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. 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.
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.

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Notes and References


2. Data collected from the Finance Department, Shillong, Meghalaya.

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