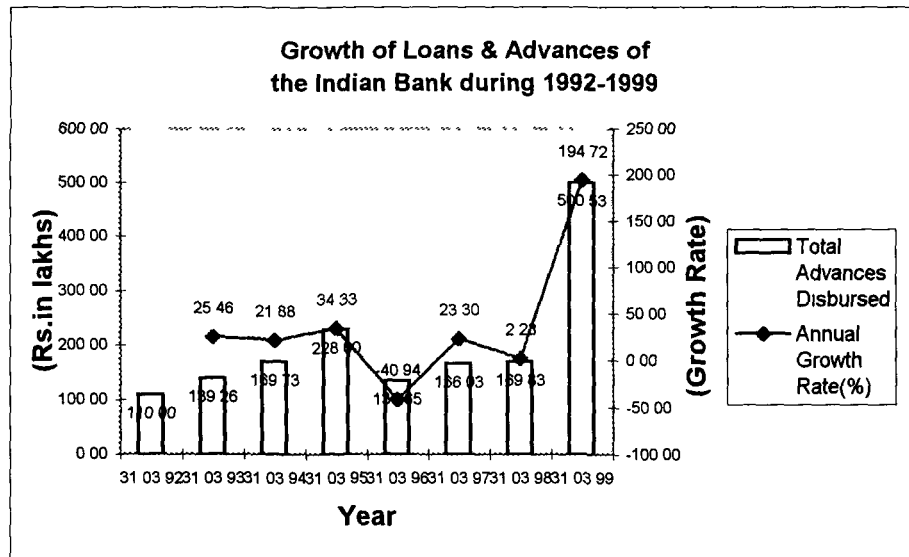
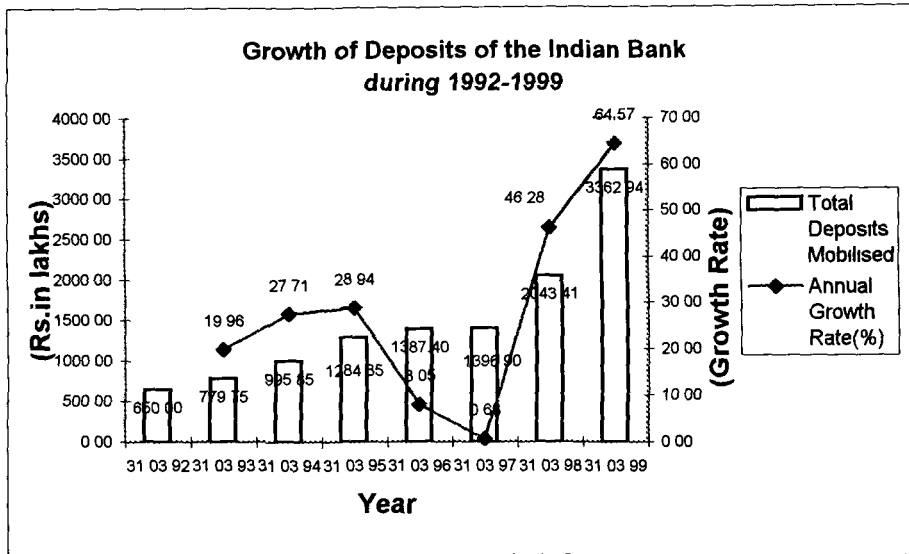
$$Y_2 = 100.09 + e^{0.13t} \quad R^2=0.4781$$

$$Y_3 = 19.43 + e^{-0.08t} \quad R^2=0.3911$$

The above results shows that the exponential growth rates of the Indian Bank total deposits, total advances and C-D ratio for the eight years under study stood at 21 %, 13% and -08% respectively. 93.54% in total deposits, 47.81% in total advances and 39.11% in credit-deposit ratio are explained by time factor.

The graphical representation of the performances of the INB is also shown in Fig-X on the next page.

Figure - X



Share in Total Deposits and Advances of all Banks.

The percentage share of the INB in total deposits and total advances is reflected in table 5 : 23 below:

TABLE 5: 23
PERCENTAGE SHARE OF INB IN TOTAL DEPOSITS
AND TOTAL ADVANCES
(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by INB	Percentage share of INB	Total Advances Disbursed by all the banks	Total Advances Disbursed by INB	Percentage share of INB
1	2	3	4	5	6	7
31.3.92	50196.15	650.00	1.29	10536.79	110.00	1.04
31.3.93	53330.82	779.75	1.46	10781.59	139.26	1.29
31.3.94	66842.21	995.85	1.49	13163.94	169.73	1.29
31.3.95	76030.00	1284.00	1.69	14464.76	228.00	1.58
31.3.96	88292.23	1387.40	1.57	15660.86	134.65	0.86
31.3.97	105641.22	1396.90	1.32	18572.86	166.03	0.89
31.3.98	125635.85	2043.41	1.63	21386.46	169.83	0.79
31.3.99	135697.56	3362.94	2.48	27873.44	500.53	1.80

SOURCES : Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table shows that the percentage share of the Bank in total deposits was very low, not touching even 3. It was the lowest at 1.29 in March'92 and the highest in March'99 at 2.48. The amount of deposits mobilised by the Bank increased from year to year but the percentage share of the Bank in total deposits does not show a consistent growth. This is because the increase in deposits mobilised by Indian Bank could not keep pace with the increase in all Bank's deposits during 1995 to 1997.

In the total advances the share of the Bank is very less, ranging between 1 and 2 %. The percentage share of the Bank in total advances exhibits a fluctuating trend. During 1993-94 total amount of loans extended by the Bank increased but percentage share remained constant. During 1997-98 the percentage share of the Bank in total advances declined though there was an increase in Bank's advances. The reason for this is that the total advances extended by all the Banks increased by 15.15 %, whereas the amount of loans extended by the Bank increased by only 2.28 % during this particular year. It is important for the Bank to raise up their advances as we see from the table 5:23 that the share of the Bank in total advances was less than the share of the Bank in total deposits during the eight years.

Advances to Priority Sector

The following table 5:24 on the next page reveals the financial assistance extended by the INB to the three sectors.

TABLE 5:24

ADVANCES TO PRIORITY SECTOR

(Rs.in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/ Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	139.26	71.99	41.69	67.27
31.12.93	244.89	67.32	27.49	67.32
30.09.94	238.39	48.58	20.38	189.81
30.06.95	124.95	42.44	34.00	82.51
31.12.96	147.77	89.01	60.23	58.76
31.12.97	168.97	91.22	53.99	77.75
31.03.98	169.83	94.32	55.54	75.51
31.03.99	500.53	108.58	21.69	391.95

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The table 5:24 reflects the decrease in Priority Sector advances extended by the Bank in the first four years and the increase in the last four years. The percentage share of the Bank's Priority Sector advances in total advances was the lowest at 20.38 % during Dec'93 and Sept'94. The decline in the percentage share was due to the fall in Priority Sector advances brought about by a decline in total advances. The percentage share was the highest at 60.23 % during June 1995 to December 1996. During this period only 39.77 % of the advances was extended to the other sectors. Personal and Commercial banking reveals a fluctuating trend. It reached the peak at Rs.391.95 lakhs during 1998-99. As on 31st March'99 the Bank in Meghalaya was earning profit of around Rs.40 lakhs. Hence, it is not harmful for the Bank to lend more to Priority Sector.

PUNJAB NATIONAL BANK (PNB)

In Meghalaya, the PNB was set up in 1970 at Police Bazar, Shillong. The number of branches stood at 6 as on 31.03.99. The branches are: (1) Police Bazar Branch, (2) Umlyngka Branch, (3) Kynton Branch, (4) Ladsohbar Branch, (5) Mawryngkneng Branch and (6) Mawiong Branch. The staff strength of the Branch which stood at 5 as on the date of establishment rose to 52 as at end March 1999.

The performance of the PNB in terms of total deposits, total advances and credit-deposit ratio is given in the following table:

TABLE 5:25
TOTAL DEPOSITS, TOTAL ADVANCES
AND CREDIT-DEPOSIT RATIO OF PNB
DURING 1991-92 AND 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	734.42		134.28		18.28	
31.3.93	781.38	6.39	162.19	20.78	20.76	2.48
31.3.94	1683.44	115.44	157.30	-3.01	9.35	-11.41
31.3.95	1362.00	-19.08	196.00	24.60	14.39	5.04
31.3.96	1583.24	16.24	183.43	-6.41	11.59	-2.80
31.3.97	2293.00	44.83	242.00	31.93	10.55	-1.04
31.3.98	2020.00	-11.91	307.79	27.19	15.24	4.69
31.3.99	2155.77	6.72	372.72	21.10	17.29	2.05

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table reveals the aggregate deposits of the Bank in the State as on 31.03.92 amounted to Rs.734.42 lakhs. After a period of eight years deposit mobilisation of the Bank went up to Rs.2155.77 lakhs. The amount of deposits mobilised by the Bank in a period of eight years as shown in the table 5:32, reveals inconsistency in its growth. The Bank could collect the highest level of deposits during 1996-97 amounting to

Rs.2293.00 lakhs. The growth rate of the Bank's deposit mobilisation was the highest at 115.41% during 1993-94, when the deposits mobilised by the Bank jumped from Rs.781.38 lakhs in March 1993 to Rs.1683.24 lakhs in March 1994. The growth rate of deposits was the lowest at -19.08 % in 1994-95.

As on 31.03.92 the total advances of the Bank stood at Rs. 134.28 lakhs and increased to Rs. 372.72 lakhs as on 31.03.99. The Bank could extend the highest amount of credit during 1998-99 aggregating to Rs.372.72 lakhs. The growth rate of advances was the highest at 27.19 % during 1997-98 in which there was an increase in the amount of advances from Rs.242.00 lakhs in March 1997 to Rs.307.79 lakhs in March '98.

The C-D ratio of the Bank was the highest at 20.76 % during 1992-93 because the advances increased by 20.78 %, whereas deposits increased by only 6.39 % during this particular year. The growth rate of C-D ratio was the highest at 5.04 % in 1994-95 and the lowest at -11.41 % in 1993-94. The table as a whole reflects that the C-D ratio of the Bank in the State is very low. As on 31.03.99 the Bank's C-D ratio stood at 17.29 % which is less than the State's ratio of 20.54%.

Advances made by the Bank so far is very poor comparing to the All-India figure. As on 31.03.98 the Bank in the entire country could mobilise deposits of Rs.35174 crores and out of this amount Rs.16042 crores was advanced.¹ Hence C-D ratio of

the Bank as on this date stood at 45.60%.¹² This ratio is high above the C-D ratio of the Bank in the State, which stood at 15.24 % as on the same date. This picture demands the Punjab National Bank in the State to find out ways and strategies in stepping up their advances.

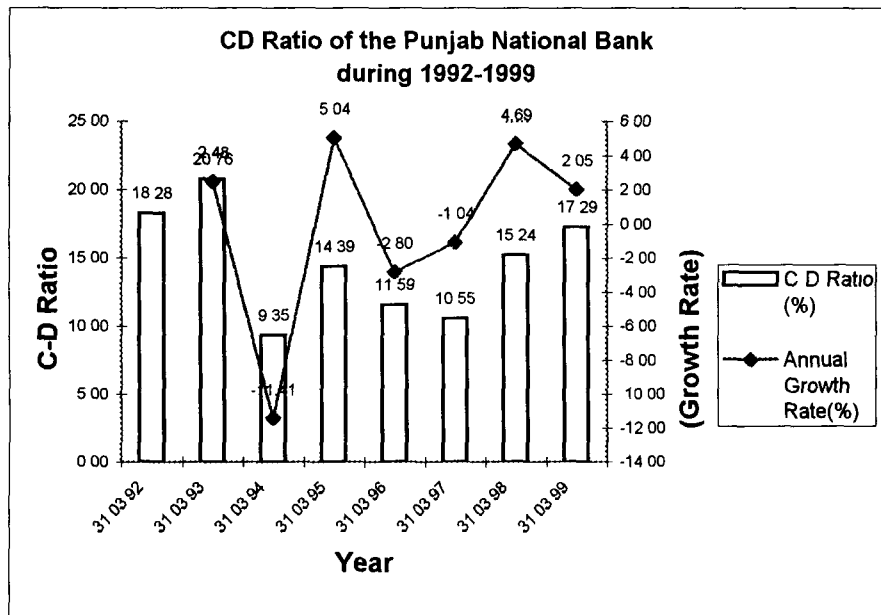
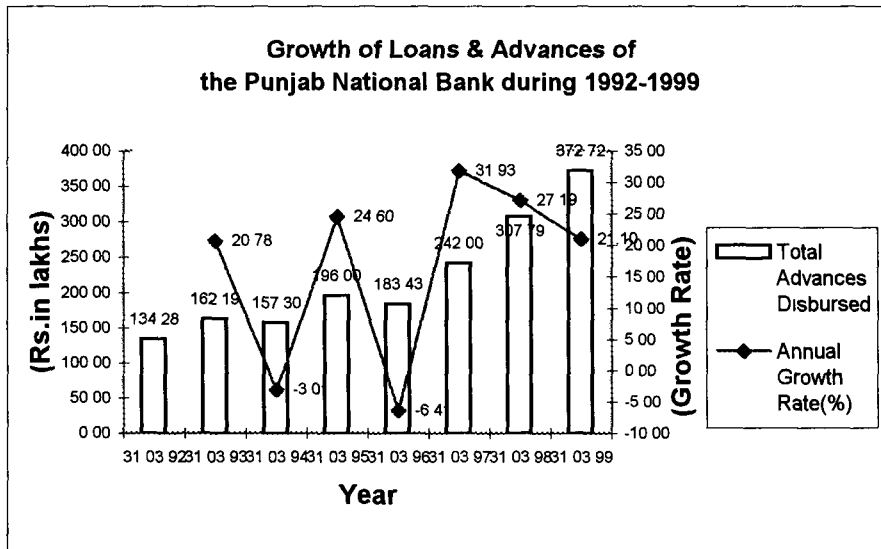
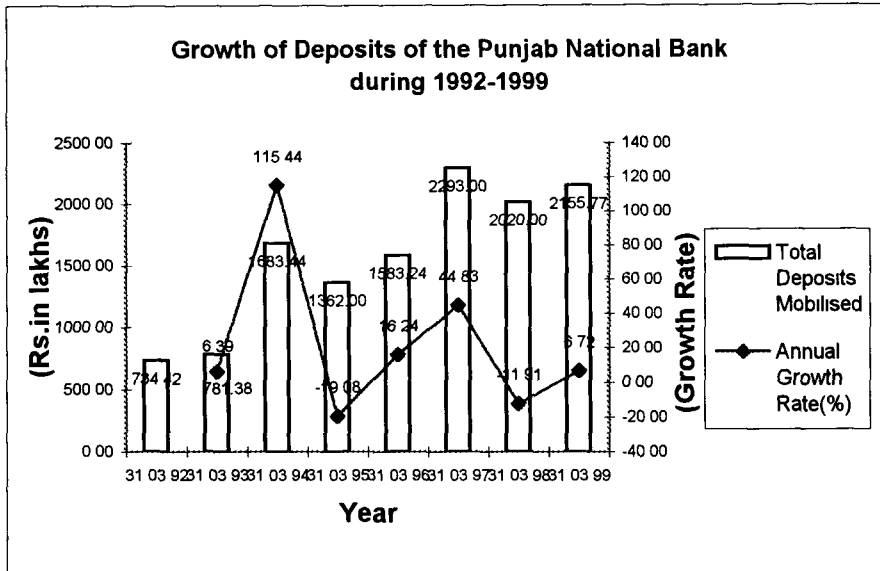
The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and credit-deposit (Y_3) and time (t) for the period from 31.03.92 to 31.03.99 has yielded the following results:

$$\begin{array}{ll}
 Y_1 = 714.21 + e^{0.16t} & R^2=0.7842 \\
 Y_2 = 111.53 + e^{0.14t} & R^2=0.9194 \\
 Y_3 = 15.61 + e^{-0.02t} & R^2=0.0342
 \end{array}$$

The exponential growth rates of total deposits, total advances and C-D ratio of the PNB for the eight years under study stood at 16%, 14% and 02% respectively. The variations to the extent of 78.42% in total deposits, 91.94% in total advances and 03.42% in credit-deposit ratio have been accounted for by time factor.

The graphical representation of the performances of the PNB is also shown in Fig-XI on the next page.

Figure - XI



Share in Total Deposits and Advances of all Banks.

The percentage share of the PNB in total deposits and total advances is given in the following table.

TABLE 5:26
PERCENTAGE SHARE OF PNB
IN TOTAL DEPOSITS AND TOTAL ADVANCES
(Rs. in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by PNB	Percentage share of PNB	Total Advances Disbursed by all the banks	Total Advances Disbursed by PNB	Percentage share of PNB
1	2	3	4	5	6	7
31.3.92	50196.15	734.42	1.46	10536.79	134.28	1.27
31.3.93	53330.82	781.38	1.46	10781.59	162.19	1.50
31.3.94	66842.21	1683.24	2.52	13163.94	157.30	1.19
31.3.95	76030.00	1362.00	1.79	14464.76	196.00	1.36
31.3.96	88292.23	1583.24	1.79	15660.86	183.43	1.17
31.3.97	105641.22	2293.00	2.17	18572.36	242.00	1.30
31.3.98	125635.85	2020.00	1.61	21386.46	307.79	1.44
31.3.99	135697.56	2155.77	1.59	27873.44	372.72	1.34

SOURCES: Compiled from data collected from:

(i) Finance Department, Government of Meghalaya, 1998.

(ii) *S.L.B.C. Records.*

The above table reveals that the PNB constituted a share of 1.46 % in total deposits mobilised by all the banks in the State and a share of 1.27 % in total amount of loans extended by the banks as at end March'92. The share in total deposits increased to 1.59 % and a share in total advances increased to 1.34 % as at end March'99.

The table 5:26 shows that there was a marginal growth rate of the percentage share of the Bank in total deposits during a period of eight years. During 1992-93 and during 1995-96 the percentage share of the Bank in total deposits remained constant. This is because the increase in the deposits mobilised by the Bank is equivalent to the increase in the deposits mobilised by all the Banks in the State. The percentage share of the Bank was the highest at 2.52 in 1993-94 and the lowest at 1.46 in 1992-93.

The percentage share of the Bank in terms of advances was very low not crossing even 2 %. The share of the Bank in total advances was the highest at 1.50 % during 1992-93 and the lowest at 1.17 % in 1995-96. The table reveals that the share of the Bank in total deposits was greater than the share of the Bank in total advances in all the years except for 1992-93. This reveals the fact that the Bank lends very less in comparing to the deposits collected by them.

Advances to Priority Sector

Financial assistance granted by the Bank to Priority Sector as well as the Personal and Commercial credit is depicted in table 5:27 on the next page.

TABLE 5: 27
ADVANCE TO PRIORITY SECTOR
(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	134.28	88.21	65.69	46.07
31.12.93	154.72	86.94	56.19	67.78
30.09.94	167.10	96.55	57.77	50.55
30.06.95	176.27	105.96	60.11	70.31
31.12.96	214.00	99.00	46.26	115.00
31.12.97	395.00	124.00	31.39	271.00
31.03.98	307.79	124.82	40.55	182.97
31.03.99	372.72	170.76	45.81	201.96

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table shows that advances to Priority Sector took the lead in the first half and advances to the other sectors took the lead in the second half. Even in the latter years the Bank had crossed the stipulated norm of 40 % in their advances to Priority Sector except for 1996-97. In the recent years housing loans car loans and loans to trader constituted a major portion of the Bank's advances. This caused the amount of loans extended for personal services and to commercial units to figure high in the table. The Bank's officials find it more profitable to lend to salaried employees in which the repayment is more feasible. The Bank in Meghalaya as at end March'99 was achieving profits and hence it is not harmful for the Bank to cross the norm of 40 % in their advances to Priority Sector.

SYNDICATE BANK (SYN)

The Bank was incorporated on 13th August 1981 at G.S. Road, Shillong in Meghalaya. The member of staffs has increased from 5 as on the date of establishment to 21 as at end March'99. The G.S. Road Shillong Branch is the only branch of the Bank in the State.

The performance of the SYN Bank in terms of total deposits, total advances and credit-deposit ratio during 1991-92 to 1998-99 is depicted in the following table.

TABLE 5: 28
TOTAL DEPOSITS, TOTAL ADVANCES
AND CREDIT-DEPOSIT RATIO OF SYN BANK
DURING 1991-92 TO 1998-99

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	680.00		102.20		15.03	
31.3.93	731.52	7.51	120.46	17.87	16.47	1.44
31.3.94	927.66	26.81	130.64	8.45	14.08	-2.39
31.3.95	1113.00	19.98	167.00	27.83	15.00	0.92
31.3.96	1456.74	30.88	168.55	1.11	11.59	-3.41
31.3.97	1503.28	3.19	169.54	0.41	11.28	-0.31
31.3.98	1840.00	22.40	182.00	7.35	9.89	-1.39
31.3.99	2779.00	51.03	243.59	33.84	8.77	-1.12

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The table 5:28 shows that as on March 1992, the aggregate deposits of the Bank in the State amounted to Rs.680.00 lakhs. The aggregate deposits of the Bank registered a growth of 309 in a period of eight years under study, when it rose to Rs. 2779.00 lakhs as on 31.03.99. The deposits mobilised by the Bank as revealed in the table 6:35 has increased from year to year. The growth rate of deposits was the highest at 51.03 % in 1998-99 and the lowest at 3.19% in 1996-97.

The total advances disbursed by the Bank increased from Rs. 102.20 lakhs as on 31.03.92 to Rs. 243.5 lakhs as on 31.03.99 recorded a growth of 138%. There was also a consistent increase in total advances disbursed by the Bank. The growth rate of advances was the highest during the year 1998-99 at 33.84 % when advances increased from Rs. 182.00 lakhs in March 1998 to Rs.243.59 lakhs in March 1999.

The C-D ratio of the Bank has declined right from 1993. The growth rate of C-D ratio remained negative right from 1995 to 1999. This is because the increase in total advances could not keep pace with the increase in deposits. Looking at the table we find that the C-D ratio of the Bank has been very low especially in the latter two years. The Bank could not recover all of its loans extended and that is why it hesitated to part with more funds.

As at end March'99 the Bank has only one branch in the State when there are 1669 branches in the country. Global

deposits of the Bank increased from Rs.16816 crores as on March 98 to Rs.19914 crores as on March'99 with a growth rate of 18.42 %. Global credit increased from Rs.7743 crores to Rs 10020 crores with a growth rate of 29.41 % during the same period.² Hence, C-D ratio of the Bank as at end. March'99 stood at 50.32 %, whereas C-D ratio of the Bank in the State as on the same date stood at only 8.77 %.

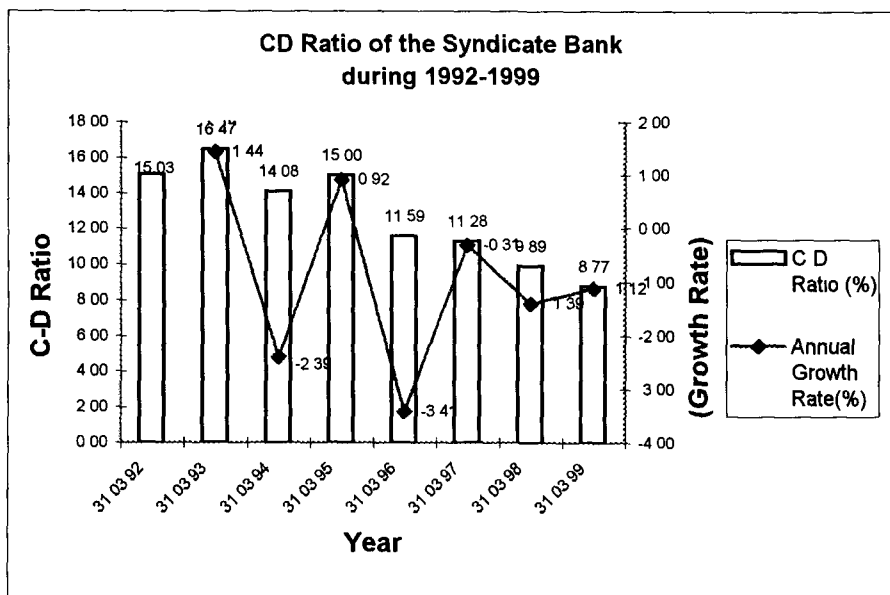
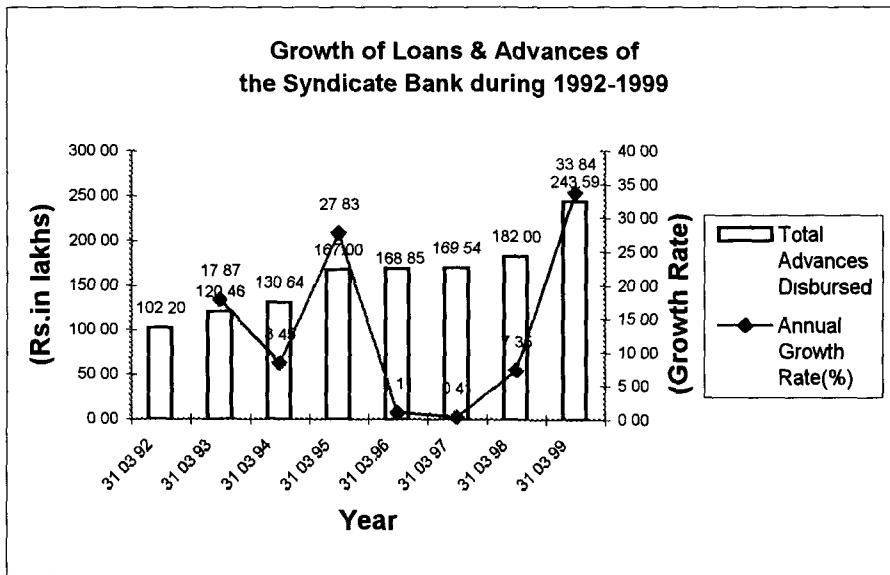
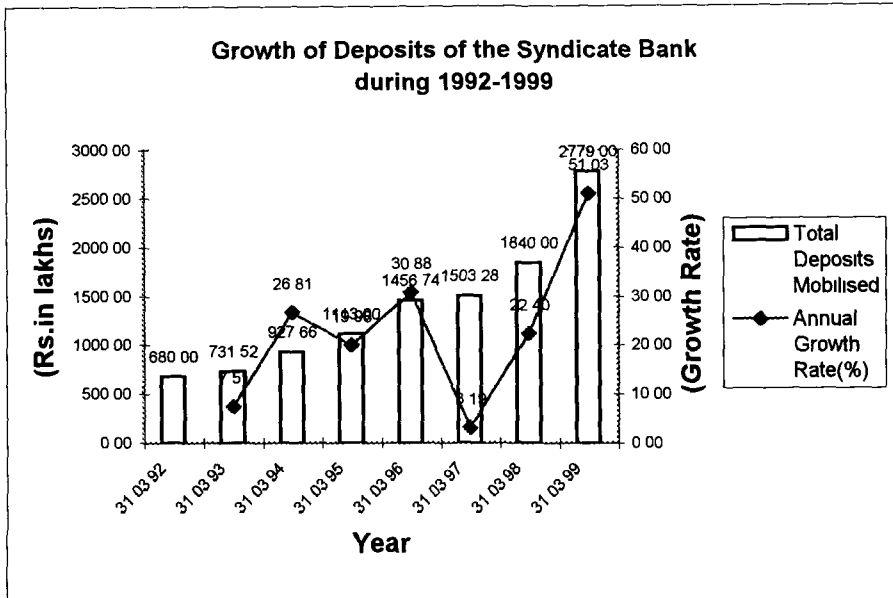
The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) gives the following results:

$$\begin{array}{ll}
 Y_1 = 522.93 + e^{0.19t} & R^2=0.9711 \\
 Y_2 = 96.31 + e^{0.11t} & R^2=0.9189 \\
 Y_3 = 18.41 + e^{-0.09t} & R^2=0.8820
 \end{array}$$

The above results that the exponential growth rates of the SYN Bank total deposits, total advances and C-D ratio from 31.03.92 to 31.03.99 stood at 19 %, 11% and 09% respectively. The variations to the extent of 97.11% in total deposits, 91.89% in total advances and 88.20% in credit-deposit ratio are accounted by time factor and the rest of the three percentage are explained by other factors besides time.

The graphical representation of the performances of the SYN Bank is also shown in Fig-XII on the next page.

Figure - XII



Share in Total Deposits and Advances of all Banks.

The percentage share of the SYN Bank in total deposits and total advances is given in table 5:29 below:

TABLE 5:29
PERCENTAGE SHARE OF SYN BANK IN TOTAL DEPOSITS AND TOTAL ADVANCES

(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by SYN Bank	Percentage share of SYN Bank	Total Advances Disbursed by all the banks	Total Advances Disbursed by the SYN Bank	Percentage share of SYN Bank
1	2	3	4	5	6	7
31.3.92	50196.15	680.00	1.35	10536.79	102.20	0.97
31.3.93	53330.82	731.52	1.37	10781.59	120.46	1.11
31.3.94	66842.21	927.66	1.39	13163.94	130.64	0.99
31.3.95	76030.00	1113.00	1.46	14464.76	167.00	1.15
31.3.96	88292.23	1456.74	1.65	15660.86	168.55	1.08
31.3.97	105641.22	1503.28	1.42	18572.86	169.54	0.91
31.3.98	125635.85	1840.00	1.46	21386.46	182.00	0.85
31.3.99	135697.56	2779.00	2.05	27873.44	243.59	0.87

SOURCES : Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table reveals the share of the Bank in total deposits and advances is very low as shown in the table below. The main reason for this is that the Bank has only one branch in the State and hence it could not collect more as well as advance more.

It can be seen that the percentage share of the Bank in total deposits has increased from 1.35 in 1991-92 to 2.05 in 1998-99. The percentage share in total deposits stood the highest during 1998-99 when deposits of the Bank had increased by 51.03. It was the lowest at 1.35 in 1991-92.

The percentage share of the Bank in total advances was the highest at 1.11 in 1992-93 and the lowest at 0.85 in 1997-98. The Bank like any other banks in the State has problems in recovering back their loans and therefore could not increase its deposits.

Advances to Priority Sector

Syndicate Bank being the nationalised Bank has to extend financial assistance to Priority Sector. The amount of loans extended to this sector and to the other sectors from 1992 to 1999 is revealed in following table.

TABLE 5:30
ADVANCE TO PRIORITY SECTOR
(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	120.46	11.04	9.16	109.42
31.12.93	102.89	10.22	9.93	92.67
30.09.94	152.59	18.30	12.02	133.99
30.06.95	167.00	20.46	12.25	146.54
31.12.96	153.71	25.84	16.81	127.87
31.12.97	169.00	47.00	27.81	122.00
31.03.98	182.00	38.00	20.88	144.00
31.03.99	243.59	52.51	21.56	191.08

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

Looking at the table 5:30 we see that the advances made by the Bank to Priority Sector was very small not touching the stipulated norm of 40 %. Throughout the eight years under study, more loans was advanced by the Bank to the other sectors. The percentage share of the Bank's priority sector advances in total advances was the highest at 21.56 % as on 31.03.99 and the lowest at 9.16 % as on 31.12.92. It is essential for the SYN Bank to step up their advances to Priority Sector as it can be seen from the table that a small portion of its total advances was extended to this sector. The Bank having only one branch in the State and that branch was facing losses. Hence it is not possible for the Bank to increase its Priority Sector Advances.

UCO BANK

UCO Bank was set up on March 1974 in Meghalaya. By 31.03.99 the Bank has four branches in the State. The branches are (1) Shillong Branch, (2) Cherrapunjee Branch, (3) Shella Branch and (4) Balat Branch. As on March '99 the staff strength of the Bank stood at 54.

The performance of the UCO bank in terms of total deposits, total advances and credit-deposit ratio for eight year period is given in table 5: 31 on the next page.

TABLE 5: 3i
TOTAL DEPOSITS, TOTAL ADVANCES
AND CREDIT-DEPOSIT RATIO OF UCO BANK
DURING 1991-92 TO 1998-99

(Rs. in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	1320.00		270.00		20.45	
31.3.93	1580.00	19.69	395.00	46.30	25.00	4.55
31.3.94	1964.00	24.30	648.00	64.05	33.00	8.00
31.3.95	2153.00	9.62	698.00	7.72	32.42	-0.58
31.3.96	3155.00	46.54	723.00	3.58	22.92	-9.5
31.3.97	3778.00	19.75	714.00	-1.24	18.90	-4.02
31.3.98	4046.80	7.09	490.00	-31.37	12.11	-6.79
31.3.99	4924.00	21.70	425.00	-13.27	8.63	-3.48

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The table 5: 3i reveals that as at end March'92, the total deposits collected by the Bank in the State amounted to Rs.1320.00 lakhs. The table also reveals the consistent increase in the amount of deposits collected by the Bank in the State during the eight years. The growth rate of deposits was the highest at 24.30 % during 1993-94, when there was a sharp increase in the amount of deposits mobilised by the Bank from Rs.1580.00 lakhs as on 31.03.93 to Rs.1964.00 lakhs as on 31.03.94. The lowest growth rate stood at 7.09 % as on 31.03.98.

The amount of loans extended by the Bank as given in the above table increased in the first five years and decreased in the last three years. The growth rate of advances was the highest at 64.05 % during 1993-94 due to a sharp rise in advances from Rs.395.00 lakhs as on March'93 to Rs.648.00 lakhs as on March 94. It was the lowest at 31.57 % during 1997-98. When advances dropped from Rs.714.00 lakhs in March'97 to Rs.490.00 lakhs in March'98.

The increase in total deposits and total advances during 1993-94, yielded the highest C-D ratio of 33.00 % during the same year. The table reflects the decline in C-D ratio from 1994-95 onwards. The growth rate of C-D ratio was the highest at 8.00 % during 1993-94 and the lowest at -9.50 % in 1995-96. The C-D ratio of the bank of 8.63 % was far below the State's ratio of 20.54 % as on 31.03.99. This is because the Bank could not recycle their funds.

The overall performance of the Bank in the State is not satisfactory as the Bank could not recover all their loans in due time. The Bank was compelled to contract its advances as it could not go on taking risks. Moreover, it cannot rely on its central office as the Bank in the entire country was incurring huge losses.

The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) for the

period from 31.03.92 to 31.03.99 has yielded the following results:

$$Y_1 = 1088.39 + e^{0.19t} \quad R^2=0.9823$$

$$Y_2 = 405.32 + e^{0.05t} \quad R^2=0.1396$$

$$Y_3 = 37.24 + e^{-0.14t} \quad R^2=0.5365$$

The above results that the exponential growth rates of UCO bank total deposits, total advances and C-D ratio for the period of eight years stood at 19 %, 05% and -14% respectively. 98.23% of the variations in total deposits, 13.96% in total advances and 53.65% in credit-deposit ratio are explained by time factor.

The graphical representation of the performances of the UCO Bank is also shown in Fig-XIII on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the UCO Bank in terms of total deposits and total advances is depicted in the following table 5:32.

Figure - XIII

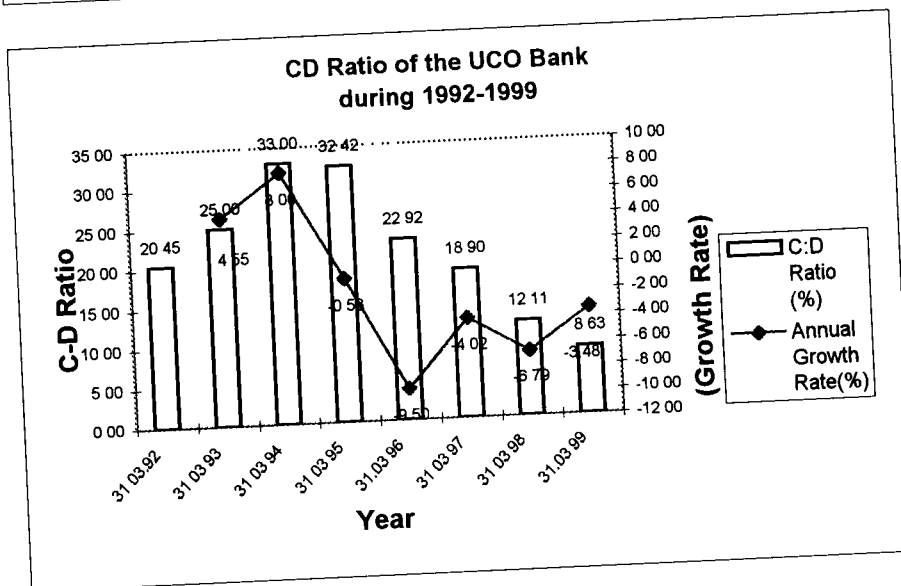
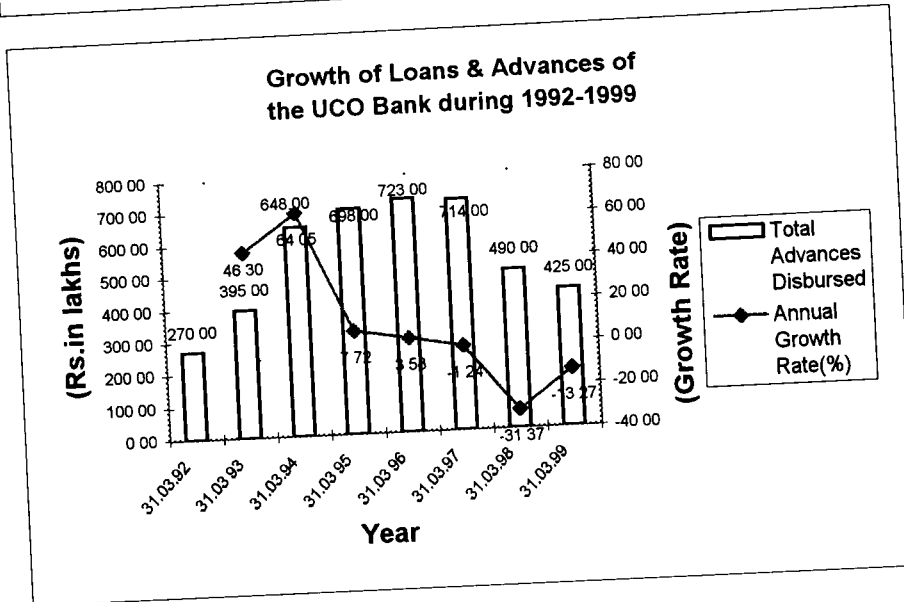
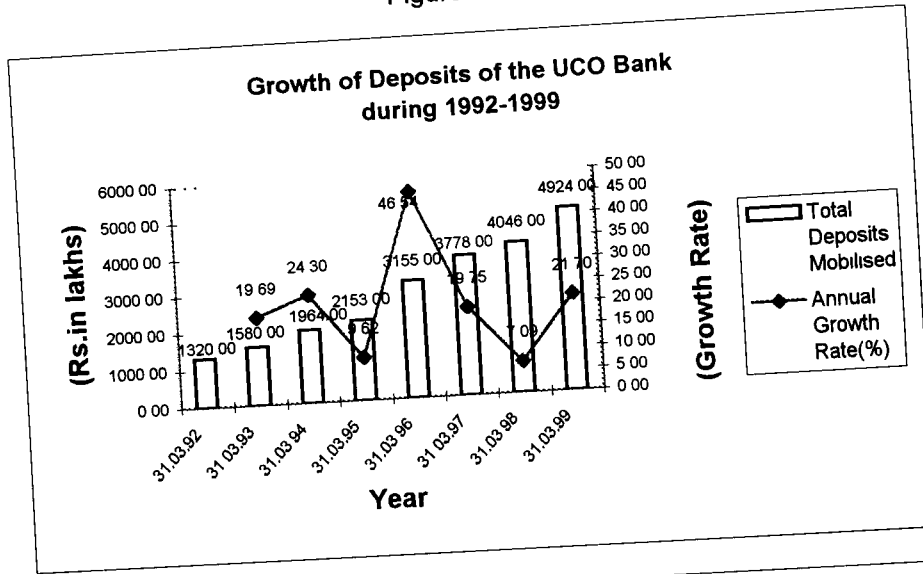


TABLE 5:34
PERCENTAGE SHARE OF UCO BANK
IN TOTAL DEPOSITS
AND TOTAL ADVANCES

(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the UCO Bank	Percentage share of UCO Bank	Total Advances Disbursed by all the banks	Total Advances Disbursed by the UCO Bank	Percentage share of UCO Bank
1	2	3	4	5	6	7
31.3.92	50196.15	1320.00	2.63	10536.79	270.00	2.56
31.3.93	53330.82	1580.00	2.96	10781.59	395.00	3.66
31.3.94	66842.21	1964.00	2.94	13163.94	648.00	4.92
31.3.95	76030.00	2153.00	2.83	14464.76	698.00	4.82
31.3.96	88292.23	3155.00	3.57	15660.86	733.00	4.68
31.3.97	105641.22	3778.00	3.58	18572.86	714.00	3.84
31.3.98	125635.85	4046.00	3.22	21386.46	490.00	2.29
31.3.99	135697.56	4924.00	3.63	27873.44	425.00	1.52

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The above table shows that as at end March 1992 the Bank accounted for a share of 2.63 % in total deposits and a share of 2.56 % in total advances. The percentage share in total deposits had increased to 3.63 and the share in total advances had declined to 1.52 by the end of March '99.

UCO Bank having four branches in the State has a better percentage share in total deposits mobilised by all the Banks in the State. The highest percentage share of the Bank in total

deposits stood at 3.63 % in 1998-99, when deposits mobilised by the Bank had increased by 21.70 % during this the Bank had increased by 21.70 % during this year It was the lowest at 2.63% in 1991-92.

The percentage share of the Bank in total advances was the highest at 4.92 % during 1993-94, when advanced has increased by 64.05 % during this year. It was the lowest at 1.52 % in 1998-99. The percentage share of the Bank in total advances fluctuated. It increased from 2.56 % in 1991-92 to 4.92 % in March 99. The Bank with its four branches has a better percentage share in both deposits and advances but it should not be satisfied with its present achievement. It has to collect more and advance more in the coming years.

• **Advances to Priority Sector**

Credit assistance extended by the Bank to Priority Sector and to the Personal and Commercial finance is given in table 5: 53 in the next page.

TABLE 5: ३
ADVANCESTO PRIORITY SECTOR

(Rs.in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	395.00	201.00	50.89	194.00
31.12.93	386.61	210.53	54.46	176.08
30.09.94	664.00	228.00	34.33	436.00
30.06.95	684.00	243.00	35.52	441.00
31.12.96	459.00	266.00	57.95	193.00
31.12.97	489.00	305.00	62.37	184.00
31.03.98	490.00	315.00	64.28	175.00
31.03.99	425.00	267.00	62.82	158.00

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table shows that the amount of loans extended by the Bank to Priority Sector increased from Rs.201.00 lakhs as on 31.12.92 to Rs.267.00 lakhs as on 31.03.99. The highest amount was advanced by the Bank as on 31.03.98 which stood at Rs.315.00 lakhs and the lowest amount of Rs.201.00 lakhs was advanced in Dec 92. The percentage share of the Bank's priority sector advances in its total advances exhibits a fluctuating trend. It was the highest at 64.28 % as on 31.03.98 and the lowest at 34.33 % as on 30.09.94. In the last three years the Bank lent more than 60 % to the Priority sector. It was only during 1993 to 1995 that the advances to Priority sector was below 40 %. During these two years the Bank had given more car loans and loans for the establishment of business units. The Bank in Meghalaya as at end March 99 was enjoying profits of

more than 1 crore. This enabled the Bank to give more to Priority Sector.

UNION BANK (UNB)

In Meghalaya, the Bank was set up in 1976, four years after the State attained its statehood. At the time of its inception the Bank had two branches. By 31st March 99 the Bank has three branches in the State viz., Shillong Branch, Tura Branch and Anogiri Branch. The member of staffs stood at 38 as on the same date.

The performance of the UNB in terms of total deposits, total advances and credit-deposit ratio during 1991-92 to 1998-99 is shown below:

TABLE 5: 134

TOTAL DEPOSITS, TOTAL ADVANCES AND CREDIT-DEPOSIT RATIO OF UNB DURING 1991-92 TO 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	832.00		380.00		45.67	
31.3.93	943.96	13.46	478.54	25.93	50.69	5.02
31.3.94	1394.53	47.73	255.31	-46.65	18.31	-32.38
31.3.95	1716.00	23.05	270.00	5.75	15.73	-2.58
31.3.96	2178.25	26.94	382.85	41.80	17.58	1.85
31.3.97	2907.61	33.48	279.77	-26.92	9.62	-7.96
31.3.98	2968.63	2.10	344.12	23.00	11.59	1.97
31.3.99	2140.60	27.89	412.50	19.87	19.27	7.68

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

The table 5:34 shows that the Bank could mobilise Rs.832.00 lakhs deposits as on 31.03.92. As at end March'99 deposit mobilisation of the Bank increased to Rs.2140.60 lakhs, recorded growth of 157%. From the table 5:34 we can see that there was a consistent growth in the amount of deposits mobilised by the Bank except for 1998-99. The growth rate of deposits reached the peak at 47.73% in March'94 and the lowest at 2.10% in March'98.

The amount of loans extended by the Bank as shown in the above table fluctuated from year to year. The highest percentage growth rate of advances was during 1995-96 at 41.80 % and the lowest growth rate was during 1993-94 at -46.65%. During 1993-94 and 1996-97 the table above shows a decline in the amount of loans extended by the Bank even though there was a positive growth in the Bank's deposit mobilisation during these years.

The C-D ratio fell down by 26.40 % in a period of eight years. The ratio had even reached the lowest point of 9.62 % in March'97 and then picked up in the latter two years, when the Bank increased their advances. The Bank like any other bank in the State could not recycle its funds for many years and this has caused the C-D ratio to be very low. In fact the growth rate of C-D ratio was the highest at 7.68 % in 1998-99.

As at end March'99 total deposits of the Bank aggregated to Rs. 28135 crores and total advances amounted to Rs.11308

crores, yielding a C-D ratio of 40.19%.¹⁴ The C-D ratio of the Bank in Meghalaya as on the same date stood at only 19.27%. This clearly shows that the Bank's C-D ratio in the State was far below the All- India C-D ratio.

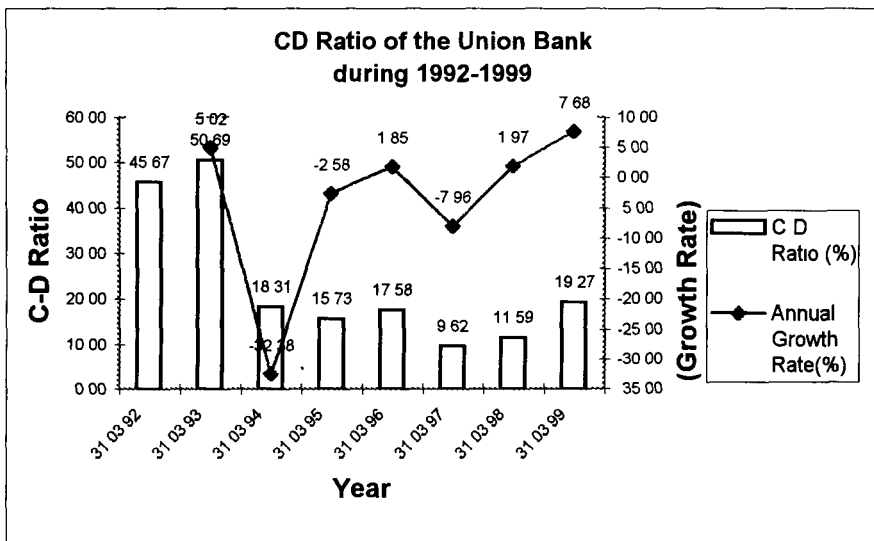
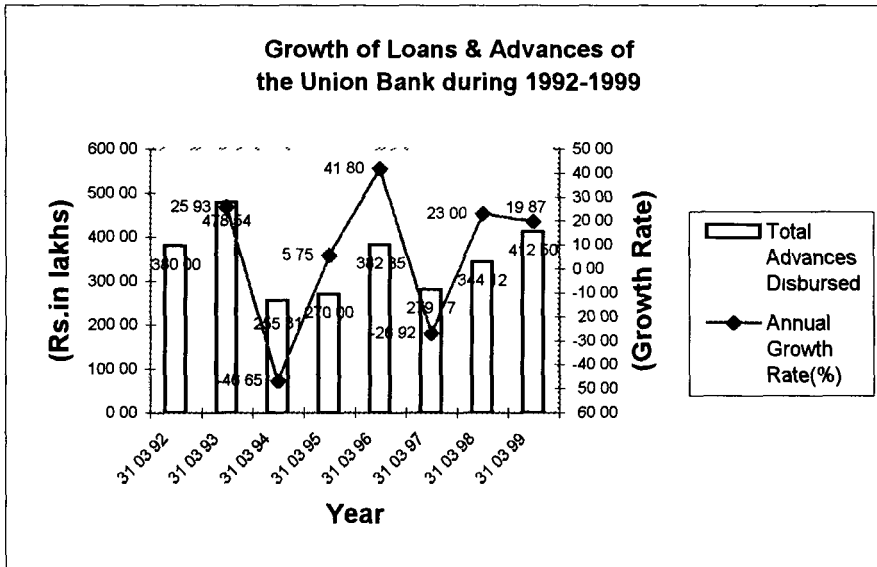
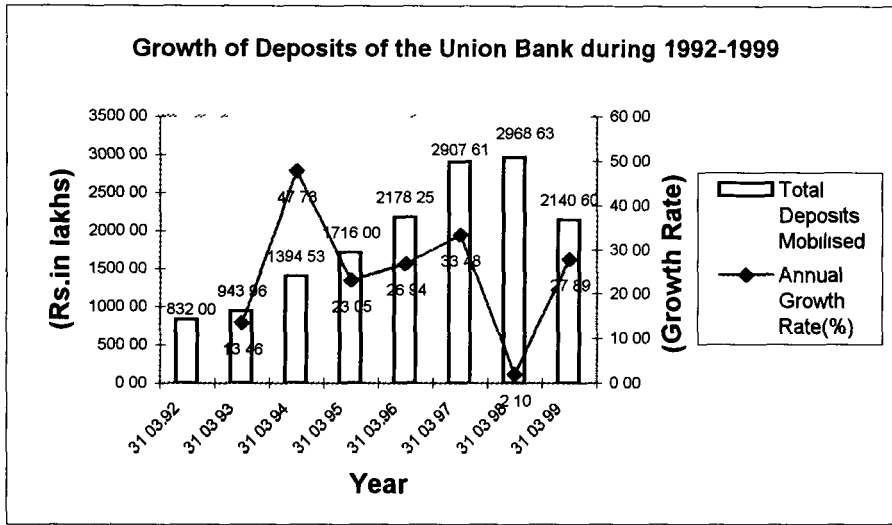
The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) for the period of eight years from 31.03.92 to 31.03.99 has given the following results:

$$\begin{array}{ll}
 Y_1 = 777.71 + e^{0.18t} & R^2=0.8090 \\
 Y_2 = 351.15 + e^{-0.01t} & R^2=0.0033 \\
 Y_3 = 45.15 + e^{-0.18t} & R^2=0.5610
 \end{array}$$

The linear relationship as shown above indicates that the exponential growth rates of UNB total deposits, total advances and C-D ratio for the period of eight years stood at 18 %, 01% and -18% respectively. The variations to the extent of 80.90% and .56.10% in credit-deposit ratio are explained or accounted for by time factor.

The graphical representation of the performances of the UNB is also shown in Fig-XIV on the next page.

Figure - XIV



Share in Total Deposits and Advances of all Banks.

The percentage share of the UNB in total deposits and total advances is shown in the following table.

TABLE 5: 35
**PERCENTAGE SHARE OF UNB IN TOTAL DEPOSITS
AND TOTAL ADVANCES**

(Rs. in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the UNB	Percentage share of UNB	Total Advances Disbursed by all the banks	Total Advances Disbursed by the UNB	Percentage share of UNB
1	2	3	4	5	6	7
31.3.92	50196.15	832.00	1.66	10536.79	380.00	3.61
31.3.93	53330.82	943.96	1.77	10781.59	478.54	4.44
31.3.94	66842.21	1394.53	2.09	13163.94	255.31	1.94
31.3.95	76030.00	1716.00	2.25	14464.76	270.00	1.87
31.3.96	88292.23	2178.25	2.47	15660.86	382.85	2.44
31.3.97	105641.22	2907.61	2.75	18572.86	279.77	1.51
31.3.98	125635.85	2968.63	2.36	21386.46	344.12	1.61
31.3.99	135697.56	2140.60	1.58	27873.44	412.50	1.48

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

As can be seen from the above table, the total deposits of Rs.50196.15 lakhs collected by all the Banks in the State, union Bank accounted for a share of 1.66 %. In the total advances of Rs.10536.79 lakhs disbursed by all the Banks in State, Union Bank constituted a share of 3.61 %.

The percentage share of the Bank in total deposits increased from 1992-1997 because of the increase in the Bank's deposits. During 1997-98 the share declined even though deposits of the Bank increased. This is because the growth rate of the deposits collected by all the banks in the State was greater than the growth rate of deposits mobilised by Union Bank. During 1998-99 the share of the Bank in total deposits declined because of the fall in the Bank's deposits.

The percentage share of the Bank in terms of advances varied from year to year. This is mainly because the change in the amount of loans granted by the Bank did not match with the change in the amount of loans extended by all the banks in the State. The Bank could share the major portion of 4.44 % in the total advances in 1992-93 because of the increase in Bank's advances by 25.93 %. The lowest percentage share of the Bank in total advances stood at 1.48 during 1998-99. Hence it is expected for the Bank to advance more loans in the coming decades.

Advances to Priority Sector

Advances to Priority Sector forms part of the total advances of the Bank. The amount of credit assistance extended to this sector from Dec'92 to March'99 is illustrated in table 5: on the next page.

TABLE 5: 36

ADVANCESTO PRIORITY SECTOR

(Rs.in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	470.54	87.66	18.63	382.88
31.12.93	219.97	78.02	35.47	141.95
30.09.94	239.21	71.76	29.30	167.45
30.06.95	284.60	65.97	23.18	218.63
31.12.96	292.12	87.79	30.05	204.33
31.12.97	326.44	120.03	36.77	206.41
31.03.98	344.12	132.05	38.37	212.07
31.03.99	412.50	143.94	34.89	268.56

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table clearly indicates that the Bank's advances to Priority Sector was below the stipulated norm of 40 % in all the eight years. Advances to Priority Sector increased from Rs.87.66 lakhs in Dec'92 to Rs.143.94 lakhs in March'99, recorded a growth of 64.20 %. The percentage share of the Bank's priority sector advances in its total advances was the highest at 38.37 % in March'98 and the lowest at 18.63 % in Dec'92. Personal and Commercial banking accounted for the major portion of the Bank's total advances during the eight years. As on March'99 the Bank in the State was enjoying profits. Therefore it demands for the Bank to step up their advances to Priority Sector upto 40 %.

UNITED BANK OF INDIA (UBI)

In Meghalaya the United Bank of India was established in 1935 at Police bazar, Shillong. As on 31.03.99 the number of Banks branches has increased to 12. Among the scheduled commercial banks, UBI ranked second among the SCBs in respect of the number of branches. The branches of the Bank are:

- | | |
|------------------------|-----------------------|
| 1. Police Bazar Branch | 7. Mawhati Branch |
| 2. Laban Branch | 8. Byrnihat Branch |
| 3. Nongthymmai Branch | 9. Mendipathar Branch |
| 4. Jail Road Branch | 10. Nongbah Branch |
| 5. Mawlai Branch | 11. Umlong Branch |
| 6. Jowai Branch | 12. Khliehriat Branch |

The performance of the UBI with regard to total deposits, total advances and credit-deposit ratio for eight year period is shown in the table 5:3- on the next page.

TABLE 5: 37
TOTAL DEPOSITS, TOTAL ADVANCES
AND CREDIT-DEPOSIT RATIO
OF UBI DURING 1991-92 TO 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	3986.00		672.30		16.87	
31.3.93	4288.56	7.59	808.31	20.23	18.85	1.98
31.3.94	4742.90	10.59	801.87	-0.80	16.91	-1.94
31.3.95	5812.00	22.54	797.00	-0.60	13.71	-3.20
31.3.96	7008.53	20.59	817.49	2.57	11.66	-2.05
31.3.97	10187.76	45.36	896.96	9.72	8.80	-2.86
31.3.98	10162.71	-0.24	1310.96	46.14	12.90	4.09
31.3.99	11381.45	11.99	1902.46	45.13	16.71	3.82

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

As shown in the table 5:37, the total deposits mobilised by the Bank increased from Rs.3986.00 lakhs as on 31.03.92 to Rs.11381.45 %. There was consistency in the growth of total deposits of the Bank except for 1997-98. The growth rate of deposits mobilised by the Bank reached the highest at 45.36 % during 1996-97, when deposits increased from Rs.7008.53 lakhs in March 96 to Rs.10187.76 lakhs in March 97. The only negative growth rate of deposits was during 1997-98 at -0.24 %.

The above table also shows that the total advances which stood at Rs.672.30 lakhs in March 92 rose to Rs.1902.46 lakhs in March 99, registered a growth rate of 183 %. Total advances

shows a positive growth in 1992-93 and in the latter four years. The percentage growth rate of advances reached the boom at 46.14 % during 1997-98 and it was the lowest at -0.80 % in 1993-94.

The table 5: 37 also reflects that the C-D ratio of the Bank was the highest at 18.85 brought about by the highest growth rate of 46.14 % in the Bank's total advances. It was the lowest at -3.20 % in 1994-95 due to a fall in Bank's advances by -8.80 %. The Bank could not recover its dues and hence its capacity to lend was reduced. It is essential for the recovery performance to improve to enable the Bank to part with more funds.

The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) for the period of eight years from 31.03.92 to 31.03.99 has given the following results:

$$\begin{array}{ll}
 Y_1 = 3124.72 + e^{0.17t} & R^2=0.9595 \\
 Y_2 = 551.17 + e^{0.12t} & R^2=0.7376 \\
 Y_3 = 17.64 + e^{-0.05t} & R^2=0.2230
 \end{array}$$

The three linear relationships shows that the exponential growth rates of UBI total deposits, total advances and C-D ratio for the period of eight years stood at 17 %, 12% and -05% respectively. The variations to the extent of 95.95% in total

deposits, 73.76% in total advances and 22.30% in credit-deposit ratio has been accounted for by time factor, the rest of three percentage are explained by other factors.

The graphical representation of the performances of the UBI is also shown in Fig-XV on the next page.

Share in Total Deposits and Advances of all Banks.

The percentage share of the UBI in total deposits and total advances mobilised and disbursed by all the bank is reflected in the table below:

TABLE 5:38
PERCENTAGE SHARE OF UBI IN TOTAL DEPOSITS
AND TOTAL ADVANCES

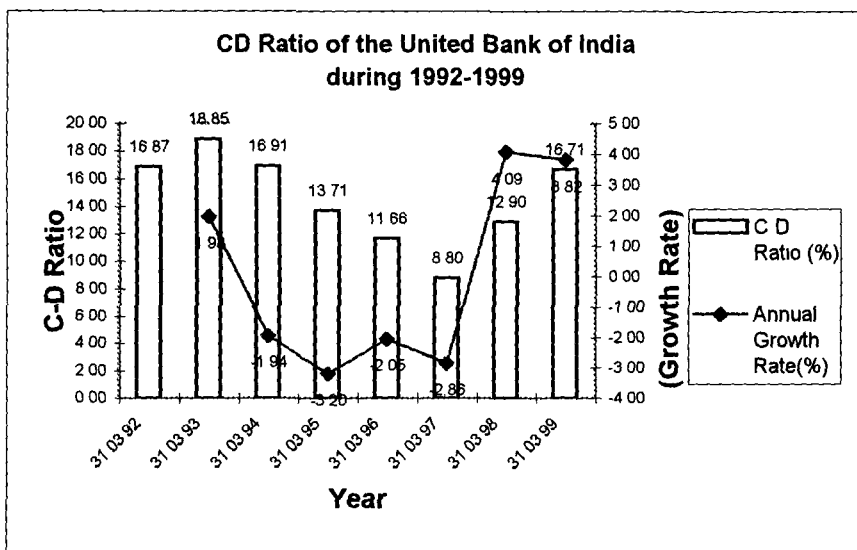
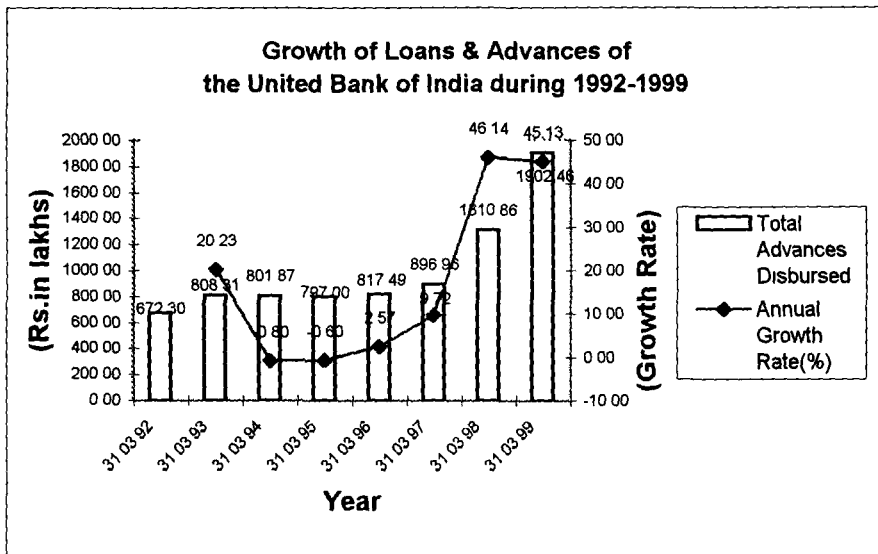
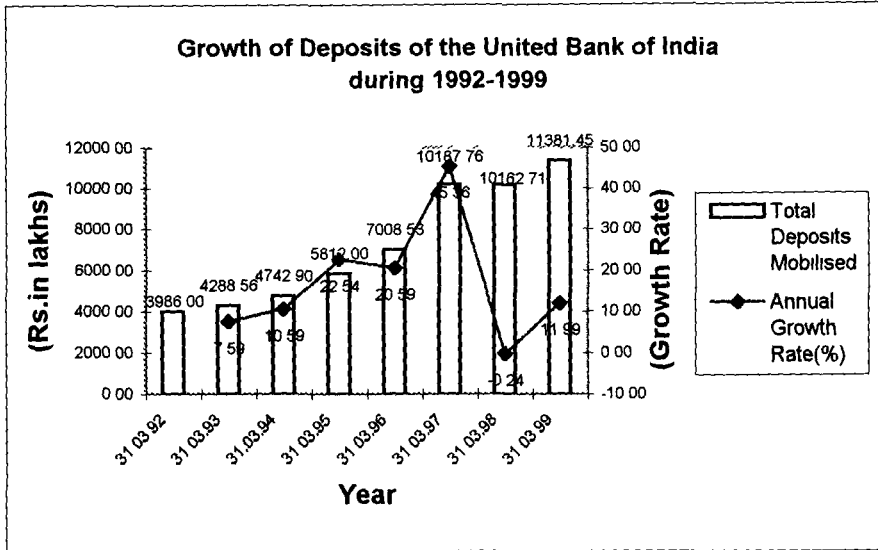
(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the UBI	Percentage share of UBI	Total Advances Disbursed by all the banks	Total Advances Disbursed by the UBI	Percentage share of UBI
1	2	3	4	5	6	7
31.3.92	50196.15	3986.00	7.94	10536.79	672.30	6.38
31.3.93	53330.82	4288.56	8.04	10781.59	808.31	7.50
31.3.94	66842.21	4742.90	7.09	13163.94	801.87	6.09
31.3.95	76030.00	5812.00	7.64	14464.76	797.00	5.51
31.3.96	88292.23	7008.53	7.94	15660.86	817.49	5.22
31.3.97	105641.22	10187.76	9.64	18572.86	896.96	4.83
31.3.98	125635.85	10162.71	8.09	21386.46	1310.86	6.13
31.3.99	135697.56	11381.45	8.39	27873.44	1902.46	6.83

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) S.L.B.C. Records.

Figure - XV



The table 5:38 reveals the total deposits mobilised by all the Banks as on 31.03.92, the Bank accounted for a share of 7.94 %. As on the same date the Bank constituted a share of 6.38 % in the total advances. The table also reveals the highest percentage share of the Bank in total deposits mobilised by all the Banks in the State. The highest percentage share of the Bank in total deposits was during 1996-97. Which stood at 9.64. The increase was brought about by a growth in deposit mobilisation of the Bank by 45.36 % during the year. The percentage share of the Bank in total deposit was the lowest at 7.09 % in 1993-94.

The highest percentage share of the Bank in total advances was during 1992-93 at 7.50 though the highest increase in Bank's advance was during 1996-97. This is because the growth in Bank's advances was less than the growth in the amount of loans extended by all the banks in 1996-97. The lowest percentage share of the Bank in total advances was during 1996-97 at 4.83. The fall of the percentage share during this year is because the increase in BI's advances by 9.72 % was less than the increase in the Bank's advances of 18.59 % in 1996-97.

The table also reveals the higher percentage share of the Bank in both total deposits which compare well with the other commercial banks in the State excluding State Bank of India. It may however be noted that the percentage share of the Bank in

total deposits was greater than its percentage share in total advances during the eight years.

Advances to Priority Sector

Credit assistance extended by the UBI to Priority Sector accounted for a share of 62.99% as on 31.12.92 and a share of 76.11% as on 31.03.99. This is given in table 5:37 below.

TABLE 5: 37
ADVANCES TO PRIORITY SECTOR
(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	808.31	509.18	62.99	299.13
31.12.93	806.52	521.23	64.63	285.29
30.09.94	817.41	600.97	73.52	216.44
30.06.95	859.45	670.48	78.01	188.97
31.12.96	841.09	759.30	90.28	81.79
31.12.97	1125.34	897.33	79.74	228.01
31.03.98	1310.34	1086.53	82.89	224.33
31.03.99	1902.46	1447.90	76.11	454.56

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table shows that almost the advances of the Bank were entirely extended to Priority Sector. The amount increased from Rs.509.18 lakhs in Dec'92 to Rs.1447.90 lakhs in March'99, recording a growth of 184 %. The percentage share of the Bank's priority sector advances in its total

advances rose from 62.99 % in Dec'92 to 76.11 % in March'99. It was the highest at 90.28 % in June 1995- December 1996.

A small margin of the total advances was spared for the other sectors. Since Priority Sector advances constituted a major portion of the total advances, the recovery percentage of the Bank turned out to be very low. It stood at 10.81 % as at end March'99.

Hence, the Bank had to incur huge losses. Therefore, it is advisable on the part of the Bank to reduce Priority Sector finance and to increase Personal and Commercial loans. This would greatly help the Bank in increasing its profits.

VIJAYA BANK (VJB)

In Meghalaya, Vijaya Bank was set up in 1975 at G.S.Road, Shillong. By the end of March'99 the Bank has two branches, the G.S.Road Branch and the Laitumkhrah Branch. The staff strength of the Bank as at end of March'99 stood at 48.

The performance of the VJB in terms of total deposits, total advances and credit-deposit ratio during 1991-92 to 1998-99 is depicted in table 5:46 on the next page.

TABLE 5:40

**TOTAL DEPOSITS, TOTAL ADVANCES AND
CREDIT-DEPOSIT RATIO OF
VJB DURING 1991-92 TO 1998-99**

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	2460.30		303.00		12.32	
31.3.93	2599.76	5.55	338.43	11.69	13.01	0.68
30.3.94	3608.32	38.95	553.34	63.50	15.00	2.00
30.3.95	4848.00	34.35	540.00	-2.41	11.14	-3.86
31.3.96	5319.38	9.72	515.73	-4.49	9.70	-1.44
31.3.97	6068.60	14.08	843.84	63.62	13.91	4.21
31.3.98	8014.94	32.07	1012.49	19.19	12.63	-1.28
31.3.99	7750.00	-3.30	981.00	-3.11	12.65	0.02

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

It can be seen from the table 5:40 that deposit mobilisation of the Bank aggregated to Rs.2460.30 lakhs as on 31.03.92. The amount rose to Rs.7750.00 lakhs as on 31.03.92, recorded a growth rate of 215 %. The table shows the consistent increase in the amount of deposits mobilised by the Bank from 1991-92 to 1997-98. The highest growth rate of deposits was the highest at 38.95 % in 1993-94, when deposits rose from Rs.2599.76 lakhs in March'93 to Rs.3608.32 lakhs in March'94. It was negative at -3.30 % during 1998-99 when deposits fell sharply from Rs.8014.94 lakhs in March'98 to Rs.7750.00 lakhs in March'99.

As shown in table 5:40, the credit assistance extended by the Bank amounted to Rs.303.00 lakhs as at end March'92 and rose to Rs.981.00 lakhs as at end March'99 registered a growth rate of 223 %. The highest amount of Rs.1012.49 lakhs was advanced by the Bank in March 1998. The growth rate of advances shows a fluctuating trend. It was the highest at 63.62 % during 1996-97. It was the lowest at -4.49 % in 1995-96, when advances of the Bank fell from Rs.540.00 lakhs in March'95 to Rs.515.73 lakhs in March'96.

The C-D ratio rose from 12.32 % as on 31.03.92 to 12.65% as on 31.03.99 showing a marginal increase of 0.33 %. It was the highest at 15.00 % during 1993-94 brought about by a sharp rise in Bank's advances by 63.50 %. It was the lowest at 9.70 % in 1995-96 brought about by a sharp fall in advances by -4.49%. The growth rate of C-D ratio was the highest at 4.21 % during 1996-97 and the lowest at -3.86 % during 1994-95. During 1998-99 C-D ratio shows a positive growth rate of 0.02 % even though advances declined. This is because the fall in advances of 3.11 % was less than the fall in deposits of 3.30 %. The overall C-D ratio of the Bank as shown in the above table remained very. It stood at 12.65 % as on 31.03.99 i.e. 7.89 % less than the State's ratio of 20.54 %. Like any other bank the main cause of low C-D ratio is the poor recovery performance of the Bank.

As at end March'99, the total deposits mobilised by the Bank in the country aggregated to Rs.9393 crores, and total

loans amounted to Rs. 4242 crores, yielded a C-D ratio of 45.16%.¹⁵ As on this date the C-D ratio of the Bank in the State stood at only 12.63%. This reveals the fact that the performance of the Bank with regard to advances is not well appreciated.

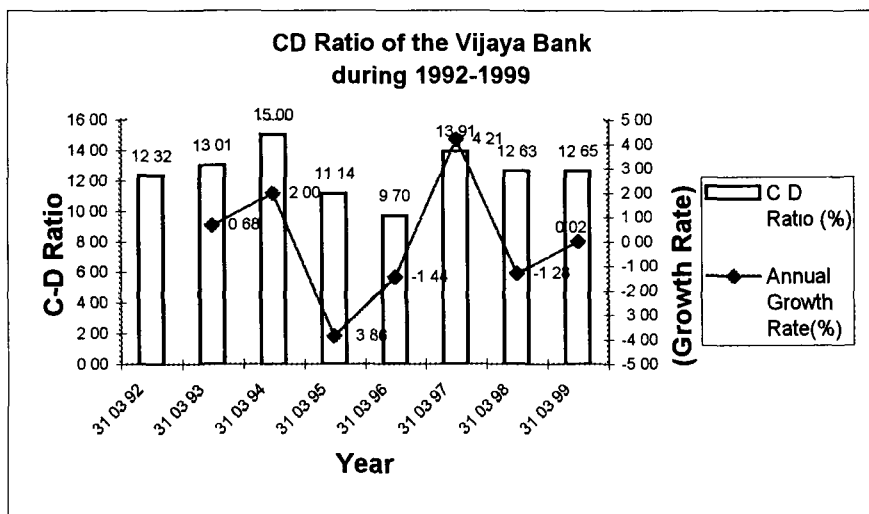
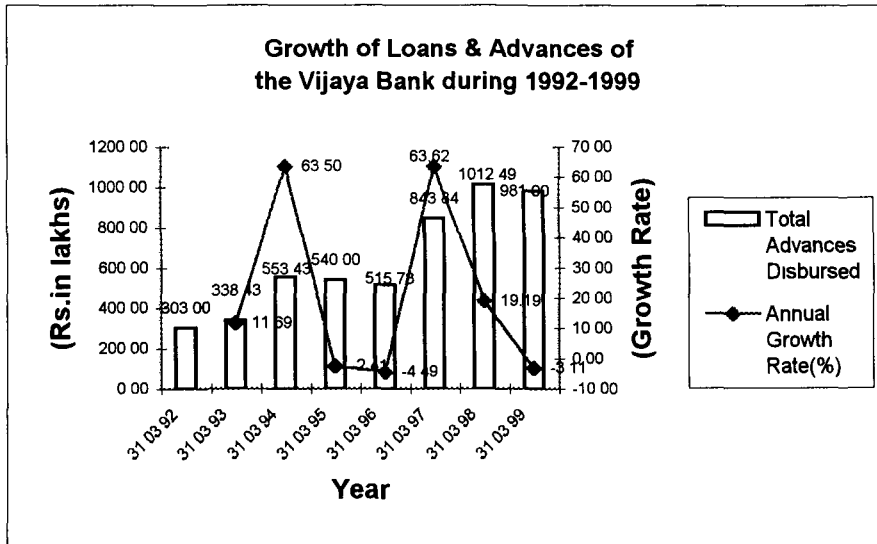
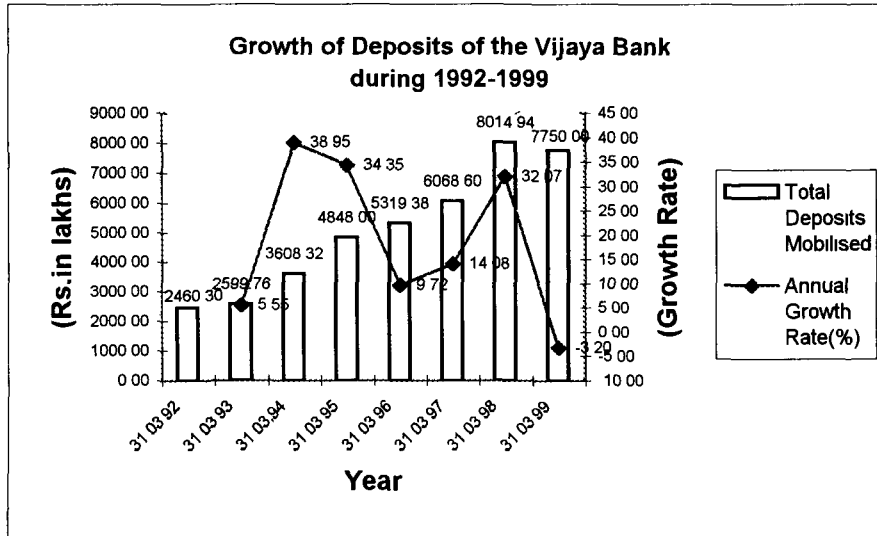
The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) for the period of eight years from 31.03.92 to 31.03.99 has yielded the following results:

$$\begin{array}{ll}
 Y_1 = 2053.90 + e^{0.18t} & R^2=0.9589 \\
 Y_2 = 261.85 + e^{-0.18t} & R^2=0.9079 \\
 Y_3 = 12.67 + e^{-0.00t} & R^2=0.0050
 \end{array}$$

The above three linear relationships shows that the exponential growth rates of VJB total deposits, total advances stood at 18 % and 0.18% respectively. The growth rate of credit-deposit ratio is zero. Variations to the extent of 95.89% in total deposits, 90.79% in total advances and 00.50% in credit-deposit ratio have been accounted for by time factor.

The graphical representation of the performances of the VJB is also shown in Fig-XVI on the next page.

Figure - XVI



Share in Total Deposits and Advances of all Banks.

The percentage share of the VJB in total deposits and total advances mobilised and disbursed by all the banks is given in the following table:

TABLE 5:4L
PERCENTAGE SHARE OF VIJAYA BANK IN TOTAL DEPOSITS AND TOTAL ADVANCES

(Rs. in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the VJB	Percentage share of VJB	Total Advances Disbursed by all the banks	Total Advances Disbursed by the VJB	Percentage share of VJB
1	2	3	4	5	6	7
31.3.92	50196.15	2460.30	4.90	10536.79	303.00	2.88
31.3.93	53330.82	2599.76	4.87	10781.59	338.43	3.14
31.3.94	66842.21	3608.32	5.40	13163.94	553.34	4.20
31.3.95	76030.00	4848.00	6.38	14464.76	540.00	3.73
31.3.96	88292.23	5319.38	6.02	15660.86	515.73	3.29
31.3.97	105641.22	6068.60	5.74	18572.36	843.84	4.54
31.3.98	125635.85	8014.94	6.38	21386.46	1012.41	4.73
31.3.99	135697.56	7750.00	5.71	27873.44	981.00	3.52

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

As can be seen from the above table, the Bank accounted for a share of 4.90 % in total deposits and a share of 2.28 % in total advances as on 31.03.92. The share had increased to 5.71 % and 3.52 % respectively as at end March'99.

The percentage share of the Bank in total deposits as revealed in the above table is not so low. The Bank having only two branches in the State could share a major portion in the total deposits collected by all the banks in the State. The highest percentage share of the Bank in total deposits stood at 6.38 in 1994-95 and 1997-98 and the lowest percentage share stood at 4.87 during 1992-93. During 1994-95 deposits mobilised by the Vijaya Bank increased by 34.36 %, whereas deposits mobilised by all the banks increased by 13.75 %. during 1997-98 deposits collected by Vijaya Bank increased by 32.07 % and deposits collected by all the Banks increased by only 18.93 %. this has caused the highest percentage share of Vijaya Bank in total deposits during 1994-95 and 1997-98.

In terms of advances, the percentage share of the Bank in total advances disbursed by all the banks in the State rose to 2.88 as on 31.03.92 to 3.52 as on 31.03.99. The highest percentage share of the Bank in total advances stood at 4.73 during 1997-98, when the increase in Bank's advances during this year stood at 19.99 %. This percentage was greater than the increase in total advances disbursed by all the banks in the State during 1997-98 which stood at 15.15%. The lowest percentage share of the Bank in total advances stood at 2.28 in 1991-92. Comparing deposits with advances the share of the Bank in deposits was higher than in advances. This demands the Bank to increase the amount of financial assistance extended by it in the coming years.

Advances to Priority Sector

Priority Sector advance constituted a share of 61.23 % in total amount of loans extended by the Bank in the State as attend Dec'92. The Priority Sector advances fell down to 32.21% as on 31.03.99. This is illustrated in the following table.

TABLE 5:42
ADVANCESTO PRIORITY SECTOR

(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	338.43	207.22	61.23	131.21
31.12.93	751.66	179.90	23.93	571.76
30.09.94	561.76	207.51	36.94	354.25
30.06.95	563.75	182.09	32.30	381.66
31.12.96	831.47	225.17	27.08	606.30
31.12.97	953.60	284.99	29.89	668.61
31.03.98	1012.49	368.02	36.35	644.77
31.03.99	981.00	316.00	32.21	665.00

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table reveals that the Bank extended financial assistance of Rs.207.22 lakhs to Priority Sector as at end Dec.92. The amount rose to Rs.316.00 lakhs as on 31.03.99, registered a growth rate of 52.49 %. The percentage share of

Priority Sector advances in total advances was the highest at 61.23 % as on 31.02.92. It was the lowest at 23.93 % in the following year. Personal and Commercial banking increased from Rs.131.21 lakhs as on 31.12.92 to Rs.665.00 lakhs as on 31.03.99 registered a growth rate of 407 %. As shown in the above table loans extended to Priority Sector declined, whereas Personal and Commercial loans increased. In recent years more credit assistance was extended by the Bank to business units. The Bank has got only two branches in Meghalaya and this has caused the Bank's Priority Sector advances to figure low comparing to some other banks in the State.

REGIONAL RURAL BANK (RRB)

Introductory

The Regional Rural Banks have been established under the Regional Rural Bank Act, 1976. The main objectives of the RRBs is to develop the rural economy by providing credit and other facilities for the purpose of development of agriculture and allied activities, village industries and other productive activities in rural areas. Such credit facilities are extended to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs.

As at end of March 1996, there were 196 RRBs with 14,497 branches covering 427 districts in the country. The authorized capital and issued capital of each RRB stood at Rs. 5 crores and Rs. 1 crore respectively. The total deposits and total advances of the 196 RRBs aggregated to Rs. 13,835 crores and Rs. 7,320 crores respectively as on the same date.

RRB in Meghalaya

The RRBs in Meghalaya is sponsored by the State Bank of India. The Bank is named as **Ka Bank Nongkyndong, Ri Khasi Jaintia** and its head office is in Shillong. The Bank started functioning from 29.12.81. At present, it is operating in 4 out of the 7 districts in the State viz., East Khasi Hills, West Khasi Hills, Jaintia Hills and Ri Bhoi. The Bank has been playing a crucial role in promoting rural development, with a view to toning up the overall efficiency of the RRB, NABARD has been monitoring the progress of the RRB in various fields.

The Bank has 51 branches carrying on banking activities in the state. The names of these branches and their dates of opening is listed in the following page.

Sl. No.	Branches	Date of Openings
1	SHILLONG	20.12.81
2	RYNDAH	30.10.82
3	NONGMYNSONG	17.12.82
4	NONGKREM	22.01.83
5	MOOKAIAW	31.05.83
6	PONGKUNG	31.05.83
7	SOHRYNGKHAM	06.07.83
8	SHANGPUNG	13.08.83
9	MAWKYRWAT	10.10.83
10	RIANGDO	31.10.83
11	LAWBAH	07.12.83
12	MAWTHAMPOAR	28.01.84
13	BHOILYMBONG	31.01.84
14	RAMBRAI	28.02.84
15	MAWKYNREW	09.03.84
16	NONGKHLAW	23.03.84
17	SUTNGA	05.05.84
18	MAWLAINGUT	16.06.84
19	LAITLYNGKOT	23.06.84
20	NONGTANG	16.07.84
21	UMKIANG	27.08.84
22	MYRIAW	04.09.84
23	KHANDULI	18.09.84
24	LUM SHNONG	29.10.84
25	MYLLIEM	11.12.84
26	TYRSAD	13.12.84

Sl. No.	Branches	Date of Openings
27	PARIONG	15.12.84
28	NONGSPUNG	18.12.84
29	MAWKDOH	27.12.84
30	SOHIONG	29.12.84
31	SMIT	25.02.85
32	KYNCHI	26.02.85
33	MUKTAPUR	28.02.85
34	NONGPOH	28.02.85
35	NONGSTOIN	15.03.85
36	JOWAI	21.03.85
37	RYMBAI	22.03.85
38	ARADONGA	25.03.85
39	TYNRING	27.12.85
40	MARKASA	30.05.86
41	NONGTHLIEW	17.06.86
42	MAWLAI	04.10.86
43	BAPUNG	04.12.86
44	MAWNGAP/ MAWPHLANG	24.04.88
45	IOOKSI	05.11.88
46	PYNURSLA	11.11.88
47	SHALLANG	14.02.90
48	IEWDUH	26.02.90
49	BARATO	27.02.90
50	MAWLAT	23.03.90
51	SENOULI	22.01.92

The performance of the Bank with regard to total deposits mobilised, total advances disbursed and credit-deposit ratio from 1991-92 to 1998-99 is in the following table.

TABLE 5:43
TOTAL DEPOSITS, TOTAL ADVANCES AND CREDIT-DEPOSIT RATIO OF REGIONAL RURAL BANK DURING 1991-92 to 1998-99

(Rs.in lakhs)

Year	Deposits		Advances		Credit-Deposit Ratio	
	Total Deposits Mobilised	Growth Rate (%)	Total Advances Disbursed	Growth Rate (%)	C.D. Ratio (%)	Growth Rate (%)
31.3.92	2395.60		657.91		27.47	
31.3.93	3648.35	52.29	708.06	7.81	19.41	-8.06
31.3.94	5080.32	39.25	830.10	17.24	16.34	-3.07
31.3.95	4473.00	-11.95	949.00	14.32	21.22	4.88
31.3.96	6222.42	39.10	1185.96	24.97	19.06	-2.16
31.3.97	6858.98	10.24	1568.42	32.25	22.87	3.81
31.3.98	7162.98	4.43	1955.98	24.71	27.30	4.43
31.3.99	8173.84	14.12	2333.34	19.29	28.55	1.25

SOURCE: Compiled from data collected from:

- (i) Finance Department Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

As shown in the above table the amount of deposits mobilised by the RRB as on 31.03.92 aggregated to Rs.2395.60 lakhs. The amount rose to RS.8173.84 lakhs as on 31.03.99, registered a growth rate of 241 %. Total deposits collected by the Bank rose from year to year except for 1994-95. The growth rate of Bank's deposits stood the highest at 52.29 % during 1992-93, when deposits stepped up from Rs.2395.60 lakhs in 1992 to Rs.3648.35 lakhs in 1993. It was negative only in 1994-

95 at -11.95 %, when deposits of the Bank fell from Rs.5080.32 lakhs in March 1994 to Rs.4473.00 lakhs in March 1995.

Total advances disbursed by the Bank as shown in the above table exhibits consistency in its growth. It increased from Rs.657.91 lakhs on 31.03.92 to Rs.2333.34 lakhs as on 31.03.99, reflected a growth rate of 255 % in a period of eight years. The highest growth rate of advances stood at 32.25 % during 1996-97 when total advances rose from Rs.1185.96 lakhs in March to Rs.1568.42 lakhs in March'97. The lowest growth rate of advances was during 1992-93 at 7.81 %.

The table also reflects that the C-D ratio of the Bank rose from 27.47 % in March'92 to 28.55% during 1998-99, when the increase in advances of 19.29 % was more than the increase in deposits of 14.12 %, C-D ratio of the Bank was the lowest at 16.34 % in 1993-94, when the increase in advances of 17.24 % was less than the increase in deposits of 39.25 % during this year. The growth rate of C-D ratio was the highest at 4.88 % in March'95 and the lowest at -8.06 % in March'93. Looking at the table we see that the C-D ratio of the Bank remained very low, not touching 30%. This is because the Bank could not recover their loans in due time. Comparing the RRB with other scheduled commercial banks we can say that it is in a better position with regard to C-D ratio.

The linear relationship between total deposits (Y_1) and time (t), total advances (Y_2) as a function of time (t) and between credit-deposit (Y_3) as a function of time (t) for the period of eight years from 31.03.92 to 31.03.99 has yielded the following results:

$$\begin{array}{ll}
 Y_1 = 2540.87 + e^{0.16t} & R^2=0.8897 \\
 Y_2 = 487.20 + e^{-0.19t} & R^2=0.9795 \\
 Y_3 = 19.18 + e^{-0.03t} & R^2=0.1704
 \end{array}$$

The above three linear relationships shows that the exponential growth rates of total deposits, total advances and C-D ratio of RRB for the eight years under study stood at 16 % and 0.19% and 03% respectively. The variations of the total deposits, total advances and C-D ratio to the extent of 88.97%, 97.95% and 17.04% are explained by factor, time while the rest remained unexplained or are accounted for by other factors.

The graphical representation of the performances of the RRB is also shown in Fig-XVII.

Share in Total Deposits and Advances of all the Banks.

The percentage share of the RRB in total deposits and total advances is given in the table 5:44.

Figure - XVII

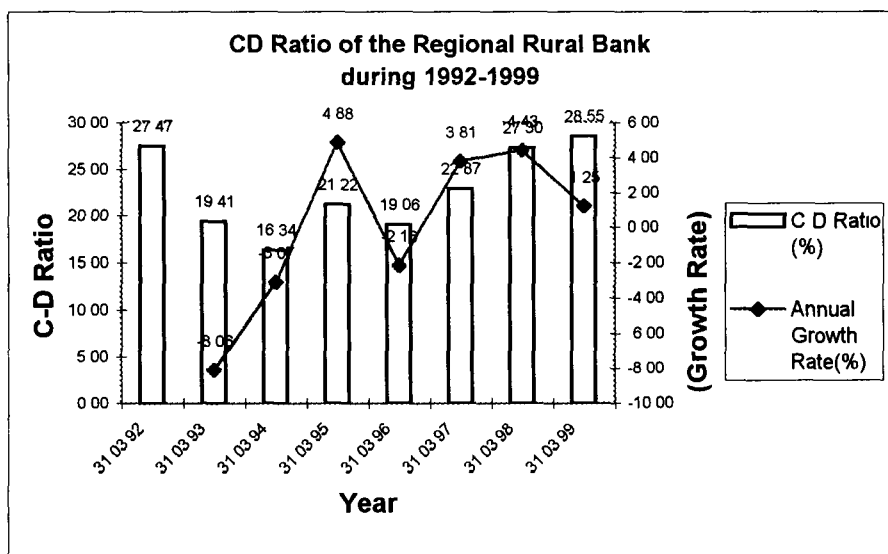
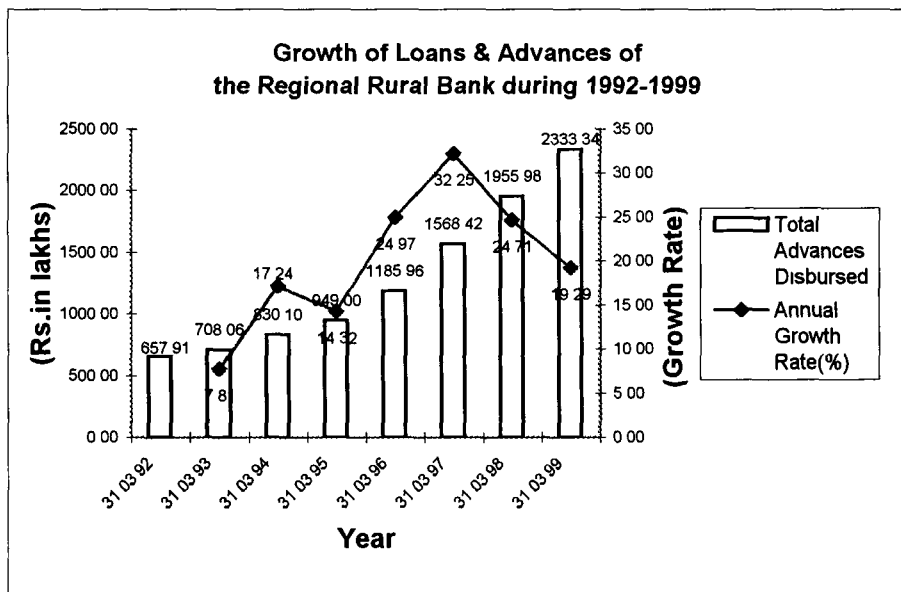
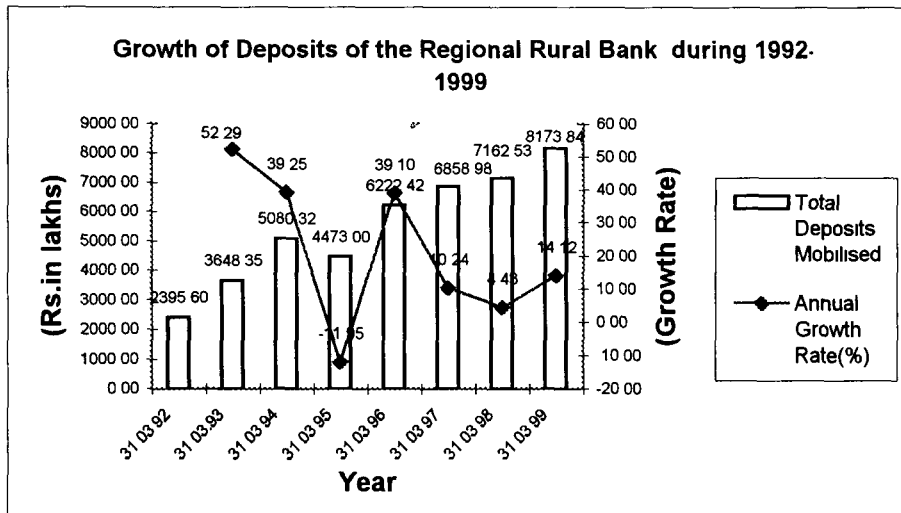


TABLE 5: 44
PERCENTAGE SHARE OF RRB
IN TOTAL DEPOSITS
AND TOTAL ADVANCES

(Rs.in Lakhs)

Year	Total Deposits Mobilised by all the banks	Total Deposits Mobilised by the RRB	Percentage share of RRB	Total Advances Disbursed by all the banks	Total Advances Disbursed by the RRB	Percentage share of RRB
1	2	3	4	5	6	7
31.3.92	50196.15	2395.60	4.77	10536.79	657.97	6.24
31.3.93	53330.82	3648.35	6.84	10781.59	708.06	6.57
31.3.94	66842.21	5080.32	7.60	13163.94	830.10	6.30
31.3.95	76030.00	4473.00	5.88	14464.76	949.00	6.56
31.3.96	88292.23	6222.42	7.05	15660.86	1185.96	7.57
31.3.97	105641.22	6858.98	6.49	18572.86	1568.42	8.44
31.3.98	125635.85	7162.53	5.70	21386.46	1955.98	9.15
31.3.99	135697.56	8173.84	6.02	27873.44	2333.34	8.37

SOURCES: Compiled from data collected from:

- (i) Finance Department, Government of Meghalaya, 1998.
- (ii) *S.L.B.C. Records.*

As can be seen from the above table, the total deposits mobilised by all the banks in the State, the RRB accounted for a share of 4.77 % and in total advances in constituted a share of 6.24 % as on 31.03.92.

The table 5: 44 reveals the percentage share of RRB in total deposits fluctuated from year to year. The percentage share rose from 4.77 as on 31.03.92 to 6.02 as on 31.03.99. It was the highest at 7.60 in 1993-94, when the increase in the RRB's deposits of 39.25 % was higher than the increase in all

Bank's deposits of 6.24 %. It was the lowest at 4.77 in March'92.

The percentage share of the Bank in total advances rose from 6.24 in 1991-92 to 8.37 in 1998-99, reflected on increase of 2.13 % in a period of eight years. The percentage share reached the boom at 9.15 in 1997-98, when the increase in Bank's advances of 24.71 % was higher than the increase in the advances disbursed by all the banks, which stood at 15.15 % during the year.

The percentage share of the RRB in total advances was the lowest at 6.24 in 1992-93. In the latter five years the percentage share of RRB in total advances was higher than that of the deposits. This implies that the increase in the Bank's advances was more than the increase in the Bank's deposits except for ending March'96. The bank having 51 branches in the State constituted a major portion of all the Bank deposits except for ending March'96. The bank having 51 branches in the state constituted a major portion of all the Bank's total deposits and total advances.

Advances to Priority Sector

The RRB being a nationalised Bank has to advance loans to the Priority Sector like any other nationalised commercial bank. The amount of funds extended to this Sector by the Bank is given in the table 5:45 on the next page.

TABLE 5: 45
ADVANCE TO PRIORITY SECTOR

(Rs. in Lakhs)

Year	Total Advances	Advances to Priority Sector	Percentage of 3 to 2	Personal loan/Personal Service and Commercial Finance
1	2	3	4	5
31.12.92	657.97	603.67	91.75	54.30
31.12.93	695.87	661.85	95.11	34.02
30.09.94	869.00	814.49	93.72	54.51
30.06.95	982.46	911.30	92.75	71.16
31.12.96	1433.86	1328.49	92.65	105.37
31.12.97	1843.00	1650.00	89.53	193.00
31.03.98	1955.98	1709.11	87.38	246.87
31.03.99	2333.34	2123.35	91.00	209.99

SOURCE : S.L.B.C. Records of Meghalaya, 1992-1999

The above table shows that Priority Sector advances rose from Rs.603.67 lakhs in Dec'92 to Rs.2123.35 lakhs in March'99, recorded a growth rate of 252 %. The Bank extended credit assistance to this Sector more than 80 % right from Dec'92 to March'99 and more than 90 % during 1992-96 and 1998-99. The table also shows that Personal and Commercial loans increased from Rs.54.30 lakhs in Dec'92 to Rs.209.99 lakhs in March 99, registered a growth rate of 287 %. The RRB being the Bank for the rural poor had to advance more loans to the Priority Sector.

Concluding Remarks

The analysis of the performances of all the individual banks in the State can give as an aggregated picture as shown in table 5:46 with regard to their respective deposits, advances and C-D ratios for the 8-year period under study.

**BANK-WISE TOTAL DEPOSITS, ADVANCES
AND CREDIT DEPOSIT RATIOS**

Sl No.	Name of Banks	31-3-92				31-3-93				31-3-94				31-3-95				31-3-96				31-3-97				31-3-98				31-3-99			
		Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %	Total Deposit	Total Advances	C-D Ratio %					
1	State Bank of India	21247.00	3737.00	17.58	2115.00	3412.00	16.14	23866.00	3774.00	15.81	28456.00	54179.00	14.68	32056.69	4594.44	14.33	36224.20	5174.20	14.13	44545.00	6589.00	14.79	48488.00	8123.00	16.76	48488.00	8123.00	16.76					
2	Meghalaya Co-operative Apex-Bank	7512.41	2943.09	39.18	7153.31	2823.75	39.47	8095.75	3779.41	46.68	9770.00	4092.00	41.89	13083.75	4850.97	37.08	15381.29	5390.67	35.05	16628.41	6506.96	39.13	20509.29	7764.86	37.86	20509.29	7764.86	37.86					
3	Allahabad Bank	364.50	25.20.00	6.91	494.48	38.30	7.75	796.00	48.00	6.03	949.00	54.76	5.77	699.00	72.00	10.30	600.00	69.91	11.65	675.89	100.39	14.85	659.23	141.32	21.43	659.23	141.32	21.43					
4	Bank of Baroda	1840.20	360.00	19.56	2481.50	429.43	17.30	388.76	479.52	12.66	4224.00	892.00	21.12	3160.00	654.00	20.70	2645.68	604.05	22.83	4786.88	359.35	7.51	3328.30	378.41	11.37	3328.30	378.41	11.37					
5	Bank of India	675.00	110.00	16.30	725.00	125.00	17.24	767.65	163.34	21.28	1148.00	197.00	17.16	1292.00	253.00	19.58	1589.00	969.00	60.98	1910.00	314.00	16.44	2592.39	370.17	14.28	2592.39	370.17	14.28					
6	Canara Bank	1680.00	280.00	16.67	1778.00	294.00	16.54	2300.00	390.00	16.95	2548.00	338.00	13.27	2449.00	365.00	14.90	3162.47	424.32	13.42	3559.00	402.00	11.30	4626.64	415.82	8.99	4626.64	415.82	8.99					
7	Central Bank of India	1559.13	176.96	11.35	1596.35	173.83	10.89	1825.49	189.18	10.36	2052.00	278.00	13.55	2131.50	276.09	12.95	3747.00	415.00	11.08	5621.00	821.00	14.60	3108.55	676.42	21.75	3108.55	676.42	21.75					
8	Federal Bank Ltd.	879.59	104.79	11.91	1131.90	152.03	13.43	2087.58	640.71	30.69	1619.00	215.00	13.28	2382.00	240.00	10.08	2706.00	228.00	8.43	3118.00	246.00	7.89	3780.00	342.00	9.05	3780.00	342.00	9.05					
9	Indian Overseas Bank	1380.00	170.00	12.32	1482.00	183.00	12.35	2818.96	153.49	5.44	2503.00	374.00	14.94	2727.33	243.40	8.92	4191.45	416.65	9.94	6533.45	274.69	4.20	5937.56	2488.30	41.91	5937.56	2488.30	41.91					
10	Indian Bank	650.00	110.00	16.92	779.75	139.26	17.86	995.85	169.73	17.04	1284.00	228.00	17.76	1387.40	134.65	91.71	1396.90	166.03	11.89	2043.41	169.83	8.31	3362.94	500.53	14.88	3362.94	500.53	14.88					
11	Punjab National Bank	73.42	134.28	18.28	781.38	162.19	20.76	1683.44	157.30	9.35	1362.00	196.00	14.39	1583.24	183.43	11.59	2293.00	242.00	10.55	2020.00	307.79	15.24	2155.77	372.72	17.29	2155.77	372.72	17.29					
12	Syndicate Bank	680.00	102.20	15.03	731.52	120.46	16.47	927.66	130.64	14.08	1113.00	167.00	15.00	1456.74	168.85	11.59	1503.28	169.54	11.22	1840.00	182.00	9.89	2779.00	243.59	8.77	2779.00	243.59	8.77					
13	United Commercial Bank	1320.00	270.00	20.45	1580.00	395.00	25.00	1964.00	648.00	33.00	2153.00	698.00	32.42	3155.00	723.00	22.92	3778.00	714.00	18.90	4046.00	490.00	12.11	4924.00	425.00	8.63	4924.00	425.00	8.63					
14	Union Bank	832.00	380.00	45.67	943.96	478.54	50.69	1394.53	255.31	18.31	1716.00	270.00	15.73	2178.25	382.85	17.58	2907.61	279.77	9.62	2968.63	344.12	11.59	2140.60	412.50	19.27	2140.60	412.50	19.27					
15	United Bank of India	3986.00	672.30	16.87	4288.56	808.31	18.85	4742.90	801.87	16.91	5812.00	797.00	13.71	7008.53	817.49	11.66	10187.76	896.96	8.80	10162.71	1310.86	12.10	11381.45	1902.46	16.71	11381.45	1902.46	16.71					
16	Vijaya Bank	2460.30	303.00	12.32	2599.76	338.43	13.01	3608.32	553.34	15.00	4848.00	540.00	11.14	5319.38	515.73	9.70	6068.60	843.84	13.91	8014.94	1012.49	12.63	7750.00	981.00	12.65	7750.00	981.00	12.65					
17	Ka Bank Nongkyndong	2395.60	657.97	27.47	3648.35	708.06	19.41	5080.32	830.34	16.34	4473.00	949.00	21.22	6222.42	1185.96	19.06	6858.98	1568.42	22.87	7162.53	1955.98	27.30	8173.84	2333.34	28.55	8173.84	2333.34	28.55					
18	Total	50196.15	10536.00	20.99	53330.82	10781.59	20.22	66842.21	13163.94	19.70	76030.00	14464.76	19.02	88292.23	15660.86	17.73	105641.22	18572.36	17.58	125635.85	21386.46	17.02	135697.56	27873.44	20.54	135697.56	27873.44	20.54					

The table 5: *46* reveals that the highest amount of deposit was mobilised by the SBI. This bank leads not only in deposit mobilisation but also in the aggregate amount of loans extended. The SBI is followed by the MCAB and the RRB. These banks could mobilise more deposits as well as extending more credit because they have more branches in the State. As on 31.03.99, SBI has 83 branches, the MCAB 37 branches and the RRB 51 branches.

C-D Ratio

The table also shows that the highest C-D ratio was achieved by the Union Bank for two consecutive years from 1991-92 to 1992-93, by the MCAB for three consecutive years from 1992-94 to 1995-96 and in 1997-98; by the BOI in 1996-97 and by the IOB during 1998-99.

The MCAB could achieve the highest C-D ratio for four years during the 8 year period under study because it cannot extend loans and advances to borrowers residing outside the state. This restriction is not applicable to other banks except the RRB. However, one important disclosure of the analysis is that there is no Bank in the state which had reached the stipulated C-D ratio of 60%.

Investment of Banks

As all the Banks in the State have failed to fulfil the stipulated norm of C-D ratio, we propose now to look into another aspect, namely, their performances in terms of the volume of their investments even though such investments

might have been made partly outside the state or not. This would be done only for the last year of our study period due to lack of data in this aspect. The following table 5: ~~44~~ gives the total deposits, advances and investments of all Banks along with C-D ratio, C+I:D ratio and the extent of recover as on 31.03.99:

TABLE 5: 47
BANK-WISE CREDIT + INVESTMENT-DEPOSIT RATIO
AS ON 31.3.99.

Sl. No.	Name of Banks	Total Deposits	Total Advances	C-D ratio(%)	Total Investment	C + I:D ratio (%)	Recover (%)
1	2	3	4	5	6	7	8
1	Allahabad Bank	659.25	141.32	21.42	65.00	31.29	64.56
2	Bank of Baroda	3328.30	378.41	11.37	4835.00	156.63	35.00
3	Bank of India	2592.39	370.17	14.28	515.00	34.14	10.22
4	Canara Bank	4626.64	415.82	8.99	2155.00	58.22	66.00
5	Central Bank of India	3108.55	676.42	22.00	1.08	14.61	25.00
6	Federal Bank Ltd	3780.00	342.00	9.05	60.00	10.63	48.12
7	Indian Bank	3362.94	500.53	14.88	1335.00	31.54	30.29
8	Indian Overseas Bank	5937.56	2488.30	41.91	560.00	67.76	9.97
9	Punjab National Bank	2155.77	372.72	17.29	4039.50	204.67	34.73
10	State Bank of India	48488.00	8185.00	16.88	9768.00	37.03	35.80
11	Syndicate Bank	2779.00	243.59	8.77	340.00	21.00	40.77
12	United Bank of India	11381.45	1902.46	16.72	1625.00	19.46	10.81
13	UCO Bank	4924.00	425.00	8.63	312.00	19.09	12.12
14	Union Bank	2140.60	412.50	19.27	515.00	95.18	4.57
15	Vijaya Bank	7750.00	981.00	12.65	1685.00	34.40	35.00
16	Ka Bank Nongkyndong	8173.84	2333.34	28.55	100.00	29.77	45.00
17	Meghalaya Co-operative Apex Bank	20509.29	7764.86	37.86	3517.36	55.01	41.00
	Total	135697.56	27873.44	20.54	31427.94	43.70	32.29

Source: SLBC, Report for the 7th July, 1999.

The above table depicts the highest level of investment made by the SBI which stood at Rs.9768.00 lakhs followed by

the BOB, PNB and the MCAB at Rs. 4835.00 lakhs, Rs. 4039.50 lakhs and Rs. 3517.00 lakhs respectively. Of these four Banks, only two, namely, BOB and PNB could achieved more than 60% (stipulated C-D ratio) with 156.63% and 204.67% respectively. The other two Banks which achieved more than 60% are IOB and UNB. Thus in spite of taking the investments of the Banks into consideration, still the Banks except the above four, could not reach the level of 60% as their C+I:D ratio.

Recovery

The table 5:47 also gives the data on the extent of recovery made by the Banks. It reveals the highest recovery percentage of 66.00% achieved by the Canara Bank. This Bank has been able to lend more to trade and commerce where the recovery rate appears to be more satisfactory. The average recovery performance of all the banks in the state is very poor which stood at 32.29% as on 31.3.99. The main reason behind this is that the borrowers care less in repaying back bank loans.

The nationalised banks could not take stern action against the defaulters as their working is subject to the directives given by the Government of India. Nevertheless, it demands of the bankers to implement the Recovery of Debt Act, 1993 in improving their recovery performance. In Meghalaya, the State Government has appointed Deputy Commissioners and Sub-Divisional Officers as prescribed

officers for recovery of bank loans under the Meghalaya Credit Operations and Miscellaneous Provisions Act, 1976. All the banks in the State are advised to take advantage of the provisions of the Act for the recovery of their dues by applying to the prescribed authority under their respective jurisdictions. The Act has given the bankers the right to file cases against the defaulters. Unfortunately, the State Government is not serious in taking up the Bakijai cases and proceed against the defaulters.¹⁶

In the end it may be stated that the study of the performances of the Individual Banks from 1991-92 to 1998-99 has been done only under certain parameters such as their total deposits, their total advances and their C-D ratio, share of each bank in total deposits and total advances of all banks and the advances made by each bank to Priority Sector due to non-availability of complete data for other aspects. The study has not been able to throw light on capital, reserve, income, expenditure, profits investment and money at call and short notice in the State because complete data regarding such variables are not available. If the database is poor it becomes difficult for research workers to carry out a thorough study on the working of banks. Hence, it is essential for the central offices of all commercial banks to furnish state-wise data in their annual reports the financial position of each and every bank in their respective states. Data bank could be built up to preserve the statistical and other related information of each Banks for at least 30 years. This would enable the researchers

to undertake a proper analysis on the transaction of the banks in the State.

Notes and References

- 1 Chawla, A.S. *Nationalisation and growth of Indian Banking* (New Delhi, Deep & Deep Publications, 1986)p.73.
- 2 *State Level Bankers Committee, (SLBC) Report, May,1998.*
- 3 *Silver Jubilee Souvenir, 1971-1996. The Meghalaya Co-operative Apex Bank Ltd.*
- 4 Ibid.
- 5 Ibid.
- 6 *Allahabad Bank Annual Report,1997-98.*
- 7 *Bank of India,Balance Sheet,1998-99*
- 8 *Central Bank of India, Annual Report, 1997-98.*
- 9 *Federal Bank Annual Report,1997-98.*
- 10 *Indian Overseas Bank Balance Sheet 1997-98.*
- 11 *Indian Bank Annual Report, 1997-98.*
- 12 *Punjab National Bank Annual Report,1997-98.*
- 13 *Syndicate Bank Annual Report,1998-99.*
- 14 *Union Bank Balance Sheet. 1998-99.*
- 15 *Vijaya Bank, Balance Sheet, 1998-99.*
- 16 **Vide Govt.Notification No. RDS/181/77/Pt.II dated 21.03.80 and No. RDS/181/77/346 dated 6.08.92.**

CHAPTER – VI

CHAPTER VI

DEVELOPMENT OF

NON-BANKING FINANCIAL INSTITUTIONS IN

MEGHALAYA

After a detailed analysis of the working and performances of the banking institutions, we shall now undertake the study of Non-Banking Financial Institutions (NBFIs) in this Chapter. Apart from banks the NBFIs have their own distinct role to play in the State's financial market as they perform the function of being a link between savers in society and users of these savings.

We propose to study only the development banks and there are only five such institutions (including two state level institutions) in the State namely the Industrial Development Bank of India (IDBI), the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI), the Meghalaya Industrial Development Corporation Limited (MIDC) and the Assam Financial Corporation (AFC). The study of these financial institutions will be done in the alphabetical order.

Before we make an individual study of the working and performance of the five NBFIs as proposed, we would give a list of all the nine NBFIs as well as the list of all the Non-

Banking Financial Companies (NBFCs) carrying on non-banking activities in Meghalaya and are playing a great role in the financial sector of the State. The list of the NBFIs is given as follows:

1. Assam Financial Corporation (AFC)
2. Industrial Development Bank of India (IDBI)
3. Meghalaya Industrial Development Corporation Ltd. (MIDC Ltd)
4. National Bank for Agriculture and Rural Development (NABARD)
5. Small Industries Development Bank of India (SIDBI)
6. Khadi Village Industries Corporation (KVIC)
7. Life Insurance Corporation of India (LIC)
8. General Insurance Corporation of India (GIC)
9. North Eastern Development Financial Institution (NEDFI) (Representative Office)
10. Unit Trust of India (Franchise Office)

The different NBFCs falling under both public and private sectors along with their date of registration and authorised capital is shown in table 6:1 on the next page.

TABLE 6:1
NON-BANKING FINANCIAL COMPANIES IN
MEGHALAYA

SL. No.	NAME OF THE COMPANY	DATE OF REGISTRATION	AUTHORISED CAPITAL (Rs. '000)
(1)	(2)	(3)	(4)
1	Loan Company of Assam Ltd.	29.04.36	10000
2	Commercial Loan Company Ltd.	11.12.36	500
3	Meghalaya Industrial Development Co.Ltd.	06.04.71	500000
4	Multi Finance & Savings Co. Pvt.Ltd.	29.08.73	250
5	Glamour Chit Fund Co.Pvt.Ltd.	29.11.73	500
6	Meghalaya Finance & Chit Fund Pvt. Ltd.	21.08.74	500
7	Indraprastha Holdings Ltd.	29.11.85	20000
8	Tibrewal Holdings Pvt. Ltd.	07.02.86	5000
9	Meghfin Finance & Investment Pvt. Ltd.	08.09.86	1000
10	L.M.Development Finance Co.Ltd.	09.10.86	10000
11	Hills Land Investment & Finance Co.Ltd.	02.03.87	200
12	Seven Sisters Finance (India) Ltd.	20.07.87	500
13	Jevan Mungi Properties Pvt. Ltd.	17.08.88	2000
14	S.P.Investment & Development Co.Pvt.Ltd.	02.12.88	1000
15	Western Financial Corporation Ltd.	15.12.88	10000
16	Vinati Investment Co.Pvt.Ltd.	19.06.89	500
17	Koch and Koch Finance & Investment Pvt.Ltd.	31.08.89	1000
18	Phawa Finance & Allied Services Ltd.	08.10.91	500
19	Pegasus Capital and Allied Services Ltd.	21.02.95	10000
20	Pegasus Securities Ltd.	21.02.95	1500
21	Jimmy Finance & Leasing Co.Pvt. Ltd.	16.03.95	2500
22	Q.B. Finance & Investment Pvt. Ltd.	16.03.95	2500
23	XL(India) Pvt. Ltd.	12.04.96	2500
24	Manchin Fincon Pvt. Ltd.	15.11.96	5000
25	Sngi Aqua Pvt.Ltd.	10.12.98	1000
26	Polistar Finance & Investment Pvt.Ltd.	10.05.99	2500

Source: Finance Department, Govt.of Meghalaya, 1999.

Among the NBFCs listed in table 6:1, only the Pagasus Securities Ltd and the Manchin Fincon Pvt. Ltd. have been approved by the Reserve Bank of India. The other companies have been registered in the Indian Companies Act but not yet approved by the R.B.I.² In order to redress the N.B.F.Cs depositor's grievances, the State Governments have been asked to set up cells at the State and district level for the purpose.

As already stated there are as many as 24 companies in the State functioning without the approval of the R.B.I. Hence it becomes important for the State Government to exercise periodical check on the performances of the NBFCs. This will prevent them from cheating the depositors. There have been instances which indicate that some NBFCs are making mal-practices. For example, a JVC company had collected huge sums of money from the people of the State and disappeared but no action could be taken against the company whose whereabouts could not be traced.

The NBFCs in Meghalaya like any other NBFC in the country are crucial in enhancing the development of the economy as they serve as intermediaries between savers and investors of money. Owing to the mushroom growth of the NBFCs in the State it is essential for the State Government to check the activities of such companies as per provision of the Task Force appointed by the Government of India.

ASSAM FINANCIAL CORPORATION(AFC)

The State Financial Corporations (SFCs) are public development financial institutions established under the State Financial Corporations Act, 1951 to provide financial accommodation to private limited companies, partnerships and proprietary concerns.

The Government of Assam and the Reserve Bank of India jointly took the initiative to set up the Assam Financial Corporation (AFC) as per provision of the State Financial Corporations Act, 1954. Among the seven states in North Eastern Region, it is only Assam which had established a State Financial Corporation. Hence, the AFC also operates in three other states in the region, namely, Manipur, Meghalaya and Tripura. It was originally set up for the state of Assam in the year 1954 with Shillong as its Head Office. At the date of establishment, the Corporation had four branches and the number has increased to fifteen as on 31st March 1999. The Head Office of the Corporation was later shifted from Shillong to Guwahati.

The authorised capital of the AFC was fixed at rupees two crores divided into two lakhs fully paid shares of Rs. 100 each, out of which one lakh shares of the total value of rupees one crore were issued in the first instance during the period ending March, 1955. Like all other SFCs the authorised capital of the AFC as per advice of the IDBI has been recently raised

to Rs. 5 crores from the existing level of Rs. 2 crores. The total paid-up capital of the Corporation as on 31st March 1999 amounted to Rs. 925.23 lakhs.¹

The purpose of the AFC is to contribute to the industrialisation of the State by providing medium-and long-term credit to industrial concerns. It is also expected of the Corporation to act according to the national policies and priorities laid down from time to time by the Central Government. Financial assistance on concessional terms is provided by the Corporation for the setting up of industrial projects in backward areas.

AFC in Meghalaya

In Meghalaya, a branch of the Assam Financial Corporation was established in Shillong in the year 1979. This is the only branch of the Corporation in the State and is termed Class-I Branch.³ The main task of the Corporation in Meghalaya is to provide industrial loans as defined in Section 2 of the SFC Act, 1951.

The amount of loans sanctioned by the AFC in Meghalaya from 1987-88 to 1998-99 is shown in table 6:2 on the next page.

TABLE 6:2
AMOUNT OF LOANS SANCTIONED BY AFC
DURING 1987-88 TO 1998-99

Rs. in lakhs

YEAR	AMOUNT SANCTIONED	GROWTH RATE
1987-88	17.40	Nil
1988-89	28.15	61.78
1989-90	12.28	-56.38
1990-91	20.55	67.35
1991-92	40.43	96.74
1992-93	2.40	-94.06
1993-94	Nil	Nil
1994-95	10.00	317*
1995-96	10.00	100
1996-97	Nil	Nil
1997-98	Nil	Nil
1998-99	36.00	260**

Source : AFC, Annual Reports, 1989-90, 1992-93, 1995-96 and 1998-99

*Growth Rate for two years.

**Growth Rate for three years.

The above table shows that the amount of loans sanctioned during the 12-year period fluctuated from year to year. The table also shows that in the three years i.e., 1993-94, 1996-97 and 1997-98, no loan was sanctioned at all. The amount of loans sanctioned was the highest at Rs. 40.43 lakhs during 1991-92 and the lowest at Rs. 2.40 lakhs during 1992-93. The highest amount of loans could be sanctioned

during 1991-92 because of the financial contribution made by the IDBI towards the Corporation, as the IDBI happened to be one of the sources of funds of the Corporation since inception. The following year 1992-93 happened to be a tough year for the Corporation particularly due to the stoppage of financial accommodation provided by the IDBI. This had caused the amount of sanctions to be the lowest at Rs. 2.40 lakhs during the year. During 1994-95 and 1995-96, Rs. 10 lakhs each year was sanctioned as the Corporation could recover a portion of its dues during the two years. Table 7:2 also shows that during 1993-94 and from 1996-97 to 1997-98, no loan was sanctioned by the Corporation to any unit in the State. This was because no amount was recovered in 1993-94 and in 1994 SIDBI, another source of finance of the Corporation stopped its contribution to the Corporation. The Meghalaya State Government too refused to provide financial assistance to the Corporation as the State was faced with a financial crisis. In the last few years the Corporation had recovered some amount of its loans and this enabled the AFC to sanction Rs. 36.00 lakhs in 1998-99.

The data given in table 6:2 have been computed by fitting a simple linear regression equation $Y=ae^{rt}$ but the results of the statistical analysis could not be worked out as R^2 is smaller.

The discontinuance of refinance facilities made by the IDBI and the SIDBI to the Corporation has adversely affected

its normal functions of the State. Recovery also could not reach the expected level. All the said factors together with the refusal of the State Government to grant financial assistance have hindered the Corporation in advancing more loans to the entrepreneurs in the State.

For the purpose of comparison, the amount of loans sanctioned in Assam, Manipur, Meghalaya and Tripura as on 31st March 1980, 1990 and 1999 is given in the following table 6:3.

TABLE 6:3
STATE-WISE CLASSIFICATION OF LOANS AND
ADVANCES
SANCTIONED BY AFC

Rs.in lakhs						
Year	Total Sanc-tioned Amount	Assam Share	Manipur Share	Megha-laya Share	Tripura Share	Meghalaya percentage share in the total . sanctioned (%)
1	2	3	4	5	6	7
31.03.1980	1570.68	1382.51	25.03	125.12	38.02	7.94
31.03.1990	7055.34	6473.05	116.05	291.43	174.81	4.13
31.03.1999	11318.52	10484.26	150.37	381.87	302.02	3.37

Source: Compiled from data collected from *AFC, Annual Reports, 1980,1989-90 & 1998-99*

The total sanctions made by the AFC as shown in the above table reflect financial inequalities among the three states as Assam's share works out to be the highest in all the three years. The AFC being the financial corporation of Assam has to advance more loans to the people of the State of Assam. Moreover, more industries have sprung up in Assam in recent years. The table, however, reveals that the amount of loans

sanctioned to Meghalaya was increasing during the 3 year period. But it also reveals the declining position of Meghalaya's share in the total loans sanctioned from 7.97 % as on 31.03.1980 to 4.13 % as on 31.03.1990 and further down to 3.37 % as on 31.03.1999. The fall in the proportionate share of Meghalaya in the total sanction is due to the unprecedented financial hardship coupled with the unrest prevailing in the State. It was informed that the recovery of loans also did not reach the projected level. However the table shows that the actual amounts of loans sanctioned in Meghalaya were greater than the amounts sanctioned for the states of Manipur and Tripura in all the three years.

Concluding Remarks

To achieve satisfactory working results in Meghalaya, the Corporation has to make all possible efforts to increase the level of its advances substantially by improving its recovery performance. Meghalaya being rich in mineral and forest resources, hence it is expected that more entrepreneurs would come forward to avail themselves of the financial facilities provided by the Corporation in the State for the utilisation of the State's resources.

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

Introductory

The Industrial Development Bank of India (IDBI) was established on July 1, 1964 under an Act of Parliament as a wholly-owned subsidiary of Reserve Bank of India. The

ownership of the Bank was subsequently transferred to the Government of India on Feb 16, 1976. The IDBI has now been made an apex institution in the capital market engaging in financing, promoting and developing industries. The main task of the IDBI is to cater to the growing needs of medium and large-scale industries. Consequently, Government holding came down to around 72%.

IDBI provides direct finance by way of term loans, both in rupees and foreign currencies besides providing support by way of underwriting and direct subscription to shares/debentures and in the form of deferred payment guarantees. It also provides term loans to medium-scale units through banks and state-level institutions and discounts/rediscounts bills of exchange and promissory notes arising from sale/purchase of machinery and equipment. IDBI offers special services for energy conservation and pollution control, for technology upgradation and pollution control, and for technology upgradation and pollution control, and for technology and adaptation of imported technology. IDBI also extends loans to and makes investments in shares and bonds of various financial intermediaries.

In addition to the financial accommodation, the IDBI also performs a variety of promotional activities including entrepreneurship development, provision of consultancy services for small and medium enterprises, upgradation of technology and programmes designed for economic upliftment of the underprivileged.

IDBI in Meghalaya

In the State of Meghalaya, IDBI came into being in the year 1986. The State Branch like any other branch in the country is providing direct and indirect finance. The amount of loans sanctioned and disbursed in Meghalaya from 1986 to 1999 along with the All-India figures are shown in the following table:

TABLE 6:4
AMOUNT OF LOANS SANCTIONED AND DISBURSED
BY IDBI
DURING 1986-87 TO 1998-99

(Rs.in crores)

Year	All India		Meghalaya		Proportionate Share Of Meghalaya	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1986-87	4656.2	3205.9	11.93	8.03	0.26	0.25
1987-88	5289.2	4004.5	6.4	5.2	0.12	0.13
1988-89	6730.9	4745.8	11.7	9.3	0.17	0.20
1989-90	7742.2	5084.8	8.8	9.1	0.11	0.18
1990-91	6827.4	4459.4	2.7	9.0	0.04	0.20
1991-92	7639.6	5762.8	5.9	2.6	0.08	0.05
1992-93	9249.4	6710.7	0.2	0.2	0.00	0.00
1993-94	12056.9	8088.6	NIL	NIL	NIL	NIL
1994-95	18262.6	10648.1	3.4	2.4	0.02	0.02
1995-96	17795.8	10692.8	NIL	NIL	NIL	NIL
1996-97	17049.9	11439.0	2.89	2.89	0.02	0.03
1997-98	24198.5	15165.3	NIL	NIL	NIL	NIL
1998-99	25554.6	14403.4	NIL	NIL	NIL	NIL

Sources: (i) *SIDBI, Annual Reports, 1986-87, 1991-92 & 1998.*

(ii) IDBI, Shillong Branch Feb.2000

The above table shows that Rs.2.89 crore was sanctioned during 1996-97 and the entire amount was disbursed during the year. Sanctions in the State constituted a share of 0.02 % in

total sanctions and disbursements accounted for a share 0.03 % in total disbursements. In the following two years, 1997-99 the table shows that no credit assistance was either sanctioned or disbursed in the State. The above table shows that the share of Meghalaya in the IDBI's financial assistance is very insignificant throughout the period under study i.e., from 1986-87 to 1998-99. Moreover, during the said period, no sanction was made for four years i.e. in 1993-94 and 1995-96; and continuously in 1997-98 and 1998-99. The reason for the insignificance sanction of financial loans might be due to the industrial backwardness of the small state. Again during the entire period there appears no entrepreneurs emerging in the State.

The table however shows that continuously for seven years since its inception in the state, the IDBI did sanction some amounts which fluctuated from year to year. The initial amount that was sanctioned in the very year of its inception was the highest during the entire period under study. By the end of the 7th year the sanction came down to the lowest level with Rs.0.2 crore only and by the succeeding year, no amount was sanctioned at all. For the remaining five years, sanctions were made during two years only i.e. 1994-95 for Rs. 3.4 crore and 1996-97 for Rs. 2.89 crore. However, during the entire 13th year period the total sanctions amounted to Rs. 53.92 crore while the disbursement amounted to Rs. 48.72 crore only leaving a balance of Rs. 5.20 crore as on 1996-97 while no amount was either sanctioned or disbursed in the last two

successive years because there was no proposal for the IDBI's investment in medium and large-scale industries in Meghalaya.

It may be reiterated that the non-sanction of any industrial loans for four years during the 13th year period might be due to the industrial backwardness of the state and the absence of entrepreneurs.

The data given in table 6:4 have been completed by fitting a simple linear regression equation $Y=ae^{rt}$ but the results of the statistical analysis could not be worked out as R^2 is smaller.

Analysing the data with regard to assistance sanctioned and disbursed in the different years as shown in the Table 6.6. We can say that the performance of IDBI in the state of Meghalaya is very poor.

Concluding Remarks

The declining role of IDBI in Meghalaya is due to many reasons. First, during the 1980s, the industries in the State were provided financial assistance mainly by IDBI, but since 1990, small scale industries have been taken care of by the Small Industries Development Bank of India (SIDBI), a subsidiary of IDBI. Secondly, indirect finance has been provided by IDBI, Guwahati to the industries and projects in Meghalaya through MIDC LTD. Thirdly, in Meghalaya no heavy and large-scale industries exist. Most of the industries

set up in the State are cottage and small-scale units. The IDBI can play an increasing role in the state industrially developed and the large-scale are not set up. At present IDBI in the State is confining itself to resource mobilisation. It collected about Rs.10 crore investment deposits in 1998-99.⁴

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED (MIDC)

The Meghalaya Industrial Development Corporation Limited (MIDC Ltd.) was set up in the year 1971. At the time of establishment the MIDC had only one branch with a staff strength of 12. Two more branches were set up in Jowai and Tura respectively. As on 31st March, 1999 the staff strength has increased to 103.⁵

The MIDC Ltd., a Government of Meghalaya undertaking was incorporated with a view to accelerating the industrialisation of the State. The Corporation is taking several steps for the orderly growth of industries in Meghalaya. It is providing a multi-directional assistance to the entrepreneurs in the State.

The different schemes operated by the Corporation in the State are as follows:

1. General Schemes.
2. Schemes for Cottage, Village and Tiny industries.
3. Equipment Finance Schemes.

4. Schemes for Small Road Transport Operators.
5. Schemes for Professionals.
6. Schemes for Tourism Related Activities.
8. Schemes for Hotel and Restaurant Projects.
9. Schemes for Technology Development and modernisations.

The MIDC's main sources of funds are the Industrial Development Bank of India, the Small Industries Development Bank of India and the State Government contribution. Like any other industrial financial institution, the Corporation is extending credit assistance for the setting up of industrial units.

The amount of loans sanctioned and disbursed by MIDC to Small Scale units (SSIs) and Small Road Transport Operators (SRTOs) for two decades .i.e. from 1978-79 to 1998-99 is given next page in table 6:6

The table 6:6 reveals the fluctuating trend in the amount of loans sanctioned to the SSIs and SRTOs. The amount sanctioned to small scale units reached the highest at Rs. 834.43 lakhs during 1996-97, whereas the highest growth rate of sanctions at 916 % was during 1983-84 when sanctions escalated from the lowest amount of Rs.4.53 lakhs in 1982-83 to Rs.46.01 lakhs in 1983-84. In respect of loans sanctioned to SRTOs, the highest amount of Rs.230.10 lakhs was during 1985-86 and the lowest amount of Rs.2.40 lakhs was sanctioned during 1991-92. The table shows that the highest growth rate of SRTO sanctions stood at 1230 % when sanctions

rose from the lowest amount of Rs.2.40 lakhs during 1991-92 to Rs.31.92 lakhs during 1992-93.

TABLE 6:6
AMOUNT OF LOANS SANCTIONED AND DISBURSED
BY MIDC LTD.
DURING 1978-79 TO 1998-99

(Rs.in lakhs)

Year	Sanctioned				Disbursed			
	SSIs		SRTOs		SSIs		SRTOs	
	AMT.	GROWTH RATE(%)	AMT.	GROWTH RATE(%)	AMT.	GROWTH RATE(%)	AMT.	GROWTH RATE(%)
1978-79	18.72		20.28		12.47		1.88	
1979-80	5.59	-70.14	7.32	-63.90	6.58	-47.23	9.51	406
1980-81	29.61	430.00	32.67	346	8.53	29.64	28.78	203
1981-82	36.28	22.53	11333	247	48.15	464	110.93	285
1982-83	4.53	-87.51	73.50	-35.15	7.60	-84.22	72.47	-34.67
1983-84	46.01	916	13.59	-81.51	31.98	321	8.44	-88.35
1984-85	37.68	-18.10	107.57	692	19.16	-40.09	89.69	963
1985-86	76.60	103.00	230.10	114	32.37	68.95	178.80	99.35
1986-87	350.96	358.00	90.69	-60.59	110.34	241	97.30	-45.58
1987-88	297.54	-15.22	123.17	35.81	86.97	-21.18	111.30	14.39
1988-89	131.02	-55.97	116.78	-5.19	118.97	36.79	83.52	-24.96
1989-90	179.11	36.70	154.52	32.32	239.07	101	100.66	20.52
1990-91	43.69	-75.61	66.13	-57.20	182.87	-23.51	72.41	-28.06
1991-92	113.53	160.00	2.40	-96.37	92.04	-49.67	13.04	-81.99
1992-93	59.91	-47.23	31.92	1230	102.85	11.74	17.18	31.75
1993-94	234.17	291.00	49.10	53.82	181.96	76.92	33.04	92.32
1994-95	154.97	-33.82	44.15	-10.08	132.90	-26.96	46.66	41.04
1995-96	130.47	-15.81	49.81	12.82	94.04	-29.24	27.42	-41.16
1996-97	834.43	540.00	104.28	109	397.63	323	81.31	197
1997-98	144.34	-82.70	38.61	-62.97	262.57	-33.97	26.14	-67.85
1998-99	391.67	171.00	59.93	55.22	133.45	-49.18	74.18	184

Note: SSIs denotes Small Scale Industries.
SRTOs denotes Small Road Transport Operators.
Source: Compiled from data collected from MIDC. Ltd.
Shillong Branch, Meghalaya, 1999.

Looking at the disbursements of loans to SSIs, the highest amount was disbursed during 1996-97 at Rs.397.63 lakhs. During this year the highest amount of loans was sanctioned to SSI and this had enabled the Corporation to disburse the highest quantum to this sector during 1996-97. The highest growth rate of the amount of loans disbursed to SSI stood at 464 % during 1981-82. With regard to SRTOs the highest level of disbursement was made during 1985-86. The amount advanced aggregated to Rs.178.80 lakhs. The highest growth rate of the amount disbursed to SRTO was during 1984-85 at 963 %, when disbursements escalated from Rs.8.44 lakhs in 1983-84 to Rs.89.69 lakhs in 1984-85.

The table 6:6 shows that the amount sanctioned to SSIs and SRTOs was not equivalent to the amount disbursed. In some years the amount sanctioned was more than the amount disbursed, whereas in other years disbursement was greater than sanctions. The excess in sanctions was due to many factors like non - viability of the projects and non - acceptance of funds on the part of the entrepreneurs. The increase in disbursements was mainly caused by the demand made by entrepreneurs for additional funds.

The linear relationship of loans sanctioned and disbursed by MIDC from 1978-79 to 1998-99 with time factor shows that the exponential growth rate of loans sanctioned to SSIs stood at 16% and loans sanctioned to SRTOs stood at 18%. The exponential growth rate of disbursements to SSIs and SRTOs

stood at 175 and 43% respectively. R^2 of the SSIs and SRTOs sanctioned loans stood at 0.55 and 9.10 respectively. In the case of disbursements R^2 of SSIs and SRTOs stood at 0.72 and 0.57 respectively.

After analyzing the amount of loan sanctioned and disbursed in the State, we will now study the performance of MIDC LTD. During three periods - 1974-77, 1987-87 and 1996-97. Study is made for only these three periods because of non-availability of data for other years.

Period 1974-77

The amount of loans disbursed, repaid and out-standing during 1974-77 is shown in the following table.

TABLE 6:7
AMOUNT OF LOANS DISBURSED, REPAID
AND OUTSTANDING OF MIDC LTD.

(Rs.in lakhs)

Year	Balance Outstanding	Loans disbursed	Amount repaid	Amount Outstanding at the end of the year
1974-75	-	16.75	-	16.75
1975-76	16.75	24.75	19.60	21.90
1976-77	21.90	22.10	10.35	33.65

Source: MIDC, Sixth Annual Report, 1976-77.

The table 6:7 reveals that an amount of Rs.16.75 lakhs was disbursed by MIDC during 1974-75. No amount was repaid during this year and hence the outstanding amount at the end of the year stood at Rs.16.75 lakhs. During the following year, 1975-76 the amount of financial assistance extended aggregated to Rs.24.75 lakhs. An amount of Rs.19.60 lakhs was repaid during the year and hence the amount outstanding at the end of 1976 stood at Rs.21.90 lakhs. The amount of loans extended during 1976-77 declined to Rs.22.10 lakhs. The amount which has been repaid during this year stood at Rs.10.35 lakhs and therefore the amount outstanding at the end of 1977 aggregated to Rs.33.65 lakhs.

Income of MIDC

The income of the Corporation during 1974.75, 1975-76 and 1976-77 stood at Rs.3.09 lakhs, Rs.11.51 lakhs and Rs.7.42 lakhs respectively, whereas expenditure stood at Rs.1.89 lakhs, Rs.9.76 lakhs and Rs.4.67 lakhs respectively. This shows that for a period from 1975 to 1977, the Corporation earned profits of Rs.5.7 lakhs.

The financial position of the corporation as on 31st March,1977 is given in the next page.

(Rs.in lakhs)

Sl. No.	Funds employed	Amount	Application of Funds	Amount
1.	Share Capital	126.92	1. Investment at cost	24.99
2.	Share Capital Contribution (Shares issued on 11.5.1997)	48.00	2. Loans to industrial units	33.65 0.83
3.	Reserves & Surplus Total	4.17	3. Fixed assets	131.22
	Total Shareholders Funds	179.09	4. Net current assets	190.69
4.	Funds received for various purposes from government	11.60	5. Total Funds applied	
	Total Funds employed	190.69		

Source: MIDC, Annual report , 1976-77.

The above illustration shows that the total shareholders funds comprising of share capital, share capital contributions and reserves and surplus total aggregated to Rs. 179.09 lakhs as on 31st March 1997. The funds received for various other purposes stood at Rs. 11.60 lakhs making a total funds employed of Rs. 190.69 lakhs. In the total funds applied, Investment shared Rs. 24.99 lakhs, loans to industrial units at Rs. 33.65 lakhs, Fixed assets Rs. 0.83 lakhs and net current assets Rs. 131.22 lakhs respectively as on the same date.

Profit of MIDC

At year-end 31st March, 1977. The corporation made a net profit of Rs.2,75,898.87 before provision of Rs.1,59,400.00 was made for income tax, a sum of Rs,1,16,000.00 was appropriated to general reserve, and the balance Rs.498.87 was proposed to be carried forward for the following year.

Subsidiary of MIDC

During 1976-77, the Corporation had both managerial and financial participation. These are (a) Komorroh Limestone Mining Co. LTD., (b) Meghalaya Essential Oils & Chemicals LTD., (c) Meghalaya Phyto Chemicals LTD. and (d) Garo Hills Jute Mill LTD.

Period during 1986-87

As on 31st March 1987 the authorised capital of the Corporation was Rs.1,00,000 and the paid-up capital stood at Rs.587.17 lakhs. During the year 1987 a sum of Rs.112.00 lakhs was received from the Government of Meghalaya Industrial Department towards share capital contribution. The entire capital was held by the Government of Meghalaya. The financial position of the Corporation as on 31.03.1987 is furnished below:

(Rs.in lakhs)

Funds Employed	Amount	Application of funds	Amount
1.(a)Share Capital	587.17	1.Investment at cost	90.88
(b)Share application money	162.00		
2.Reserve and surplus	18.37	2.Loans to industrial Units and Transport Operators	695.74
Total Shareholders' Fund	767.54		
3.Funds received from Government.	350.59	3.Fixed Assets	6.21
3.Funds received from IDBI under Refinance Scheme	418.35	4.Net current assets	294.75
		5.Exp.on projects & schemes	448.90
Total Funds Employed	1536.48	Total funds applied	1536.48

Source: MIDC, Annual report, 1986-87.

The above illustration shows that the total funds employed by the Corporation as on 31.03.1987 amounted to Rs.1536.48 lakhs. Of this amount the shareholders' fund shared Rs. 767.54 lakhs i.e. constituting a 49.95 % share. Funds received from the Government and IDBI stood at Rs. 350.59 lakhs and Rs. 418.35 lakhs respectively, accounted for a share of 22.81 % and 27.23 % respectively. During 1986-87 investment of the Corporation aggregated to Rs.90.88 lakhs. Total advances to industrial and transport operators units under different schemes amounted to Rs.695.74 lakhs. Fixed assets and net current assets stood at Rs. 6.21 lakhs and Rs. 294.75 lakhs respectively. Expenditure on Projects and other schemes amounted to Rs.448.90 lakhs during the same year.

Subsidiaries of MIDC

The Corporation has granted short-term bridging loans out of its surplus funds to industrial units in Meghalaya. It also extends bridging loans to its subsidiary companies, which were not functioning well to meet the salary and other administrative expenses. The subsidiary companies of the Corporation as at end March 1987 are (a) the Meghalaya Handloom and Handicrafts Development Corporation Ltd. (b) the Meghalaya Watches Ltd. (c) the Meghalaya Bamboo Chips Ltd & (d) the Meghalaya Electronics Development Corporations. The amount of loans extended to these companies aggregated to Rs.121.73 lakhs as on 31.03.87.

Loss of MIDC

For the year-end 31st March 1987 M.I.D.C. suffered a loss of Rs 24.36lakhs. This is because the recovery of interest on loans was not at all satisfactory during the year. Some loans were not repaid at all as some industrial units became sick units.

Period 1996-97

The financial position of the Corporation in terms of share capital, loans and advances, income, expenditure and profit during 1996-97 is given along with the 1995-96 figure.

TABLE 6:8
FINANCIAL POSITION OF MIDC LTD.

(Rs.in lakhs)

	1996-97	1995-96
SHARE CAPITAL	3050.41	3010.41
LOANS & ADVANCES	2833.64	2348.86
INCOME	274.95	233.73
EXPENDITURE	222.42	173.23
PROFIT	52.53	60.05

SOURCE: Compiled from data collected from *MIDC Annual Report, 1996-97*.

The above table reveals that the share capital of the Corporation rose from Rs. 3010.41 lakhs during 1995-96 to Rs. 3050.41 lakhs during 1996-97 registered a growth rate of 1.33 %. Loans and advances increased from Rs. 2348.86 lakhs to Rs. 2833.64 lakhs during the same period recorded a growth of

20.64 %. The income of the Corporation during 1996-97 stood at Rs.274.95 lakhs as against Rs.233.73 lakhs during 1995-96 reflected an increase of 18 %. Expenditure during the year under study aggregated to Rs.222.42 lakhs as against Rs.173.23 lakhs during the previous year, showing an increase of 28 %. The table shows that in all variables the Corporation has recorded a positive growth rate except for profit. Profit of the Corporation has declined by 13.17 % when it dropped down from Rs. 60.50 lakhs during 1995-96 to Rs. 52.53 lakhs during 1996-97. The Corporation earned a profit of Rs.52.53 lakhs during 1996-97 but it should not be content with this achievement. It should try to improve its performance and increase its profits in the coming years. The balance amount of Rs.52-53 lakhs during 1996-97 was made provision for Special Reserve, Taxation and General Reserve.

In addition to the financial accommodation provided, the Corporation conducts training programmes for local youth in various disciplines from time to time. This has greatly encouraged and helped the local youths in setting up their own units and be self-employed. This would also contribute much to the industrial development in the State. Viewing the significance of the Corporation in the State, the Government should come forward in aiding this Corporation. It should purchase and encourage the public to buy the goods produced by the Corporation. Adequate financial help should be supplied by the Government to the Corporation.

Concluding Remarks

After Analysing the performance of the Corporation as a whole, we can say that MIDC is playing a dominant role in promoting industrial development in the State. However, the Corporation should not be satisfied with what it has achieved. There is much more to accomplish. Like the banks, the Corporation is facing the problem of recovery. It is important for the Corporation to increase its recovery Percent. More and more training programmes should be conducted by the Corporation, particularly in the field of entrepreneurship. Along with these programmes follow-up mission should be taken up by the Corporation in encouraging and assisting the trainees to set up their own units. The MIDC has an increasingly important role to play in the State today in giving training, motivating, encouraging and patronising thousands of educated unemployed youths.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Introductory

The National Bank for Agriculture and Rural Development (NABARD) was set up on 12 July 1982 under an Act of Parliament by initially merging the Agricultural Credit Department and Rural Planning and Credit Cell of Reserve Bank of India (RBI) and the entire undertaking of Agricultural Refinance and Development Corporation (ARDC). NABARD is

an apex development bank of the country for supporting and promoting agriculture and rural development.

With a paid-up capital of Rs.500 crores equally contributed by Government of India and Reserve Bank of India, it functions through its Head office at Mumbai. NABARD has 17 regional offices, 10 sub-offices in smaller states/union territories and 213 district offices.

NABARD functions are credit-related, promotional, developmental and regulatory. It provides refinances for short-term, medium-term and long-term loans through banks such as Commercial banks, State Co-operative Agriculture and Rural Development Banks (SCARDBs)

NABARD in keeping its role as an apex institution in the organised rural credit structure provides refinance facilities to various financial intermediaries dispensing credit to support a broad spectrum of productive activities in the rural sector. Suitable policies are devised and operational arrangements are introduced by the Bank from time to time in order to vitalise the rural credit delivery system and to augment the flow of credit for rural development.

NABARD in Meghalaya

In the state of Meghalaya NABARD Regional Office, Shillong was set up in the year 1986. There were only two members in the staff at the date of establishment. As on

31.03.99 the staff strength in the Regional Office, Shillong has increased to 11.⁶ The other two branches of NABARD are in Jowai and New Tura.

The amount of loans disbursed in the State along with the All-India figures during 1986-87 to 1998-99 is reflected in following table:

TABLE 6:9
AMOUNT OF LOANS DISBURSED
BY NABARD DURING 1986-87 TO 1998-99
(Rs.in crores)

YEAR	ALL-INDIA DISBURSE- MENT	GROWTH RATE	MEGHALAYA DISBURSE- MENT	GROWTH RATE	PERCEN- TAGE SHARE OF NABARD
1	2	3	4	5	6
1986-87*	1334.2		0.05		0.004
1987-88**	1481.9	11.07	0.17	240	0.01
1988-89	1270.2	-14.29	0.12	-29.41	0.009
1989-90	1362.0	7.23	1.60	1233.00	0.12
1990-91	1902.2	39.65	2.05	28.13	0.11
1991-92	2054.6	8.01	1.56	-23.90	0.08
1992-93	2359.0	14.82	1.28	-17.95	0.05
1993-94	2745.0	16.36	2.15	67.97	0.08
1994-95	2904.5	5.81	2.15	0	0.07
1995-96	3064.0	5.49	3.04	41.40	0.10
1996-97	3523.0	14.98	6.84	125.00	0.19
1997-98	3921.9	11.32	7.89	15.35	0.20
1998-99	4521.0	15.28	8.02	1.65	0.18

*Data as on July, 1986 – June, 1987; **Data as on July 1987-
June, 1988.

Note: The amount of loans sanctioned cannot be revealed
in the table due to non-availability of data.

SOURCES: (i) *NABARD, Annual Reports, 1988-89 to 1998-99*
(ii) NABARD, Shillong

The table 6:9 shows that there was a consistent increase in the All-India disbursement except for 1988-89. The highest growth rate of the amount of loans disbursed by NABARD in the country was during 1990-91 at 39.65 percent. In 1990 the country experienced an excellent monsoon which helped to raise production to a level of 1772 million tonnes. The increase in agricultural production was also due to a number of programmes taken up by NABARD. Such programmes are Special Rice Production Programme, Oilseeds Production Programme, National Pulses Development Project, Special Jute Development Programme and others. The only negative growth rate of the All-India disbursement was during 1988-89 at -14.29 %. In complying with the decision taken to change the accounting year of the NABARD from July-June to April-March, the data of 1988-89 depicts the performance during the 9 month period, from July 1988 to March 1989. This has caused the decline in the growth rate of NABARD's disbursement in the country during this period.

The above table also reflects the fluctuating trend in the amount of loans disbursed in Meghalaya from 1986-87 to 1993-94. It remained constant at Rs.2.15 crores during 1994-95. From 1995 to 1999 the table depicts a consistent increase in the amount of loans disbursed in the State. The maximum amount of Rs.8.02 crores was disbursed during 1998-99. The increase in disbursement during this year was brought about by an increase in the amount of financial assistance provided to the Commercial Banks and the Regional Rural Bank in the

State. The NABARD commenced its transactions only in 1986 in the State and hence it could disburse only Rs.0.05 crore during 1986-87 but the disbursements rose to Rs. 0.17 crores in the following year. It exhibits a fluctuating trend in the succeeding six years and an increasing trend from 1994-95 to 1998-99. The lowest growth rate was during 1988-89. at -29.41 %. As stated earlier this year's data reflects the disbursement in the State from July 1988 to March 1989. The highest growth rate was during 1989-90 at 1233%.

Looking at the table we find that the percentage share of Meghalaya disbursements in the total disbursements of the country exhibits a fluctuating trend. This is because of the inconsistency in the amount of loans disbursed in the State, whereas there was a consistent growth in the amount of loans disbursed in the country except for 1988-89. The percentage share of NABARD in the total disbursements rose from 0.004% in 1986-87 to 0.01% in the following year. It fell down to 0.009% in 1988-89. It rose again to 0.12% in the following year and then decline in the successive three years. The percentage share again increased in 1993-94 to 0.08% and fell down to 0.07% in the following year. The table also shows that the percentage share increased during 1995-96, 1996-97 and 1997-98 and then declined in the following year.

The linear relationship between the amount of loans disbursed by NABARD with time factor shows that the

exponential growth rate of disbursement from 1986-87 to 1998-99 stood at 37%. R^2 of the said variable stood at 0.82.

Concluding Remarks

Among the development financial institutions, NABARD has emerged to be an important agency in promoting agriculture sector and rural development. In Meghalaya, NABARD has provided financial accommodation to farm mechanisation, plantation, horticulture, dairy development, poultry, sheep, piggery, fishery, Integrated Rural Development Programme (IRDP), non-farm sector and others. Apart from providing institutional credit it is important for the NABARD to engage itself in sponsoring awareness and training programmes to encourage and assist the public to form Societies and Self Help Groups (SHGs). This will stimulate the flow of institutional credit from NABARD and thereby enhancing the overall economic development of Meghalaya.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

Introductory

SIDBI was established in April 1990 under an Act of Parliament called the Small Industries Development Bank of India Act, 1989, as a wholly-owned subsidiary of the Industrial Development Bank of India and has since completed 9 years of service to the small scale sector. Its head office is at Lucknow.

The main objectives of the SIDBI are: (i) to serve as the principal financial institution for promotion, financing and development of industry in the small scale sector and (ii) to co-ordinate the function of the other institutions engaged in similar activities.

All projects in the small-scale sector are normally eligible for assistance. The ceiling on investment in plant and machinery of SSIs and ancillary units has been enhanced to Rs.300 lakhs effective from December 11,1997, from the earlier level of Rs.60 lakhs and Rs.75 lakhs for ancillary and export-oriented units respectively.

SIDBI, which was initially functioning primarily as a refinance institution, has since diversified its activities and introduced several new schemes to meet the varying needs of the small-scale sector. The coverage of promotional and support services provided by SIDBI has also been expanding year after year. The Institution has been successful in its promotional and developmental initiatives. This has facilitated the rise of a large number of entrepreneurs. Such initiative, particularly those directed at empowering women through assistance under its Rural Industries Programme, Mahila Vihas Nidhi and Entrepreneurship Development Programmes have become special programmes from an economic point of view.

SIDBI in Meghalaya

In Meghalaya SIDBI has established only one branch in 1990, in Shillong, the capital of the State. There are only four members of the staff of the Branch as the operation has been computerised.⁷

SIDBI has been financing various sectors such as Small Scale Industries and Road Transport Operators. The amount of loans sanctioned and disbursed in the State from March 1990 to March 1999 is shown in the following table 6:10 along with the all-India figures:

TABLE 6:10
AMOUNT OF LOANS SANCTIONED AND DISBURSED
BY SIDBI
DURING 31ST MARCH, 1990 – 31ST MARCH, 1999.
(Rs.in lakhs)

Year	All-India		Meghalaya		Proportionate Share Of Meghalaya in All India	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1990-91	2410.1	1838.8	2.69	2.80	0.11	0.15
1991-92	2847.0	2028.0	1.62	1.68	0.06	0.08
1992-93	2909.2	2146.3	1.92	1.51	0.07	0.07
1993-94	3356.3	2672.7	2.62	2.44	0.03	0.09
1994-95	4706.3	3389.8	2.14	2.04	0.05	0.06
1995-96	6065.6	4800.8	2.12	1.97	0.03	0.04
1996-97	6485.3	4584.7	8.64	4.36	0.13	0.10
1997-98	7484.2	5240.7	5.00	4.53	0.07	0.09
1998-99	8879.8	6285.2	5.13	3.01	0.06	0.05

Sources: (i) *SIDBI, Annual Reports, 1991-99*
(ii) Compiled from data collected from SIDBI, Shillong branch for Meghalaya.

The table 6:10 shows a rising trend in the amount of loans sanctioned by SIDBI in the country, whereas there was fluctuations in the amount of loans sanctioned in Meghalaya from year to year. It fell down from Rs.2.69 crore in 1990-91 to Rs.1.62 crore in 1991-92. In the following two years, sanctions increased but decline again to Rs.2.12 crore in 1995-96. It reached the peak at Rs.8.64 crore in 1996-97 and declined to Rs. 5.00 crore in the following year. Sanctions rose up again to Rs.5.13 crore in 1998-99. The lowest sanction was made during 1991-92 and the highest sanction during 1996-97. This is because loans were sanctioned during some months only in 1991-92, whereas they were sanctioned every month in 1996-97.

The table also reveals that disbursements in India increased from year to year except for 1996-97 because of the decline in the overall operations of SIDBI. Disbursements in the State fluctuated from time to time. They fell from Rs.2.80 crore in 1990-91 to Rs 1.68 in 1991-92 and 1.51 crore in 1992-93. They increased to Rs.2.44 crore in 1993-94 and fell again to Rs. 2.04 in 1994-95 and Rs.1.97 crore in 1995-96. Disbursements rose in the following two years and dropped to Rs.3.01 crore in 1998-99. The lowest amount of loans was disbursed during 1992-93 and the highest was disbursed during 1997-98. During 1990-91, Rs. 2.69 crores was sanctioned but Rs. 2.80 crores was disbursed. In the following year too sanctions stood at Rs. 1.62 crores and disbursements at Rs.1.68 crores. SIDBI disbursed more in the initial period of

two years because it had to clear all the pending applications which it took over from the IDBI in 1990. From 1992-93 to 1998-99 sanctions were higher than disbursements because some banks did not avail of loans given by the SIDBI.

The proportionate share of SIDBI, Shillong Branch in the All-India sanctions fluctuated every alternate year. The proportionate share in disbursements also fluctuated for every two years during the same period. The fall of the proportionate share in both sanctions and disbursements is due to lack of entrepreneurship in the State. The increase in the State's sanctions and disbursements could not keep pace with the increase in the amount sanctioned and disbursed by SIDBI in the entire country because there is less avenue of investment in Meghalaya.

As shown in the above table the amount of loans sanctioned and disbursed by SIDBI in the entire country registered a growth of 268 % and 242 % respectively in the period of nine years. In the State, sanctions and disbursements recorded a growth of only 91 % and 7.5 % respectively during the same period. This shows that performance of SIDBI in Meghalaya is not satisfactory. But SIDBI, like any other financial institutions has to face certain problems. SIDBI provides resource support to commercial banks and other financial institutions by means of refinance to their term loans in the SSI sector. The number of refinance applications received from the commercial banks is very few. SIDBI can

provide greater credit flow if only the commercial banks/financial institutions could increase their applications for refinance from it. Of late, it has been observed that commercial banks were not inclined to take finance from SIDBI since they have surplus funds. Moreover, Meghalaya is lagging behind in technology and venture projects, where SIDBI could play a fundamental role.

The linear relationship between sanctions as a function of time and between disbursements with time reveals that 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%. R^2 of the loans sanctioned and disbursed by SIDBI for the said period stood at 0.51 and 0.37 respectively.

Concluding Remarks

The significance of SIDBI in the State can hardly be overemphasized. It has been instrumental in promoting and supporting local NGOs like Western Youth Welfare Organization and Bosco Reach Out. The SIDBI Shillong has been active in bringing about entrepreneurial awareness through various Entrepreneurship Development Programmes (EDPs), jointly with SIDBI and NEC. Since SIDBI in Meghalaya is providing credit to the small-scale sector mainly by means of refinance to commercial banks, Co-operative banks, Rural Bank and MIDC against their lending to the Small Scale Industries (SSIs), the credit flows from these

institutions towards the industrial sector has to increase in order to enable them to avail themselves of more credit from the SIDBI. On personal inquiry, it was discovered that no direct finance has been provided by the SIDBI in the State of Meghalaya, though the Bank in other states has been giving direct finance. The minimum outlay of direct finance is Rs. 40 lakhs. Unfortunately, no entrepreneur from the state is prepared to take such huge investment. It is important to bring down the minimum investment to Rs. 10 lakhs to enable more entrepreneurs to approach the Bank. In this way more funds can be provided by the Bank under direct finance, thereby increasing its sanctions and disbursements in the near future.

Conclusion

The AFC has been rendering services to the different sectors right from its inception. In recent years its role was declining because of its poor recovery performance not only in the State but in the entire North-East Region.

The IDBI is not playing a major part in the State's economy as the State is lacking behind in heavy and large-scale industries. However, the Institution should not rest content but it should strive in hastening industrial development in Meghalaya. As an apex development bank it is its duty to conduct seminars, trainings and awareness programmes in stimulating entrepreneurial activities in the

State. Its function in the State is not only to mobilise huge deposits but also to extend credit and assistance.

The MIDC being a State financial institution for industrial development has more responsibility to perform. The Institution should not glory with its past achievements. It has to extend more and more financial assistance in the years to come. Along with the provision of loans and advances, it has to conduct more and entrepreneurial development programmes.

The NABARD, being an apex agricultural development bank is also trying its best to promote agriculture and rural development in the state of Meghalaya. Unfortunately its overall performance in Meghalaya is far from satisfactory. The percentage share of the amount of loans disbursed in the State in the all-India disbursement did not exhibit consistent increase. In fact it fluctuated from year to year. The amount of financial assistance extended by NABARD in Meghalaya increased from 1994 to 1999.

The SIDBI being an institution for the small scale sector, has been playing a vital role in Meghalaya, where there are more SSIs. It has been doing well in the field of indirect finance. But, no direct finance was provided by SIDBI from its inception till date. In a backward state like Meghalaya, it becomes important to bring down the minimum project cost from Rs. 40 lakhs to Rs.10 lakhs. This would enable more

entrepreneurs to avail of loans from SIDBI and thereby enhancing its role in the State.

Notes and References

1. Assam Financial Corporation, *Annual Report*, 1998-99, p.26
2. Finance Department, Government of Meghalaya, Shillong, 1999.
3. AFC, Shillong Branch, Meghalaya.
4. IDBI, Shillong, Meghalaya.
5. MIDC, Shillong, Meghalaya.
6. NABARD Regional Office, Shillong, Meghalaya.
7. SIDBI, Shillong Branch, Meghalaya.

CHAPTER – VII

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.

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