

# ROLE OF FINANCIAL INSTITUTIONS IN FINANCING SMALL AND MEDIUM ENTREPRISES: A STUDY IN GARO HILLS OF MEGHALAYA

J. U. Ahmed\*, Md. Abdul Rashid\*\*

**Abstract** *With the development of alternative sources of funds, the dependence of industry on commercial banks for meeting their credit supplies has been declined although the share of credit to industry in India has significantly increased over the years. The commercial banks have of late emerged as the major supplier of industrial credit for small and Medium Enterprises (SME). There have been several confusing features of credit flow to SME sector in recent years. Hence, an experiential study on efficacy of financial institution in financing small sector is relevant exercise. The present paper, therefore, is an attempt to examine the role of financial institutions in financing SME sector in Garo Hills of Meghalaya.*

**Keyword:** *Financial Institutions, Small and Medium Enterprises, Garo Hills.*

The financial institutions play a very significant role in the economic development of any country. The commercial banks emerged as the purveyor of credit requirement of the small borrowers and played a positive role in institutionalizing the community savings. An excessive focus has been laid on quantitative achievement and social obligations. Apart from this, the reason of expansion of bank branches may be attributed to develop a strong banking base to serve the economy efficiently and meet the banking needs of various segments of the economy by developing specialized banks. However, with the development of alternative sources of funds, the dependence of industry on commercial banks for meeting their credit requirements has been declined although the share of credit to industry in India was significantly highest among all countries (Ahmed, 2010). The corporate sector of India is heavily dependent on the banking sector in comparison with other countries (Chavan and Lamba, 2007).

The commercial banks have of late emerged as the major supplier of industrial credit for SME in the national and state levels as well as in the districts under study. A large variety of financial institutions including banks have emerged basically after independence to satisfy the financial requirements of both small and large scale industries at national, regional and state levels. There have been several confusing features of credit flow to the small sector in recent years. The overall availability of credit to micro and small enterprises (MSEs) as percentage of net bank credit (NBC) of the scheduled commercial banks (SCBs) has declined from 13.9 per cent

in March, 1997 to 6.2 per cent in March, 2006 and thereafter it experienced a swelling trend and reached to 10 per cent of bank credit in March, 2009 (RBI, 2010). In the light of the above, an attempt has been made in the present paper to analyze the bank financing of SME sector in Garo Hills of Meghalaya.

## THE BACKGROUND

The economic history of the developed nations shows that economic growth and growth of financial infrastructure moves together. The role of banks is a very crucial in the industrial development of any country or region. A sound and progressive banking system is prerequisite for industrial development. The loan/credit is the pillar to industrial development in any region. In India, commercial banks are granting short term and medium term loans to industries. Banks are the major apparatus of rapid industrializations of an economy. The commercial banks are a major source of financing SMEs. The industrial houses require credit for short period for working capital and for long periods for their fixed capital requirements. The commercial banks continue to be the major institutions meeting over 90 per cent of the institutional credit need of SME sector (SIDBI, 2010). Gomez (2008) observed that the commercial banks have maintained an attitude of superiority as regards the provision of long-term capital to industry. Shekher and Shekhar (2005) opined that even in the case of providing short term finance, banks granted loans only on the security of easily realizable

\*Professor & Head, Department of Management, North Eastern Hill University, Tura Campus, Tura, Meghalaya, India

\*\*Assistant Professor, Department of Commerce, Don Bosco College, Tura, Meghalaya, India

assets and not on fixed assets and they insist a large margin even in the case of easily realizable assets, thereby making the system expensive. Further, most of the banks do not maintain adequate technical staff required for the proper valuation of assets and naturally, to be on the safer side, they undervalue the assets. The report of the Task Force chaired by (1974) stated that about 80 per cent of the commercial banks credit are available to the small industries is in the form of working capital and the balance is as term loans. The study group (1969) headed by Prof. D.R Gadgil recommended for the adoption of an “area approach” for development of credit and banking in the country on the basis of local conditions. All India Rural Credit Review Committee in 1969 endorsed the view that commercial banks should come forward to finance activities in rural areas. The lead bank scheme (LBS) underwent significant transformation in 1989 when “service area approach” was merged into the scheme. The service area restrictive provisions were removed in 2004, except for the government sponsored programme. As in March, 2009, there were 26 numbers of banks mostly in the public sector, which have been assigned lead responsibility in 622 districts of the country (RBI, 2009).

The State Bank of India (SBI) is to act as consortium leader of the districts under study. The lead bank prepares the District Credit Plan (DCP) and Annual Action Plan (AAP) with the help of bank officials, developmental agencies -DICs etc. The LBS was evolved as a framework to be more responsive to the need of rural and semi-urban economy. The objectives of the scheme cannot be achieved unless rural lending is properly tied to well design programmes of development. This requires an effective co-ordinations and co-operations not only between lead banks and other banks but also between banks in one side and the concerned government machineries and other development agencies on the other side.

## THE GARO HILLS DISTRICTS

Garo Hills is the westernmost part of Meghalaya and south western corner of Assam state located between latitude  $25^{\circ}9'$  and  $26^{\circ}1'$  North and longitude  $89^{\circ}49'$  and  $91^{\circ}2'$  East covers an area of 8167 sq. km comprising 16 towns and 19

Community Rural Development Blocks in 6 sub-divisions of three districts (East Garo Hills, West Garo Hills, South Garo Hills) of Meghalaya state (GoM: 2006). The districts presents an attractive topography with a vast forested area grown from the foot hills and containing rich biological resources (Gassah, 1984).

The districts of Garo Hills are identified as one of the industrially backward districts. As per official records of the districts, total number of registered small enterprises 1388 in 2007-08 (GoM, 2008-09). The District Industries Centers (DICs) are imparting training to the rural artisans in trade, leatherwork, knitting, weaving, tailoring, bamboo work, carpentry etc. There is only one Industrial Training Institute (ITI) at Tura of West Garo Hills district catering specialized training to the entrepreneurs of the districts under study. Regional Vocational Training Institute (RVTI) at Tura is also offered the courses to the women in tailoring, computer training, beautician etc.

The adequacy of finance is essential for development of a dynamic industrial sector. The rate of growth of flow of institutional finance in the districts has not shown significant rise. For accelerating the pace of industrialization the Meghalaya Industrial Development Corporation (MIDC) which was incorporated in 1971 extended a branch office at Tura of West Garo Hills Districts in 2<sup>nd</sup> October, 1980 which is catering the requirements of the study area. The districts of Garo Hills have 25 per cent of bank offices of state Meghalaya (SLBC, 2010). At present, there are 48 number of branches of commercial banks, 2 number of branches of Meghalaya Rural Bank and 16 number of branches of Meghalaya Co-operative Apex Bank are operating in the districts. The following table 1 shows the banking network of the area under study.

It may be observed that the existing bank branches are inadequate to serve the population in the districts under study. Therefore, major areas are still remaining un-served by the banks and the rural masses are yet to access the banking services.

The area under study is economically backward and that could be observed from the presence of few numbers of

**Table 1:** Banking Network In Garo Hills Districts as on December, 2010

Types of Bank	Number of Bank Branches			
	East Garo Hills	West Garo Hills	South Garo Hills	Total
1. Commercial Banks	15	29	4	48
2. Meghalaya Rural Banks	1	1	0	2
3. Meghalaya Co-operative Apex Banks	4	10	2	16
Total	20	40	6	66

Source: State Level Bankers Committee, Meghalaya

**Table 2:** Networks of Banks and Financial Institutions in Garo HillsAs on 31<sup>st</sup> March 2010

(Number of Branches)

Districts	Rural	Semi-Urban	Urban	Total	Commercial Banks	RRB	MCAB	Total
	1	2	3	4(1+2+3)	5	6	7	8(5+6+7)
East Garo Hills	16	2	2	20	15	1	4	20
West Garo Hills	26	11	3	40	29	1	10	40
South Garo Hills	5	0	1	6	4	0	2	6
Total of Garo Hills	47	13	6	66	48	2	16	66
Meghalaya	142	45	71	258	158	56	44	258

Source: SLBC, Meghalaya

registered industries, untapped and under-utilization of resources, geographical isolation, poor communication network etc. In order to improve the economic condition of the people, attention for the development of industries particularly MSEs with appropriate developmental strategy may have to be taken.

## OBJECTIVES OF THE STUDY

The proposed study sets the following objectives-

1. To study the pattern of institutional financing of SMEs over the years.
2. To study the interrelationship between institutional finance and performance of small and medium enterprises.

## HYPOTHESES FRAMED

The following hypotheses have been framed to meet the objectives of the proposed study-

1. Consequent upon change in structure of industrial finance, the financial intermediaries have enlarged their assistance.
2. There exists a close relationship between institutional finance and performance of SMEs in the area under study.

## BANKS PERFORMANCE IN THE DISTRICTS

### Network of Banks and Financial Institutions in Garo Hills:

The institutional finance plays a decisive role in industrial financing of any country. So, a well developed banking and financial institutions are *sin qua non* for industrial development. There is a dearth of banks and financial institutions in Garo Hills. There is no branch of development financial institutions in Garo Hills except a branch of MIDC.

But SIDBI branch in Shillong and NEDFi in Guwahati expected to look after the financial requirements of industrial houses of Garo Hills. The MIDC, the only institution is processing, sanctioning and disbursing loan etc from its head office in Shillong through the branch office at Tura. A detail discussion of MIDC has been done in the later pages of this paper.

Apart from these, the commercial banks like State Bank of India (Lead bank in entire Garo Hills), United Bank of India (UBI) and Central Bank of India (CBI) are the nationalized banks; ICICI bank, AXIS bank and HDFC bank are the newly opened private sector banks; the only Regional Rural Banks - the Meghalaya Rural Bank (MRB); the only State Co-operative Bank - Meghalaya Co-operative Apex Bank (MCAB) operating in Garo Hills. The following table-2 shows the picture of banking network in the three districts of Garo Hills.

The rural areas of the districts are holding the lion's share of bank branches as on March, 2010. The numbers of urban branches are only 6 out of 66. The west Garo hills districts are ventured with maximum number of bank branches, the figure being 40 in number. Out of the total bank branches, the commercial banks hold the majority share i.e., 48 number of branches. It is clear from the above that the three districts of Garo hills are under banked and there is a dearth of financial institutions in the districts under study.

## Expansion of Bank Branches

There has been a rapid expansion of bank branches in the country since the introduction of LBS, especially in the rural and backward areas. At the national level, the number of bank branches of all scheduled commercial banks grew from 65,543 on March, 1997 to 92,534 at the end of March, 2009 and to 98,694 at the end of March, 2010. In Meghalaya, total number of bank branches was 180 in March, 1997; the figure increased to 213 in March, 2012 showing an increase of 33 bank branches within 14 years. While assessing branch expansion in Garo Hills, it is observed that only 7 scheduled commercial banks with 48 numbers of branches

were operating in the three districts of Garo Hills as on 31<sup>st</sup> March, 1997. During 1997- 2010, only 1 branch in West Garo Hills, 1 in East Garo Hills district and no branches in South Garo Hills district were opened. The poor progress towards the opening of the branches may be due to lack of proper infrastructural facilities in the districts. The branch expansion of the SCBs is presented in table 3.

### Population per Branch of the Commercial Banks in the Districts

The nationalization of commercial banks evidenced rapid expansion of bank branches in the country, especially in the rural and backward areas. But there has been an uneven growth of banking in different states of the country. Table -4 reveals that the all India average population per branch office was 13,721 persons in 2010 as compared to 20,027 persons in Meghalaya. But the average populations per branch in Garo Hills were much higher than the national as well as state average. The same for Garo Hills were much higher than the national and state's average. The East Garo Hills district is having 21,175 persons West Garo Hills 22,170 persons and South Garo Hills 35,644 persons. The average population of Garo Hills in per bank branch is 22,982. The three districts of Garo Hills carrying about 37.22 per cent of population of the state but in case of share of commercial bank branches, it possess only 30.38 per cent. It is clear from the above figures that financial exclusion is most acute in Garo Hills in general and the South Garo Hills in particular.

### Deposit Mobilization by Commercial Bank

The resource mobilization is a fundamental part of banking activity. The basic principle of branch expansion is to tap deposits and culminate savings habit of the community. Under 20-point programme (1975) the government directed the banks to make all possible efforts to access to new deposits that can only expedite the pace of lending activities. The most important functions of the commercial banks are

to mobilize savings in the form of deposits from public. Bank nationalization and expansion of bank branches have contributed greatly to the development of banking habit among the people, thereby boost up mobilization of savings in the form of deposits in the economy. The trend of increase in deposits of the SCBs in the study area is presented in the following table-5

The table clearly shows that deposits have grown up from ₹10, 019 lakhs in March, 1997 to ₹ 73,520 lakhs in March, 2010 recording a growth of 7.34 times during the period of 14 years. During the same period, deposits have been grown 8.43 times in the state level and 8.89 times at the national level. The growth of deposit in the study area is lower (CAGR= 16.6) than the state's average growth (CAGR=17.8) and in India as a whole (CAGR=18.3). It could thus be inferred from the above analysis that the banking reform measures introduced following Narasimham Committee (GoI, 1991) and (GoI, 1998), have played little in mobilizing deposits in the area under study. At this juncture, it is essential to analyze the compositions and directions of advances channelized in the study area.

### Advances Channelized by Banks

The commercial banks have been playing an important responsibility of channelizing the funds with most important sectors to fulfill the pre-determined objectives. The banks were especially concerned with financing the priority sector of agriculture, small scale enterprises and small transport operators. In course of time, other priority sectors were also added, such as retail trade, professional and self-employed persons, education, housing, loans for weaker sections and consumption loans (Ahmed, 2010). The commercial bank credit is an important input variable in the production functions of agriculture, industry, commerce and allied productive activities for the socio-economic development of the country. Raj Committee (1977) recommended 40 per cent of lending to the priority sector. The bank had earlier adopted a purely traditional approach in lending based on 'self liquidating theory'. Under this approach, the banks

**Table 3:** Branch Expansions of Scheduled Commercial Banks

District/ 31 <sup>st</sup> March	(Number of branches)													
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
East Garo Hills	15	15	15	15	15	15	15	15	15	15	15	15	16	16
South Garo Hills	3	3	3	3	3	3	3	3	3	3	3	3	3	3
West Garo Hills	30	30	30	31	31	31	31	31	31	31	29	29	30	31
Total Of Garo Hills	48	48	48	49	49	49	49	49	49	49	47	47	49	50
Meghalaya	180	180	180	181	181	181	181	182	185	189	192	192	205	213

Source: Reserve Bank of India, *Banking Statistics*

**Table 4:** Average Populations per Branch of Commercial Banksas on 31<sup>st</sup> March, 2010

(Population in Persons)

District	Population as per 2011 census	Number SCBs Branches	Average Population per Branch
East Garo Hills	3,17,618	15	21,175
West Garo Hills	6,42,923	29	22,170
South Garo Hills	1,42,574	4	35,644
Total of Garo Hills	11,03,115	48	22,982
Meghalaya	29,64,007	158	20,027
India	121,01,93,422	88,203	13,721

Source: Statistical Tables Relating to Banks in India, RBI.

**Table 5:** Deposit Mobilizations by Bank in Garo Hills Districts

Year End March	Garo Hills (Amount ₹ lakhs)	Meghalaya (Amount ₹ lakhs)	India (Amount ₹ crores)
1997	10019	90680	505599
1998	10732 (7.12)	103999 (14.69)	605410 (19.74)
1999	12632 (17.70)	114758 (10.35)	722203 (19.29)
2000	14668 (16.12)	140283 (22.24)	851593 (17.92)
2001	17332 (18.16)	164624 (17.35)	989141 (16.15)
2002	20204 (16.57)	195233 (18.59)	1131187 (14.36)
2003	21718 (7.49)	214320 (9.78)	1311761 (15.96)
2004	23923 (10.15)	275800 (28.69)	1542284 (17.57)
2005	29718 (24.22)	306465 (11.12)	1732858 (12.36)
2006	33730 (13.50)	324621 (5.92)	2109049 (21.71)
2007	41263 (22.33)	389446 (19.97)	2611933 (23.84)
2008	43059 (4.35)	451162 (15.85)	3196939 (22.40)
2009	59969 (39.27)	620465 (37.52)	3834110 (19.93)
2010	73520 (22.60)	764267 (23.18)	4492826 (17.18)
CAGR	16.57%	17.82%	18.3%

(Figures in parenthesis indicate percent change over previous year)

Source: Basic Statistical Return of SCBs, RBI

followed the 'commercial loan theory' i.e., the banks granted loans only against negotiable and tangible securities offered as well as on the basis of business reputation of borrowers. (Mithani, 1999) After nationalization, banks have attempted to steer the direction of change and strive towards achieving fundamental objectives of mitigation of regional disparities, dispersal of industries and reduction of concentration of economic wealth (Raul, 1997). As a result, implicit weightage was given to the socially desirable sectors in the credit policy with sizable increase in the sector wise advances. In order to review the efficacy of existing framework of money lending, a technical group, was constituted under the chairmanship of S.C. Gupta, who submitted its report on July, 2007 and recommended alternative avenues of credit dispensation such as micro finance institutions (RBI, 2007). During the past four decades, some noticeable positive changes have been taking place in the credit advances by the SCBs. Table-6 presents the bank advances channeled in the area under study.

**Table 6:** Bank Advances Channelized in Garo Hills

End March	Garo Hills (₹lakhs)	Meghalaya (₹ lakhs)	India (₹ crores)
1997	2502	13735	278401
1998	2985	15996	324079
1999	3298	20774	368837
2000	3796	22862	454069
2001	3749	28084	529272
2002	4462	35817	609053
2003	5705	62177	746432
2004	6873	95304	865594
2005	16036	133712	1124300
2006	19084	156204	1507077
2007	22325	139037	1931189
2008	25089	149732	2361914
2009	24843	175331	2775549
2010	29327	195779	3244788
CAGR	20.85	22.68	20.79

**Source:** Basic Statistical Return of SCBs, RBI

The total advances (bank credit) by all SCBs in Garo Hills stood at ₹ 2,502 lakhs as on 31<sup>st</sup> March, 1997, increased to ₹ 2,93,27 lakhs as on March 31, 2010 which shows 11.72 times increase in advances over the period. The rate of growth of advances is higher in Meghalaya (CAGR=22.68) than that of the study area (CAGR=20.85). The scenario of advances growth is better than the deposit growth in the study area. This may be due to the reduction of priority sector lending norms from 40 per cent to 10 per cent on the basis of recommendation of the committee on financial system (GOI,

1991) as the repayment in non-priority sector is better than priority sector.

In order to assess the extent of credit channelization by the banks in the districts under study, we have calculated the correlation coefficients among the bank advances during 1997-2010.

#### Matrix of Correlation Coefficient of Bank Advances

	Garo Hills	Meghalaya	India
Garo Hills	1		
Meghalaya	0.963 (12.378)**	1	
India	0.969 (13.587)**	0.929 (9.0702)**	1

**Source:** Self-calculated by the present researcher on the basis of table-6.6

$t_{0.05}(12 \text{ df}) = 2.179$ ,  $t_{0.01}(12 \text{ df}) = 3.055$

\*\* indicates significant both at 0.05 and 0.01 level of significance.

The analysis manifests that correlation coefficients (r) in respect of advances of the districts under study in the context of national scenario is positive. The r values are however, statistically significant at 1 per cent and 5 per cent level of significance at their respective degree of freedom. This implies that the districts under study are maintaining the national tempo of credit channelization. In other words, banks are deploying credit for the economic growth of the area from which they have mobilized funds.

#### Credit Plans (District Credit Plan and Annual Action Plan)

District Credit Plans (DCP) are prepared under lead bank scheme to increase production, productivity and job opportunity in different sectors of the economy especially in rural and semi-urban areas of the country, thereby removing the regional disparities in the country. DCPs are simply aggregation of the Block Credit Plans operating in the concerned district. To make credit plan successful, block, district, state, regional and national level forums are created. Annual Credit Plan (ACP)/Annual Action Plan (AAP) is prepared annually during the month of December (1<sup>st</sup> December and 31<sup>st</sup> December) and come into force by 1<sup>st</sup> April of next year. The following paragraphs highlighted the performance of DCP and ACP of three districts of Garo Hills.

#### Break up of Credit under ACP

The diversification of a large fraction of bank credit from the traditional sector to the priority sector is a remarkable

feature of credit deployment in the post nationalization era. In this respect, RBI and government of India have stipulated guidelines viz, more deployment of credit to backward regions, preparation and implementation of district credit plan (DCP) etc (Narasimham, 1994). The banks, without maintaining adequate security, have supplied advances to priority and other neglected sections of the society at a concessional rate of interest. The banking statistics revealed that, this designated priority sector as well as neglected sections received about 15 per cent of the total bank credit at the time of bank nationalization (weblink, 2010). The following table-7 presents the district wise and sector wise performance of ACP as on 30-12-2010.

It is evident from the table that under ACP, the total amount committed and achieved is higher in priority sector than that of non-priority sector. During the year 2010, in priority sector 67.54 per cent of commitment and in non-priority sector 209.03 per cent of commitment was achieved in the area under study. The overall achievement was 93.04 per cent in the study area. The scenario is better while compared with the figure of the state (85.21 per cent) as a whole. The following table 8 shows the break up in more details.

The scenario of achievement is better in case of service sector followed by agriculture and industry both in the study area as well as in Meghalaya state as revealed from the table above.

### Bank-wise Achievement

The banks operating in the study area, keeping in view of their aim and objectives for the economic development

under the lead bank schemes, have made efforts in providing financial support to agriculture and small scale sector. The credit plan is a comprehensive plan indicating credit targets for institutional credit agencies in the districts in block-wise, sector-wise, scheme-wise and bank-wise basis. The sector-wise and bank wise credit deployment under ACP in the districts is shown in table- 9.

### Credit Deposit Ratio

The CD ratio indicates flow of credit to various segments in relation to deposits generally expressed in terms of percentage. It is considered as a dependable indicator of efficiency of bank participation in the developmental process. A higher CD ratio implies more credit to the economy and a lower CD ratio hinders economic development through lesser deployment of funds. The desirable CD ratio is 60 per cent as per RBI norm. The CD ratio is determined by factors like the availability/non-availability of finance adequate with the individuals, the absorbing capacity of the economy to utilize the credit for various productive purposes, the attitude of people in availing bank credit, recovery rate and entered non-performing assets, financial climate in an economy and quantum of funds mobilized by banks. Mehrotra (1992) stated that the CD ratio of the SCBs of India varies substantially across the country with the industrially advanced or traditionally well banked states enjoying higher ratios as compared with the relatively backward states having lower ratios. Raul (1997) opined that CD ratio is not an unbiased indicator, since it depends on two variables, viz., total deposit and total advances. It has

**Table 7:** Performance under Annual Credit Plan as on 31-12-2010

(Amount ₹ in Lakh)

Districts	Total Priority Sector		Non-Priority Sector		Grand Total	
	Commit	Achieve	Commit	Achieve	Commit	Achieve
East Garo Hills	3596.87	2802.08 (77.90)	1108.00	234.85 (21.20)	4704.87	3036.93 (64.55)
West Garo Hills	4627.00	3120.24 (67.44)	823.25	3773.43 (458.36)	5450.25	6893.67 (126.48)
South Garo Hills	1098.24	373.65 (34.02)	118.50	276.32 (233.18)	1216.74	649.97 (53.42)
Total of Garo Hills	9322.11	6295.97 (67.54)	2049.75	4284.6 (209.03)	11371.86	10580.57 (93.04)
Meghalaya	52930.65	27830.23 (52.58)	23395.75	37205.12 (159.03)	76326.40	65035.35 (85.21)

(Figures in the parentheses indicate percentage to total commitment)

Source: [www.slbene.nic.in](http://www.slbene.nic.in)

**Table 8:** Sector Wise Break up Under Annual Credit Plan as on 31-12-2010

(Amount ₹ in Lakhs)

Districts	Agriculture		Industries		Service		Grand Total	
	Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve
East Garo Hills	1718.01	356.23 (20.74)	332.70	47.94 (14.41)	1546.16	2397.91 (155.09)	4704.87	3036.93 (64.55)
West Garo Hills	1903.50	1265.27 (66.47)	701.00	183.02 (26.11)	2022.50	1671.95 (82.67)	5450.25	6893.67 (126.48)
South Garo Hills	426.48	134.46 (31.53)	308.89	35.22 (11.40)	362.87	203.97 (56.21)	1216.74	649.97 (53.42)
Total Garo Hills	4047.99	1755.96 (43.38)	1342.59	266.18 (19.83)	3931.53	4273.83 (108.71)	11371.86	10580.57 (93.04)
Meghalaya	15114.15	5758.40 (38.10)	12505.47	2875.59 (22.99)	25311.03	19196.24 (75.84)	76326.40	65035.35 (85.21)

(Figures in the parentheses indicate percentage to total commitment)

Source: [www.sbcne.nic.in](http://www.sbcne.nic.in)**Table 9:** Bank-wise Performance under ACP as on 31st December, 2010

## A. East Garo Hills

(Amount ₹ in Lakhs)

SL No	Banks	Agriculture		Industries		Service		Total Priority sector		Non-Priority sector	
		Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve
1	SBI	1270.08	267.85 (21.09)	233.19	30.45 (13.06)	1110.36	2242.15 (201.93)	2613.63	2540.45 (97.20)	748.00	152.83 (20.43)
2	UBI	61.26	39.35 (64.23)	17.66	17.25 (97.68)	74.24	40.40 (54.42)	153.16	97.00 (63.33)	60.00	56.20 (93.67)
	CB Total	1331.34	307.20 (23.07)	250.85	47.70 (19.02)	1184.60	2282.55 (192.69)	2766.79	2637.45 (95.33)	808.00	209.03 (25.87)
3	MRB	79.66	-----	15.35	----- (0.00)	48.32	----- (0.00)	143.33	----- (0.00)	60.00	25.82 (43.03)
4	MCAB	307.01	49.03 (15.97)	66.50	0.24 (0.36)	313.24	115.36 (36.83)	686.75	164.63 (23.97)	240.00	----- (0.00)
	Grand Total	1718.01	356.23 (20.74)	332.70	47.94 (14.41)	1546.16	2397.91 (155.09)	3596.87	2802.08 (77.90)	1108.00	234.85 (21.20)

## B. West Garo Hills

SL No	Banks	Agriculture		Industries		Service		Total Priority sector		Non-Priority sector	
		Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve
1	SBI	1155.25	1137.45 (98.46)	343.00	113.80 (33.18)	1149.50	767.52 (66.77)	2647.75	2018.77 (76.24)	458.00	3228.75 (704.97)
2	CBI	37.50	2.04 (5.44)	36.00	16.00 (44.44)	107.50	49.04 (45.62)	181.00	67.08 (37.06)	30.00	82.03 (273.43)
3	UNI	76.50	82.79 (108.22)	46.00	32.71 (71.11)	116.00	515.22 (44.16)	238	630.72 (264.45)	53.00	416.75 (786.32)
4	ICICI	30.00	-----	33	-----	80	-----	-----	-----	30	-----

5	AXIS	51.25	1.63 (3.18)	44	-----	95	13.37 (14.07)	190.25	15.00 (7.88)	40	----- (00)
6	HDFC	-----	-----	-----	4.31 (100.00)	-----	-----	-----	4.31	-----	-----
	CB Total	1350.50	122391 (90.63)	502.00	166.82 (33.23)	1548.00	1345.15 (86.90)	3400.50	2735.88 (80.46)	611.00	3727.53 (610.07)
7	MRB	38.00	-----	24.00	6.61 (27.54)	133.00	44.40 (33.38)	195.00	51.01 (26.16)	30.25	44 (146.48)
8	MACB	515.00	41.36 (8.03)	175.00	9.59 (5.48)	341.50	282.40 (82.69)	1031.50	333.35 (32.32)	182.00	1.58 (0.87)
9	Grand Total	1903.50	1265.27 (66.47)	701.00	183.02 (26.11)	2022.50	1671.95 (82.67)	4627.00	3120.24 (67.44)	823.25	3773.43 (458.36)

### C. South Garo Hills

SL No	Banks	Agriculture		Industries		Service		Total Priority sector		Non-Priority sector	
		Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve	Commit	Achieve
1	SBI	246.00	108.24 (44.00)	186.50	35.22 (18.88)	257.87	133.14 (51.63)	690.37	276.60 (40.07)	88.00	276.32 (314.00)
2	MCAB	180.48	26.22 (14.53)	122.39	----- (0.00)	105.00	70.83 (67.46)	407.87	97.05 (23.79)	30.50	----- (0.00)
3	Grand Total	426.48	134.46 (31.53)	308.89	35.22 (11.40)	362.87	203.97 (56.21)	1098.24	373.65 (34.02)	118.50	276.32 (233.18)

Source: *www.sbcne.nic.in*

been observed that the banks may have to grant advances to the beneficiaries through several government sponsored schemes. The table- 10 delineates the CD ratios in the area under study.

**Table 10:** CD Ratio in Garo Hills Vis-à-vis in Meghalaya

Year End March	Credit Deposit Ratio		
	Garo Hills	Meghalaya	India
1997	24.97	15.15	55.1
1998	27.81	15.38	53.5
1999	26.11	18.10	51.1
2000	25.88	16.30	53.3
2001	21.63	17.06	53.5
2002	22.08	18.35	53.8
2003	26.27	29.01	56.9
2004	28.73	34.56	56.1
2005	53.96	43.63	64.9
2006	56.58	48.12	71.5
2007	54.10	35.70	73.9
2008	58.27	33.19	73.9
2009	41.43	28.26	72.4
2010	39.89	25.62	72.2

Source: *Basic Statistical Return of SCBs, RBI*

It is observed that the CD ratio of all SCBs in India by the end of March, 2010 was 72.2 per cent, which was 55.1 per cent in March, 1997. In Meghalaya, CD ratio was 15.15 per cent in the year 1997 which increased to 48.12 per cent in the year 2006. This has further declined to 25.62 per cent in the year 2010. The CD ratio for Garo Hills over the 13 years (1997-2010) is far behind than the national average.

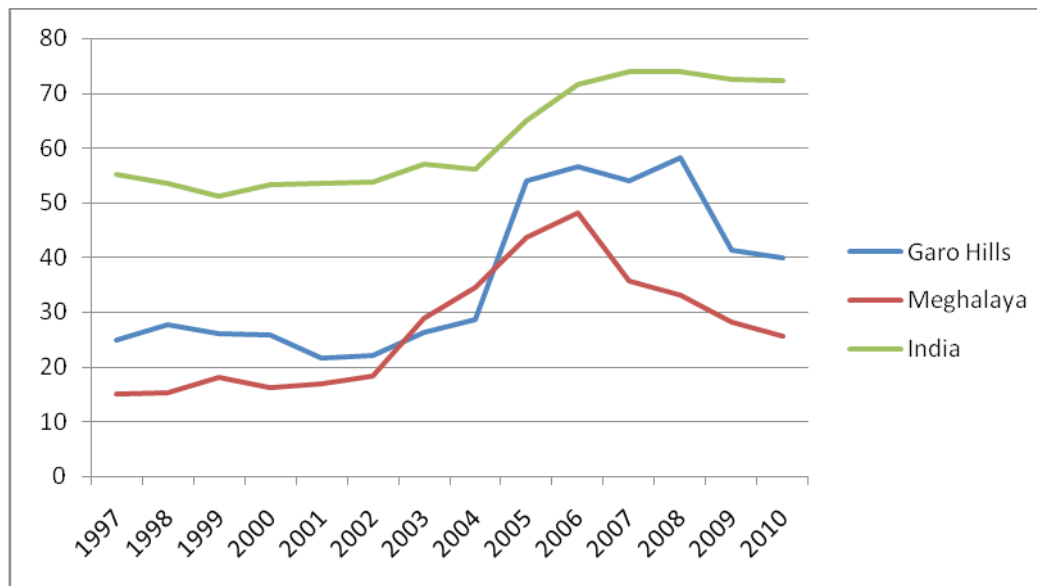
A pictorial presentation of CD ratio of study area vis a vis Meghalaya state and national level is given in Fig.A.

### Bank-wise CD ratio

The bank wise CD ratio for each of commercial banks, Meghalaya Rural Bank and Meghalaya Co-operative Apex Bank can be observed from the table -11. The table manifests that Meghalaya Rural Bank and Meghalaya Co-operative Apex Bank in East Garo Hills district and West Garo Hills district, and Meghalaya Co-operative Apex Bank in South Garo Hills district have above the national target (60 per cent) of CD ratio. The CD ratio of the newly opened private sector banks viz. ICICI, AXIS and HDFC is very poor.

### SECTORAL CREDIT DEPLOYMENT OF COMMERCIAL BANKS

During the past four decades, some noticeable changes have been taken place in the credit portfolio of the scheduled

**Figure A:** CD Ratio of Garo Hills, Meghalaya and India**Table 11:** Bank wise CD Ratio of Garo Hills (As on 31.3.10)*(Amount ₹ in Lakhs and ratios in percentage)*

Districts	Name of banks	Deposit	Advance	C/D Ratio
West Garo Hills	SBI	46260.00	18679.00	40.38
	CBI	891.45	150.23	16.85
	UNI	5196.94	1047.47	20.16
	ICICI	314.00	3	0.96
	AXIS	2012.00	63.20	3.14
	HDFC	123.15	9.80	7.96
	MRB	449.51	492.93	109.66
	MCAB	9006.37	5774.73	64.12
	MIDC	118.94	-	-
Total	64130.27	263229.50	40.99	
East Garo Hills	SBI	20156.00	7364.00	36.54
	UBI	397.00	203.00	51.13
	UNI	0.17	0.00	0.00
	MRB	119.65	145.45	121.56
	MCAB	3408.69	2601.77	76.33
	MIDC	-	25.63	-
	Total	24081.51	10339.85	42.94
South Garo Hills	SBI	11713.00	2195.00	18.74
	MCAB	1896.70	1502.55	79.22
	Total	13609.70	3697.55	27.25
Total of Garo Hills		101820.98	40366.90	39.64

Source: SLBC, Meghalaya, [www.slbcne.nic.in](http://www.slbcne.nic.in)

commercial banks. To improve the productive use of bank credit the RBI from time to time adopted various measures

including augmentation of credit flow to priority sector, simplification of systems and procedures of bank credit,

**Table 12:** Distribution of Outstanding Credit of Scheduled Commercial Banks**According to Occupation in Garo Hills**

(Amount ₹ in Thousands)

Occupation	1997	1998	1999	2000	2001	2002	2003
Agriculture	75689 (24.32)	90353 (28.69)	74726 (22.87)	98620 (26.30)	81494 (20.28)	156982 (15.51)	108134 (9.47)
Industry	28318 (9.10)	41480 (13.17)	52260 (15.99)	43847 (11.69)	36453 (9.07)	116205 (11.48)	424981 (37.21)
Transport operators	12709 (4.08)	37298 (11.84)	27974 (8.56)	45177 (12.05)	33968 (8.45)	57249 (5.65)	63181 (5.53)
Professional and other services	3749 (1.20)	6154 (1.95)	11444 (3.50)	3910 (1.05)	7245 (1.80)	25963 (2.56)	32715 (2.86)
Personal Loans	72155 (23.18)	80699 (25.62)	78320 (23.97)	97224 (25.93)	111458 (27.73)	160535 (15.86)	205048 (17.95)
Trade	49757 (15.99)	53393 (16.95)	55990 (17.13)	67536 (18.01)	86263 (21.46)	159215 (15.73)	111664 (9.78)
Finance	----- (----)	122 (0.04)	318 (0.10)	920 (0.25)	----- (----)	181 (0.02)	175 (0.02)
All Other	68888 (22.13)	5395 (1.71)	25761 (7.88)	20749 (5.53)	45019 (11.20)	336082 (33.20)	196309 (17.19)
Total Bank Credit	311265 (100)	314983 (100)	326793 (100)	374983 (100)	401900 (100)	1012412 (100)	1142207 (100)
Artisans & Village Industries	7163 (2.30)	14378 (4.56)	21048 (6.44)	21010 (5.60)	13463 (3.35)	33834 (3.34)	42107 (3.69)
Other Small Scale Industries	15787 (5.07)	18439 (5.85)	24490 (7.49)	19427 (5.18)	21279 (5.29)	44569 (4.40)	20899 (1.83)

Contd/.

(Amount ₹ in Thousands)

Occupation	2004	2005	2006	2007	2008	2009	2010
Agriculture	53867 (2.56)	125492 (1.01)	1363638 (6.34)	736948 (21.71)	461806 (9.99)	293285 (8.31)	609849 (13.25)
Industry	567138 (26.89)	7737849 (62.11)	8653826 (40.23)	827165 (24.37)	1051649 (22.45)	619638 (17.56)	829260 (18.02)
Transport operators	45209 (2.14)	70770 (0.57)	476704 (2.22)	45512 (1.34)	48251 (1.03)	72268 (2.05)	136436 (2.96)
Professional and other services	17489 (0.83)	264436 (2.12)	1420702 (6.60)	69008 (2.03)	139247 (2.97)	118343 (3.35)	141752 (3.08)
Personal Loans	1153538 (54.69)	3434872 (27.57)	7865800 (36.57)	1411971 (41.59)	1818630 (38.83)	1831422 (51.90)	1887037 (41.01)
Trade	78824 (3.74)	575666 (4.62)	1158981 (5.39)	226124 (6.66)	980318 (20.93)	552910 (15.67)	849097 (18.45)
Finance	449 (0.02)	10097 (0.08)	21879 (0.10)	----- (----)	7 (nag)	62 (nag)	7513 (0.16)
All Other	192880 (0.91)	239637 (1.92)	549586 (2.55)	48143 (1.42)	183793 (3.92)	41156 (1.17)	31617 (0.69)
Total Bank Credit	2109394 (100)	12458819 (100)	21511116 (100)	3394871 (100)	4683701 (100)	3529084 (100)	4601920 (100)

Artisans & Village Industries	50373 (2.39)	464427 (3.73)	308705 (1.44)	94421 (2.78)	NA	NA	NA
Other Small Scale Industries	3316 (0.16)	301211 (2.42)	1012014 (4.70)	123365 (3.63)	NA	NA	NA

(Figures in parenthesis indicate percent to total bank credit)

Source: Basic Statistical Return of SCBs, RBI

permitting use of banking correspondents etc. The sectoral flow of advances out of the net bank credit in Garo Hills from 1997 to 2010 is given in table 12.

The flow had been increasing steadily in absolute term (except in 2004-2005 and 2005-2006). The total credit deployment of SCBs in Garo Hills has increased from ` 3,11,265 thousand in 31st March, 1997 to ` 46,01,920 thousand in 31st March,

2010 which shows 14.78 fold increase in outstanding credit during 13 years. The credit flow towards agriculture sector was very much volatile. During 1997 to 2001, share of agriculture sector was high, the percentage flow was in the range of 20.28 per cent to 28.69 per cent. Since 2002, the decline had started and had come down and reached to a low level of 2.56 per cent in 2004 and further deteriorated to 1.01

**Table 13:** Bank Financing to Industries in Garo Hills Vis-à-vis in India

Year 31st March	Garo Hills ( ₹ in thousands)				All India ( ₹ in lakhs)			
	Total Bank credit	Credit to Industries	Credit to SSIs	Artisans & Village Industries	Total Bank Credit	Credit to Industries	Credit to SSIs	Artisans & Village Industries
1997	311265 (100)	28318 (9.10)	15787 (5.07)	7163 (2.30)	28437330 (100)	14031360 (49.3)	2679332 (9.4)	182465 (0.6)
1998	314983 (100)	41480 (13.17)	18439 (5.85)	14378 (4.56)	32994444 (100)	16109594 (48.8)	2862829 (8.7)	194214 (0.6)
1999	326793 (100)	52260 (15.99)	24490 (7.49)	21048 (6.44)	38242503 (100)	18794688 (49.2)	3142843 (8.2)	251874 (0.7)
2000	374983 (100)	43847 (11.69)	24490 (7.49)	21010 (5.60)	46008068 (100)	21377882 (46.5)	3506987 (7.62)	267688 (0.58)
2001	401900 (100)	36453 (9.07)	21279 (5.29)	13463 (3.35)	53843379 (100)	23643041 (43.9)	3690487 (6.85)	207205 (0.38)
2002	1012412 (100)	116205 (11.48)	44569 (4.40)	33834 (3.34)	65599308 (100)	27162550 (41.4)	3197030 (4.87)	560042 (0.85)
2003	1142207 (100)	424981 (37.21)	20899 (1.83)	42107 (3.69)	75596882 (100)	30982757 (41.0)	3794034 (5.02)	522556 (0.69)
2004	2109394 (100)	567138 (26.89)	3316 (0.16)	50373 (2.39)	88031203 (100)	33480348 (38.0)	3843255 (4.37)	491212 (4.9)
2005	12458819 (100)	7737849 (62.11)	301211 (2.42)	464427 (3.73)	115246793 (100)	44682498 (38.8)	4707642 (4.08)	614894 (4.6)
2006	21511116 (100)	8653826 (40.23)	1012014 (4.70)	308705 (1.44)	151384213 (100)	56621595 (37.4)	5516398 (2.83)	729012 (4.1)
2007	3394871 (100)	827165 (24.37)	123365 (3.63)	94421 (2.78)	194709962 (100)	74189713 (38.1)	6831207 (3.51)	853120 (3.9)
2008	4683701 (100)	1051649 (22.45)	NA	NA	241700652 (100)	92853578 (38.4)	NA	NA
2009	3529084 (100)	619638 (17.56)	NA	NA	284771312 (100)	113444298 (39.8)	NA	NA
2010	4601920 (100)	829260 (18.02)	NA	NA	334516932 (100)	135523235 (40.51)	NA	NA

Source: Basic Statistical Return of SCBs, RBI

per cent in 2005. Again in 2006 onwards, flow towards this sector had picked up. In case of industrial sector from 1997 to 2002, the percentage flow was in the range of mere 9.07 per cent to 15.99 percent only. In 2003, the flow has gone up and reached a maximum of 62.11 per cent in 2005. Since 2006, the decline had started and had come to a low level of 17.56 per cent in March, 2009. Personal loans grew faster than any other segment. The percentage of credit to SSI was 5.07 per cent in 1997 and increased to a maximum of 7.49 per cent in 1999. Since 2000, the decline had started and had come to a lower level of 0.16 per cent in March, 2004 and again it increased to 2.42 per cent in 2005, 4.70 per cent in 2006. During 2007 the flow was 3.63 per cent only.

### BANK FINANCE TO THE SME UNITS:

The table-13 shows comparative position of total credit, credit to industries, credit to SSIs and credit to artisan and village industries advanced by the SCBs in Garo Hills and India during 1996-97 to 2009-10. It is clear from the table that the share of industrial credit to total bank credit in Garo Hills is far below than all India level. The average share of industrial credit to total credit for Garo Hills is 37.44 per cent as against all India shares of 40.14 per cent. The average share of SSIs credit to total bank credit in Garo Hills is only 2.87 per cent as against all India shares of 4.92 per cent during 1997-2007. The share of cottage and village industries to total bank credit in Garo Hills is 2.47 per cent as against all India share of 0.55 per cent during 1997-2007. Thus, it is clear that the SSI sector of the study area is getting a lesser amount of credit while compared with the all India level.

## RELATIONSHIP BETWEEN INSTITUTIONAL FINANCE AND GROWTH OF SMALL ENTERPRISES

The table 14 reveals the number of registered SSI units, investment in plant and machinery, employment and deployment of credit to SSI sector in three districts of Garo Hills. The Garo Hills has witnessed a phenomenal growth of registered SSI units since 1998. In the year 1998, there were only 624 registered SSI units in Garo Hills. The number of registered SSI units increased to 1388 in 2008. The cumulative investment for registered SSI units was ₹ 228.59 lakhs in plant and machinery in the year 1998. It increased to ₹ 902.08 lakhs in 2008. Thus, there was almost 3.95 fold increase in investment in plant and machinery in registered SSI units over the period. In the year 1998, 3,255 persons were employed in registered SSI units in the study area. The cumulative number of persons employed in such units had gone up to 7,750 in 2008.

2. District Statistical Hand Book Various Issues (West Garo Hills, East Garo Hills and South Garo Hills) 3. DICs of the West Garo Hills, East Garo Hills and South Garo Hills

An attempt has been made to analyze the impact of institutional finance on the growth of SSI units in the area under study. For this we have calculated correlation coefficient between institutional finance to SSI and the growth of number of units during 1998-2007. The result obtained as under-

<b>r</b>	<b>t (cal)</b>	<b>t (tab) at 8 df</b>
0.608	2.166	2.306 at 5% level 3.355 at 1 % level

**Table 14:** Performance of Small Scale Industries in Garo Hills

Year Ended 31st March	Number of Registered SSI Units	Investments in Plant and Machinery ( in lakhs)	Employment (numbers)	Credit to SSI (thousand)
1998	624	228.59	3255	18439
1999	703	288.54	3778	24490
2000	761	385.29	4157	24490
2001	776	394.70	4206	21279
2002	840	445.52	4897	44569
2003	918	526.78	5120	20899
2004	972	579.63	5874	3316
2005	1072	629.14	6124	301211
2006	1237	742.82	6913	1012014
2007	1316	820.73	7256	123365
2008	1388	902.08	7750	NA

Source: 1. Statistical Hand Book of Meghalaya Various Issues

The positive  $r$  value (0.608) is statically not significant at both 5 per cent and at 1 per cent levels of significance which indicates that the hypothesis “*there exist a close relationship between institutional finance and growth of small enterprises*” is not true. The growth of institutional finance does not have much impact on the growth of industries in the study area.

Further, in order to examine whether the growth of investment in plant and machinery of small sector resulted in the growth of institutional finance, we have employed correlation analysis between investment in plant and machinery of the units operating in the study area and credit deployed to SSI sector during 1998-2007. The result of correlation and  $t$  value are as follows-

$r$	$t$ (cal)	$t$ (tab) at 8 df
0.557	1.898	2.306 at 5% level 3.355 at 1 % level

The positive  $r$  value (0.557) is not statistically significant at 5 per cent and 1 per cent level of significance. This indicates that with the increase in investment in plant and machinery of SSI sector, the institutional finance to SSI units are not increasing in the study area. Hence, the hypothesis “*With the change of investment structure of small sector, financial intermediaries have enlarged their assistance*” found to be incorrect.

This has again confirmed with the district-wise analysis of correlations between bank finance available for manufacturing industries and growth of SSI units during 1998-2009. For this purpose, we have used the data presented in table-15

Districts	Correlations	$t$ value at 10 df		
		Calculated	Tabulated	
			1 per cent level	5 per cent level
East Garo Hills	0.038	0.12024	3.169	2.228
West Garo Hills	0.254	0.83045	3.169	2.228
South Garo Hills	0.682	2.94886	3.169	2.228

From the correlations result presented below, it is observed that  $r$  values between bank finance and growth of units in both East Garo Hills and West Garo Hills are insignificant but correlation in South Garo Hills is significant at 5 per cent level but not at 1 per cent level. This indicates an inter-district disparity in extending the financial assistance by banks and thereby growth of SME units.

## PERFORMANCE OF MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION (MIDC):

The MIDC was incorporated under the Companies Act 1956 on 6th April, 1971 to promote and develop industries in the state. The corporation is operating financial assistance schemes under the refinance assistance schemes of SIDBI. The limit of finance assistance provided to entrepreneurs by way of term loan is to the tune of ` 90 lakhs. The corporation can collaborate with other financial institutions for consortium finance to finance a large project.

**Table 15:** District-wise Data relating to Small Scale Industries

Year 31st March	Bank Finance to Manufacturing and Processing Industries (₹ in thousands)			Number of Small Scale Industries		
	East Garo Hills	West Garo Hills	South Garo Hills	East Garo Hills	West Garo Hills	South Garo Hills
1998	1,43,56	1,91,19	60,46	260	317	47
1999	1,40,04	2,90,87	84,77	292	350	61
2000	1,32,99	2,38,53	59,30	314	375	72
2001	1,13,13	2,06,91	34,05	320	382	74
2002	1,13,82	7,56,01	1,36,18	370	391	79
2003	1,18,98	7,08,25	3,53,73	405	414	99
2004	51,75,20	3,66,17	90,45	437	428	107
2005	2,46,94	271,87,53	79,16	501	456	115
2006	3,40,31	520,83,61	2,25,18	617	490	130
2007	2,64,46	17,44,47	4,30,39	645	525	146
2008	2,45,53	10,63,44	49,28,67	676	549	163
2009	2,64,51	12,80,81	24,24,77	683	563	164

**Source:** Statistical Hand Book, Meghalaya, Various issues and Basic Statistical Returns of Scheduled Commercial Banks, Various issues, RBI

**Table 16:** Sector-Wise Classification of Term Loans Sanctions By MIDC in Garo Hills Districts

Year	Small and Medium Enterprises		Small Road Transport Operators		Total	
	No. of units	Amount (₹)	No. of units	Amount (₹)	No. of units	Amount (₹)
1997-98	2	78,000	6	4,32,078	8	5,10,078
1998-99	Nil	0	14	21,40,000	14	21,40,000
1999-00	2	6,00,000	36	51,33,500	38	57,33,500
2000-01	1	50,000	19	48,02,000	20	48,52,000
2001-02	1	75,000	1	2,60,000	2	3,35,000
2002-03	2	8,60,000	3	5,97,000	5	14,57,000
2003-04	4	23,43,000	4	3,85,000	8	27,28,000
2004-05	3	1,65,000	4	11,55,000	7	13,20,000
2005-06	6	57,99,000	3	9,33,000	9	67,32,000
2006-07	1	4,50,000	Nil	Nil	1	4,50,000
2007-08	1	3,80,000	Nil	Nil	1	3,80,000
2008-09	4	24,00,000	2	8,34,000	6	32,34,000
2009-10	2	10,25,000	8	36,79,387	10	47,04,387
2010-11	1	3,50,000	6	38,95,000	7	42,45,000
Total	30	1,45,75,000	106	2,42,45,965	136	3,88,20,965

Source: Loan Sanction and Disbursement Registered MIDC Ltd, Tura Branch.

**Table 17:** Term Loan Sanctioned and Disbursement by MIDC Ltd. in Garo Hills Districts to SMEs

Year	Sanctioned			Disbursed		
	No. of Units	Amount (₹)	Cumulative Total(₹)	No. of Units	Amount (₹)	Cumulative Total(₹)
1997-98	2	78,000	78,000	2	75,073	75,073
1998-99	Nil	Nil	78,000	Nil	Nil	75,073
1999-00	2	6,00,000	6,78,000	2	5,89,240	6,64,313
2000-01	1	50,000	7,28,000	1	47,600	7,11,913
2001-02	1	75,000	8,03,000	1	71,083	7,82,996
2002-03	2	8,60,000	16,63,000	2	8,11,914	15,94,910
2003-04	4	23,43,000	40,06,000	4	23,29,028	39,23,938
2004-05	3	1,65,000	41,71,000	3	1,61,300	40,85,238
2005-06	6	57,99,000	99,70,000	6	45,16,984	86,02,222
2006-07	1	4,50,000	1,04,20,000	1	4,65,500	90,67,722
2007-08	1	3,80,000	108,00,000	1	3,64,000	94,31,722
2008-09	4	24,00,000	1,32,00,000	4	21,16,000	1,15,47,722
2009-10	2	10,25,000	1,42,25,000	2	9,85,000	1,25,32,722
2010-11	1	3,50,000	1,45,75,000	1	2,96,000	1,28,28,722

Source: Loan sanction and disbursement Register, MIDC Ltd., Tura Branch.

There is no any branch of DFI in Garo Hills except MIDC. The branch of SIDBI is located in Shillong and NEDFi in Guwahati expected to meet the financial requirement of SME sector of Garo Hills. The MIDC has only one branch at Tura to provide finance to industries in the three districts of Garo Hills. An attempt is made to analyze the performance of MIDC for financing of SMEs in the three districts of Garo

Hills. Table table-16 presents amount sanctioned by MIDC.

The MIDC usually provides financial assistance to SMEs and small road transport operators (SRTOs). It is evident from the table that the SRTO is dominated in terms of number of units and amount of financial assistance during the period from 1997-98 to 2010-11. During this period 62.46 per cent of total sanctioned amount of financial assistance of

the MIDC has gone in favour of SRTO and only 37.54 per cent in favour of SMEs. The MIDC sanctioned the highest amount of ₹ 57,99,000 for 6 number of SME units in 2005-06 while the SRTO received the highest amount of ₹ 51,33,500 in respect of 36 number of units in 1999-00. However, sanctioned to both the sector has witnessed a fluctuating trend. On an average, the MIDC sanctioned about 2 units only per annum in the three districts and average sanctioned in each units during the period was only ₹ 4,85,833. During the period it advanced term loans only to new projects. No financial assistance has been sanctioned to existing units for rehabilitation, expansion, and/or modernization.

The sanctioned amount of financial assistance to SMEs as ratio of total sanction varies between the lowest 0 per cent in 1998-99 and the highest of 100 per cent in 2006-07 and 2007-08. But in terms of amount and units, SMEs received highest financial assistance of ₹ 57,99,000 for 6 number of SMEs units in 2005-06. The overall financial assistance sanctioned by the MIDC in Garo Hills District is not satisfactory at all. The table-17 reveals the total sanction and disbursement of loans made by the MIDC from 1997-98 to 2010-11.

The table shows that the corporation has sanctioned ₹ 1,45,75,000 in aggregate to 30 units, thus giving an average amount of ₹ 4,85,833 per unit during the period. The MIDC has assisted more number of units during 2005-06, the average amount sanctioned per unit has ₹ 9,66,500 which has been appreciably higher than the overall average of the period. So far as the disbursement of loan is concerned, the aggregate amount stood at ₹ 1,28,28,722 in respect of 30 units giving ₹ 4,27,624 per unit during the period.

The correlation coefficient ( $r$ ) is calculated between loan sanctioned and disbursement. The ' $r$ ' value found (0.994) positive. The high positive correlation signifies that MIDC has disbursed the sanctioned loan as early as possible. In this context, the hypothesis, "There exist a close association between loan sanctioned and loan disbursement of MIDC" found to be correct. It indicates that MIDC disbursed the loan whatever they sanctioned meant for the purpose. Another positive aspect of disbursement is that the MIDC disbursed loan to all the units every year whatever they sanctioned. Such attitude of institution definitely helps the entrepreneurs to implement their ventures as early as possible.

## CONCLUSION

The availability of credit is one of the critical weaknesses in the industrial development of Garo Hills. The various financing indicators showed that despite banking facilities, the level of financial outreach is low in Garo Hills. The credit deposit ratio of Garo Hills as well as the state is far below than the national average which is a matter of concern. The sectoral share of total credit indicates that significant

discrepancy from the national level. The trend clearly shows the low level of commercialization of agriculture and low level of industrialization which leads to less absorption capacity of credit in the districts. The poor recovery of loans acts as a disincentive for granting fresh loans. The land tenure system prevalent in the Garo Hills restricting transfer of land together with absence of individual ownership rights makes it difficult for the banks to lend in the districts under study. There is need for conscious effort in financial sector development to ensure free credit flow for enhancing the development efforts of the government.

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