Chapter 6

CO-OPERATIVE CREDIT STRUCTURE AND SECCS

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INTRODUCTION:

In India there are various kinds of co-operative institution. The credit organizations are the most important, not to be established but also because it is their strength and financial stability that made it possible for other forms of co-operation to be introduced successfully. There are two types of credit organizations i.e. the little expression with the average expression credit institutions. The petite moreover intermediate expression loans are disbursed by ordinary credit societies, the continuing loans are lent through the ground growth Banks. The supportive Banking construction is pyramidal before centralized within temperament. on the pedestal, to is, by the rural community stage, there is a primary credit society ahead which the complete edifice of the supportive Credit is based. These societies are federated at the district level, into a central society called the central Cooperative bank. At the state level, the district banks are federated into an a bank. The state supportive bank in its revolve is closely linked with the Reserve Bank of India, which provides a considerable financial assistance to the Co-operative Credit structure. This is set up in regard to the short term financing. The Urban Cooperatives, however, do not exactly fit into this federal structure. The long-term credit structure at the moment consists of two tiers; they are the primary ground advance banks on the base plus the central land advance banks on the top. In some states, the central land development banks operate through their branches. There are, in additional, a few industrial banks operating at the state or district level. In India the immediate recognition arrangement is prepared in three tiers and two tiers systems in 16 and 12 states respectively .However, Andhra Pradesh has a mixed structure. It is a merit of this set-up that, though the institutions at the different levels are connected with each other by the bond of affiliation, they are, in financial and legal terms, distinct entities, each serving a set of specific purposes which justifies its existence as an independent unit. When these institutions come together, they constitute effective machinery, functioning as balancing centers in the co-operative movement and supplementing the internal financial resources by borrowing from outside. Accordingly, they assist in supplying agricultural credit in the volume required, supervising its use and effecting its recovery on due dates. At the same time, the information to the construction is national within quality with to the institutions by the unlike stage are the autonomous permissible entities as well implies to the might of the series depends ahead the might of both of the relatives. A chart brings elsewhere the construction of the Co-operative credit in India consists of three tiers:
LAYOUT OF CO-OPERATIVE CREDIT STRUCTURE:

The history of supportive praise is very old in India. In fact, the cooperative movement was initiated in 1904 through the institution of cooperative credit societies. These societies were organized to alleviate the liability of individuals and promote thrift. The origin of employee's credit cooperative societies is based on this principle only. The co-operative credit institutions in India have been organized into the immediate moreover the lasting structures. The Employees’ co-operative praise Societies generally advance loans for non-productive purposes or consumption loans advanced to the employees’. The repaying capacity of the individual has taken into account while advancing such loans. The CCB are of two types: The Co-operative Banking Union and The Mixed Central Co-operative Banks. The Membership of the former is open only to co-operative societies, while membership of the latter is open to both, individuals and co-operative societies. The chief task of the Central Cooperative Banks is to advance loans to the SECCS in times of need so that they can fulfill the requirements of employees’. The SCB in turn, advances loans to the CCB in order to augment their capacity to provide loans to the SECCS as the local organizational level. Employee's co-operative societies set is third type in non-agricultural co-operative credit structure. It also co-ordinates and regulates the working CCB. It also provides the connection flanked through the keep Bank of India with the currency bazaar on the single hand lower levels of co-operative structure on the other. "In a democratic form of Government with the object of establishing a Socialistic pattern of Society, Co-operative has a distinctive philosophy which will help to achieve our goal. In reality, "Co-operation is a key to country's prosperity", with these words, Shri. Jawaharlal Nehru, the late chief priest of India, inaugurated the Golden anniversary revels of the Maharashtra supportive Bank, the leader co-operative organization of the nation. These remarks are equally applicable to the Employees’ Credit Co-operative Credit Societies. The question is whether the societies as the grass root level have been able to keep up with the said 'distinctive philosophy' as referred here. The Co-operation as a firm of economic organization, whether it relates to production or distribution or consumption, has become very important today in the context of the dissatisfaction that people feel about the working not barely of classified subdivision organization excluding and of public sector organizations. V.K.R.V. Rao, the executive of organization of public & Economic growth, has rightly observed, "In India co-operation has mainly taken the form of credit and even here, the co-operative movement has not been able to raise from its own members the funds it requires for its operation. I think therefore some serious thoughts should be given to the reason why co-
operative movement has failed to answer the challenges of functioning as the most favored alternative both to the private sector enterprise and the public sector enterprise”. These remarks of V.K.R.V. Rao are equally applicable to Employees’ Co-operative Credit Societies. These societies have to work and sustain under a highly competitive situation under the trends of privatization, liberalization and globalization. The issues related with this are concerned with the problems of management and control of the Employees’ Co-operative Societies. It would not be out of place at the outset to summarize the various problems of cooperative societies in general and the Employees’ Credit Co-operative Credit Societies in particular. A study Set of the National Credit Council presided over by Dr. D.R. Gadgil has stated: “The Co-operative banking system is an integrated one, because of its three-tier structure. It has enabled to extend credit to agriculturists, artisans and common people in general. The three-tier system also allows a rationalized flow of resources from the metropolitan centers to the villages and combines this with fairly low costs of operations.”

SUPPORTIVE CREDIT WITHIN MAHARASHTRA:

Co-operative during Maharashtra has its origin in the early period of the 19th century. Maharashtra is considered as the prominent state for of the cooperative credit movement. The supportive credit pressure group in Maharashtra has played a important task within public with financial growth situation. The first co-operative act was passed in 1904 in India i.e. Agricultural Credit Co-operative societies Act. In 1906, the first primary Agriculture society was formed at Bodhwad of Jalgaon district in Maharashtra. Thereafter, other undeveloped credit societies on village stage, accommodating Banks by Taluka and region stage were started.2 "Cosmos" is the first Urban Co-operative Bank which was formed in 1906 at Pune. The Maharashtra state co-operative Bank was established in 1911. After the decentralization of co-operative sector, The Maharashtra State accommodating Societies proceed, 1960 be enforced considering the supportive credits and association in Maharashtra. The state has well spread banking network. There are 6.2 public sector bank branches per lakhs population. 38 commercial Banks, 8 Regional Rural Bank; One state supportive Bank with 31 affiliated region Central supportive Banks with 5484 rural and 1654 semi urban branches, 21184 primary agricultural credit societies and 7211 Employees’ credit Co-operative societies are functioning in state as on 31st March, 2007 has been providing banking facility inside the state. In India, the immediate credit arrangement is organized in three tiers and two tiers system in 16 and 12 states respectively. However, Andhra Pradesh has a mixed structure. The short supportive praise organization is based on a 3tier structure, except the States in the
northeast region. At the lowest tier are the employees' credit accommodating credit societies. These are organized on the local organizational height. At the second level are the District Central compassionate Banks (DCCBs) prearranged at the region stage. At the 3 and highest level is the State Co-operative Banks (SCB) organized at the situation stage.

**MAHARASHTRA SUPPORTIVE BANK:**

The MSC Bank Acts while a regulator of the supportive banking construction within the condition. The MSC Bank operates through its head office In Mumbai, Administrative office in Vashi. The MSC Bank has four regional and eight divisional offices in the state. Besides, the bank has developed a network of 53 Branches. Dr. R.D. Bedi has rightly pointed out that apex bank is a mouthpiece of the movement and affects a liaison between the co-operative movement and the money market. The MSC Bank was formed in 1911, which has become the biggest cooperative Bank in India. The MSC Bank is the most important supportive society in the state having the primary objective to finance supportive societies in the state.

The Maharashtra situation supportive Bank is the alliance of District Central supportive Bank in the state that is also known as apex Bank. The term "Apex" appeared for the first time in report of the Maclegan Committee issued in 1915. With the establishment of Central Bank, It was found that certain banks were not able to secure a sufficient capital from the money market to fulfill the needs of their constituent societies, moreover, the central bank also required to be supervised by some head institution. The Maclegan Committee (1914) strongly advised for such apex institution in each major province. The opinion of Maclegan Committee that apex Bank will coordinate and control the working of Central Bank, forecast and arrange for the provincial requirement as a whole, and be the financial co-operative center of the Province. It is federal and apex body for the District Co-operative banks and municipal supportive Banks with acts when a balancing center for the accommodating institutions inside the Maharashtra. It also undertakes Banking Companies Act, 1949 and extends the financial and managerial assistance to the District Cooperative Banks and Urban Co-operative Banks. The MSC Bank operates through its head office in Vashi, (Navi Mumbai) four regional and eight divisional offices in the state. The functions and objectives of MSC Bank are as follows:

**Functions of MSC Bank:**

The MSC Bank Acts while a regulator of the supportive banking construction within the condition. The MSC Bank operates through its head office In Mumbai, Administrative office in Vashi. The MSC Bank has four regional and eight divisional offices in the state. Besides, the bank has developed a network of 53 Branches. Dr. R.D. Bedi has rightly pointed out that apex bank is a mouthpiece of the movement and affects a liaison between the co-operative movement and the money market.
1) It acts as banker's bank to the central bank in district.
2) It forms the connecting link between the money market and co-operative movement.
3) It ensures coordination of banking policy as between the different cooperative banks.
4) It formulates and executes uniform credit policies for the co-operative movement in Maharashtra.
5) It controls and guides the activities of central bank through regular inspection.
6) It participates in equity capital of district supportive Bank, municipal cooperative Bank with others supportive societies.
7) It performs all banking business to their members and public.

**CENTRAL DISTRICT CO-OPERATIVE BANK**

The region Central supportive Bank is a federal society of all primary societies in the district. The Bank provides the financial accommodation to village primary societies that require finance for providing it further to their members. In this way DCC Bank fulfills the needs of its member's societies. The DCC Bank functions through its branches located in all parts of the district. These branches play an important role in implementing all policies and programmers decided by DCC Bank. Therefore, functioning of these branches has their own importance. The Branches of the DCC Bank work in accordance with the organizational setup created for their working. In the above three tier credit system, the SECCS derives their financial strength from the DCC Bank. The DCC Bank fulfills the financial requirement of the SECCS. The Maharashtra State Co-operative Societies Act 1960, Section 70 mentions that every co-operative society has to maintain its Account in the DCC Bank. All surplus money and deficit of working capital are balanced by the DCC Bank. The DCC Bank is linked with the MSC Bank 7. The achievement of the supportive credit association depends resting on their potency. The main objective of the DCC Bank is to arrange the supply of finance as per the requirements of the constituents. The DCC Bank theater a very important task in the division of the co-operative credit. Since the SECCS are not able to get together the praise supplies of their members, they get the financial help from the DCC Bank with a regular flow of credit. The DCC Bank is affiliated to the MSC Bank. The SECCS are affiliated to the DCC Bank. The primary credit society is at the base level of supportive credit arrangement. The SECCS is one of the types the primary credit society. Basically, the DCC Bank performs pure banking and Agency banking functions. In addition to these functions the DCC Bank plays a crucial role for the SECCS.
**Function carried by the DCC Bank for the SECCS:**

The following functions are carried by the DCC Bank for the SECCS:

A. To meet the credit requirements.
B. To manage the financial supply according to the policy as per the requirements.
C. To provide a leadership by marinating a close contact with the affiliated SECCS.
D. To supervise and inspect the affiliated SECCS.
E. To provide a safe place for investment of the resources of the SECCS.
F. To undertake commercial banking business for the SECCS.

**THE PROCEDURE FOR THE CASH CREDIT FACILITY:**

The Cash credit facility is usually advanced by the ADCC Bank through its branches at various taluka, towns and villages. The authorities of cooperative departments insist on using the cash credit facility only from the ADCC Bank. The SECCS have no other alternative for borrowing facility. The following procedure is adopted by the ADCC Bank for providing the cash credit facility to SECCS.

a) Firstly, an application has to be made along with the necessary documents.

b) Then either a Bank officer or an inspector visits the society and inquire into the financial soundness of the concerned SECCS.

c) After making a satisfactory opinion about the need and the financial soundness of the SECCS, the inspection team reports to the head office of the ADCC Bank to sanction such a cash credit facility.

d) The Board of director of the ADCC bank approves such a credit facility at some certain conditions or without any condition in its meeting.

e) In the beginning the cash credit facility is limited .after getting a satisfactory report about the repayment and other formalities to be completed, the credit facility is liberalized.

f) There are usual agreement and bond to be given by the concerned SECCS to bank about the repayment and other formal requirements.

g) Usually, the ADCC Banks deduct 10% amount from the cash credit towards share capital of the ADCC bank & pays a dividend at a normal rate on the share capital.

h) The SECCS borrow cash credit at 14% p.a. interest rate from the ADCC Bank. The ADCC Bank, however, pays dividend on the amount of share capital at 9 to 10%. Therefore, the effective rate of borrowing naturally increases.
i) The rate of interest of cash credit is 14% p.a., charged by the ADCC Bank. This is much higher and probably a commercial rate but it is contradictory to the objective of SECCS.

j) The Branch staff of the ADCC Bank supervises the use of the Cash Credit by SECCS.

k) The SECCS have to file a monthly financial statement to the ADCC bank.

l) The branches are strictly instructed not to allow any other type of expense by the cash credit borrowing of the SECCS.

m) Quarterly inspections and visits of branch staff and Taluka inspector are conducted to make sure that whether the funds are properly used or not.

n) Cash credit facility is granted for a period of only one year and has to be renewed every year on the request of the SECCS.

**DEFECTS IN CASH CREDIT FACILITY:-**

1. The ADCC Bank should keep 10% amount of cash credit in the form of deposit instead of shares. This will enable the SECCS to get interest on the deposit.

2. It is suggested that the cash credit facility to salary earners societies should be deemed as a priority sector advance and a rate of interest should also be concessional.

3. The Established and disciplined societies should be exempted from the strict supervision and control of the ADCC Bank.

4. A Liberal attitude should be taken in respect of expenses of the concerned SECCS. The main objective is to finance to all co-operative societies in general and the SECCS in particular to fulfill the needs of the SECCS. The following objectives are met by the ADCC bank for the SECCS:
   1. To provide the finance to the affiliated SECCS to fulfill their own objectives.
   2. To provide the Banking facility.
   3. To make available the finance for the credit requirements.
   4. To give the guidelines for encouragement and development.
   5. To supervise and inspect the affiliated SECCS.
   6. To provide the required cash credit.
   7. To verify the proper utilization of loan provided to SECCS.
   8. To verify the proper implementation of rules and regulations laid by the co-operative act.
   9. To examine and verify the Records and the final Accounts of the affiliated SECCS.

The financial operation depends upon the co-operative credit structure in general and the ADCC Bank in particular. This chapter is devoted to the co-operative credit structure and the
SECCS. The researcher has presented an analytic picture of the controlling structure that regulates the employees’ credit co-operating credit societies. 11 Gupte A. K. (2007), The Maharashtra Co-operative Societies Act

**STATISTICAL ANALYSIS OF RESEARCH HYPOTHESES**

- **Test of Hypotheses One**

  It has been observed that the actual mean is 1.14 per cent, it is greater than 1 (Null Hypothesis mean) where the value of $t$ was 9.027 greater than $t_\alpha$ as identified in Figure 5.34 hence, the level of availability of this determinant was 57 per cent, which denotes that this determinant is located within the acceptable level. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that; “SECCS in District has a noteworthy contribution by catering to the needs of member employees”.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No</th>
<th>Mean</th>
<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
<th>Significance (1-tailed)</th>
<th>%</th>
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<td>250</td>
<td>1.14</td>
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<td>9.027</td>
<td>199</td>
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Chart No. One Sample $t$ Test for Hypothesis (H1)

- $t(199)$ sampling distribution
- Test statistic

Tabulated $t$ (1.699)

Calculated $t$ (9.027)
Test of Hypotheses Two

Hypothesis two contents of four elements or factors, which are; liquidity, solvency, profitability, and operational efficiency. These factors reform the financial performance indicators of SECCS. Therefore, the researcher analyzed them and interprets the result below.

**The Liquidity Ratio**

For testing this determinant, the researcher utilized one sample $t$ test, therefore, it can be observed that the actual mean is 2.150, it is greater than the elementary mean where the value of $t$ was 1.630, which means that it is accepted. Hence, the value of $t$ is significant. I.e. the value of this factor is more than the standard level of the ratio, which explores that the liquidity ratio lies within the acceptable level. This availability resulted from the current ratio and debt equity ratio where the value of $t$ was 8.500 and 0.890, while the weakness resulted from credit deposit ratio where the all cases where within the adverse level. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that; “The financial performance of SECCS in term of liquidity is satisfactory”

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No</th>
<th>Mean</th>
<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
<th>Significance (1-tailed)</th>
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<td>8.500</td>
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<tr>
<td>DER1</td>
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<td>2.200</td>
<td>1.005</td>
<td>0.890</td>
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<tr>
<td>CDR1</td>
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<td>Liquidity Ratio</td>
<td>25</td>
<td>2.150</td>
<td>0.411</td>
<td>1.630</td>
<td>19</td>
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</table>

Chart No. One Sample $t$ Test for Liquidity Ratio
t(19) sampling distribution

Standard errors

test statistic
Solvency

In respect of analyzing solvency ratio clarifies that the actual mean is 2.096, it is smaller than 2 (elementary mean) where the value of $t$ was 1.346 hence, the level of availability of this determinant was greater than the standardized value, which indicates that this determinant belonged to the acceptable level. This result came from Share Capital to operational money, Loan toward functioning assets, speculation near Deposit moreover Own Fund to Loan where the value of $t$ was 10.000, 2.982, 0.764 and 1.299 successively, while Deposit to effective resources with asset toward running assets are; weaken this factor where the value of $t$ was -8.000 and -4.856. Therefore, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that;

“The financial performance of SECCS in term of solvency is satisfactory”

<table>
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<th>Ratio</th>
<th>No</th>
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<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
<th>Significance (1-tailed)</th>
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<td>10.000</td>
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<td>0.858</td>
<td>2.982</td>
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<td>2.096</td>
<td>0.333</td>
<td>1.346</td>
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<td>0.097</td>
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</table>
Chart No. One Sample $t$ Test for Solvency Ratio

- Profitability
For testing this determinant, the researcher utilized one sample $t$ test. Therefore, it can be observed that the actual mean is 2.705, it is greater than two (elementary mean) where the value of $t$ was 9.003 greater than $t_{\alpha} = 1.040$ (see Figure ....). Hence, the value of $t$ is significant. I.e. the value of this determinant is 2.705, which explores that this determinant is located within the acceptable level. This availability resulted from the all determinants of it, which are Net Profit to Total Income, Return on Equity Capital, Net Profit to Loan, and Net Profit to Working Capital where the value of $t$ was 100, 6.521, 0.418 and 10.000 successively. Consequently, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that;

“The financial performance of SECCS in term of profitability is satisfactory”

Table One-Sample Statistics

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No</th>
<th>Mean</th>
<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
<th>Significance (1-tailed)</th>
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<td>6.521</td>
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<td>Profitability Ratio</td>
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</tbody>
</table>

Chart No. One Sample $t$ Test for Profitability Ratio
> **Operational Efficiency**

For testing this determinant, the researcher utilized one sample $t$ test explores in Table 7.14 in which it can observe that, the actual mean is $1.886$, it is smaller than $2$ (elementary mean) where the value of $t$ was $-1.156$ smaller than $t_{\alpha} -1.040$ (see Chart No. 7.14). Hence, the value of $t$ is significant. i.e. the actual value of this determinant is $1.886$, which explores that this determinant is located below the acceptable level. This value resulted from the all determinants except Total Expenses to Total Income where the value of $t$ was 6.521and. as a result, the null theory is discarded and the option theory is accepted, which states that:

“The financial performance of SECCS in term of operational efficiency is unsatisfactory”
Table One-Sample Statistics

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No</th>
<th>Mean</th>
<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
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<td>TETI1</td>
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<td>TIWC1</td>
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</table>

Chart No. One Sample t Test for Operational Efficiency
**Test of Hypotheses Two**

It has been observed that the actual mean is 2.215, it is greater than 2 (elementary mean) where the value of $t$ was 5.751 greater than $t_{\alpha} 1.040$. Hence, the level of this determinant
was 2.215, which indicates that this determinant is belonged to the acceptable level. This result came from Liquidity, Profitability and Solvency Ratio where the value of $t$ was 1.630, 9.003 and 1.346 successively and the weakness resulted by Operating Ratio where the value of $t$ was -1.156. Consequently, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that; “The financial performance of SECCS in terms of liquidity, solvency, profitability, and operational efficiency all together is satisfactory”.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No</th>
<th>Mean</th>
<th>S.Deviation</th>
<th>T test</th>
<th>d.f</th>
<th>Significance (1-tailed)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Ratio</td>
<td>20</td>
<td>2.150</td>
<td>0.411</td>
<td>1.630</td>
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<td>0.060</td>
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<tr>
<td>Profitability Ratio</td>
<td>22</td>
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<td>0.367</td>
<td>9.003</td>
<td>21</td>
<td>0.000</td>
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<tr>
<td>Operating Ratio</td>
<td>22</td>
<td>1.886</td>
<td>0.461</td>
<td>-1.156</td>
<td>21</td>
<td>0.130</td>
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<tr>
<td>Solvency Ratio</td>
<td>22</td>
<td>2.095</td>
<td>0.333</td>
<td>1.346</td>
<td>21</td>
<td>0.096</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

The Financial Performance of SECCS

| The Financial Performance of SECCS | 22  | 2.215 | 0.175     | 5.751  | 21   | 0.000                   | Accepted|

Chart No. One Sample $t$ Test for Hypothesis (H2)
Test of Hypotheses Two
It has been observed that the actual mean is 2.215, it is greater than 2 (elementary mean) where the value of $t$ was 5.751 greater than $t_\alpha$ 1.040. Hence, the level of this determinant was 2.215, which indicates that this determinant is belonged to the acceptable level. This result came from Liquidity, Profitability and Solvency Ratio where the value of $t$ was 1.630, 9.003 and 1.346 successively and the weakness resulted by Operating Ratio where the value of $t$ was -1.156. Consequently, the alternative hypothesis is rejected and the null hypothesis is accepted, which states that; “The financial performance of SECCS in terms of liquidity, solvency, profitability, and operational efficiency all together is satisfactory”.

According to the test of the study hypothesis through using ‘$t$’ test the researcher has found that both hypotheses are accepted, which means that the noteworthy contribution of the member employees and the financial performance of the member employees and the financial performance of SECCS in terms of liquidity, profitability, solvency and operational efficiency in district are satisfactory.

For more detailed statistical analysis at the level of sets of the sample SECCS in district which are developed by the researcher refer.