CHAPTER - III
CHAPTER- III
THE DESIGN AND EXECUTION OF THE STUDY

3.1 Cooperative Banking in India

Credit cooperatives are the oldest and most numerous of all the types of cooperatives in India. The cooperative credit institutions in the country may be broadly classified into urban credit cooperatives and rural credit cooperatives. There are about 2090 Urban Cooperative Banks and this sector together constituted about 10 percent of the aggregate banking business and therefore they are regarded as an important segment of the banking system. The rural credit cooperatives are classified as short-term credit cooperatives and long-term credit cooperatives. With regard to short-term credit cooperatives, at the grass-root level about 92,000 Primary Cooperative Agricultural Credit Societies (PACS) are dealing directly with the individual borrowers. At the intermediate level (district level) District Central Cooperative Banks (DCCBs) function as a link between primary societies and State Apex Cooperative Banks (SCBs). It may be mentioned that DCCBs and SCBs are the federal cooperatives and their main objective is to serve the affiliated member cooperatives. As against three-tier structure of short-term credit cooperatives, the long-term cooperative credit structure has two-tiers in many states with Primary Cooperative Agriculture and Rural Development Banks (PCARDB) at the primary level and State Cooperative Agriculture and Rural Development Bank at the state level (RBI :2002). In some states they have unitary structure.

3.2 Significance of District Central Cooperative Banks

The District Central Cooperative Banks occupy an important place in the ST and MT credit structure. They are expected to perform banking functions and to play a leading role in the growth and development of the cooperative movement with in the district. Activation of the working of primary societies is the sole responsibility of the District Central Cooperative Banks. These banks have their significant role in the following aspects.

1. Mobilization of resources and deploy their funds for agricultural development are their crucial functions. They mainly depend Apex banks and NABARD for resources. They also mobilize various types of deposits thro’ a network of their branches operating within the District.

2. These cooperative banks are expected to guide the affiliated PACBs and other member societies in all respects. Being the main financing agency they have
the responsibility to supervise the working of primary banks. In addition to the financial help the central banks can help the primaries to maintain proper accounts, propagate the values of cooperation and cooperativisation of the rural economy.

3. Development of rural banking is one of the important tasks of the DCCBs. The rural banking should have been the close preserves of cooperatives that too Central Cooperative Bank. But they have to set right the structural and managerial weaknesses. Now the entry of commercial banks in the field of rural banking has posed a challenge to the DCCBs in extending the banking facilities to the rural areas. They have to extend banking facilities to rural areas through branch banking. By this process they can improve their operations by creating close contacts with branches of central cooperative banks.

4. In perfecting and popularsing the crop loan system, the role of the DCCBs is very important. The crop loan system with a decade of service to the farmers need certain modifications and dynamism.

5. In the programme of revitalization of the PACBs, the DCCBs are expected to initiate and cooperate with the Registrar of cooperative societies. Viability among primary societies could be attained only with the help of the central banks. Elimination of dormant societies in their turn will help the central banks expedite their working towards the primaries.

6. It is the duty of the central banks to see that all PACBs are having full time paid secretaries. In this respect, if circumstance permits, they can organize the management cadre to man the PACBs with qualified personnel.

7. A central cooperative bank should act as the leader for the cooperative movement in a district. Promotion of new societies, financing of new societies, appraising the performance of various type of cooperative societies and arranging seminars and conferences are the aspects of duties to be undertaken so that their role within the district will be a fruitful one in the cooperative banking sector (Nakkiran. S :1988).

Thus the DCCBs have to play a significant role in the development of Agriculture and Rural Development in their command areas.
The first DCCB was registered in Uttar Pradesh in 1906 as primary society. But the first full-fledged DCCB in the modern sense saw the light of the day in the farmer Central Provinces and Berar. During 2006-07, there were 371 District Central Cooperative Banks working in India. They operate through 12,928 branches and provided easy access to 4,69,246 Primary Agricultural Cooperative Banks. Apart from helping the PACBs, the District Central Cooperative Banks also provide financial assistance to other primaries like Marketing, Consumers, Weavers, Employees Cooperative Thrift and Credit Societies, etc., Self Help Groups and individuals.

Now DCCBs are considered to be the king pin of the entire cooperative credit system. Since they have dual responsibility of financing all the cooperative activities in the district and liaison with NABARD, RBI, State Government and Apex Bank ensuring smooth implementation of their policies. Institutional financial helps to Credit, Industrial, Processing, Marketing, Consumer, Dairy, Handloom, Housing and other cooperatives in a district mostly depend on the fund flow from the DCCBs.

3.3 DCCBs in Tamil Nadu State

The Tamil Nadu State has an integrated 3 tier cooperative ST and MT credit structure with the State Cooperative Bank (SCB) at the Apex level, 24 District Central Cooperative Banks (DCCBs) at the district level with 722 branches and 4498 Primary Agricultural Cooperative Credit Societies at the primary level. The total lending of these banks had increased from Rs.2836 crores in 1997-98 to Rs.4931 crores in 2006-07. An increase of about 75 per cent over 10 years period evidences the important role played by DCCBs in the development of agriculture and rural development (www.nafscob.org.in)

3.4 The Issues for Analysis

It is reported that the banking industry in India has been experiencing a sea change during the last one decade due to the advent of the financial sector reforms in the form of new economic policy. They brought drastic developments in the banking industry and as such provided a new thrust on banking business. This on the one side transformed the financial policy, norms, regulations, credit rates, service condition, customer service, focus, priorities and procedures of the banks and on the other brought new players into the field in the form of foreign banks and non banking financial institutions. As a cooperative banker, the DCCBs are no exception to this environment, and therefore, it is the necessity for the bank to cope up with this
changing climate for its survival and growth as well as to play a significant role in the economic development of the region.

No doubt the DCCBs are the citadels of economic growth. They are both the repositories of the community's savings and the purveyors of credit for economic activity. In other words, mobilization of surplus resources with the people and their channelisation towards economic growth is the main task of these banks. They have contributed significantly to rural institutional credit by diversifying their loaning activities. As such the management of funds has emerged as an area of vital importance for these banks.

The success of banks, by and large, depends upon the proper management of funds. The management of a bank has to manage the funds efficiently, direct them into profitable lines and control their use and investment. It has to keep a constant watch on the flow of funds to make sure that not only they are used to the best advantages but also that no financial difficulty arises in due course. It was noted that in India, nearly 49.3 per cent of agricultural credit is purveyed by the cooperatives and contributions of the DCCBs in this respect is considerable. Of late the DCCBs have also diversified their loans portfolio and are trying to meet competitions under globalization. Hence funds management of the DCCBs, an important issue and their financial performance is to be studied with their impact on solvency, profitability, productivity, etc., In this context, the questions apt to arise are.

- What is the proportion of owned funds and borrowed funds to total working capital?
- How is the working fund is raised?
- What is the nature of flow of funds?
- To what extent are the dues recovered?
- What is the net business result?
- How are they working in terms of profitability?
- Whether the financial performances of the banks are in satisfactory manner in terms of solvency, profitability and other operational aspects?

To find out the answers to these questions, an analytical study had to be undertaken. The results of such studies will help to find out the problems, difficulties, impacts, etc., and to frame financial policies by the DCCBs for the benefit of the farmers, the community and other stakeholders. Hence this study.
3.5 Objectives of the study
The principal objectives of this analytical study are.

1. To provide a macro (i.e., big picture perspectives) and micro scenario (i.e., small minutest details) of the DCCBs.
2. To identify the temporal trends in various financial aspects of the DCCBs.
3. To analyse the financial performance pertaining to Working Capital, Working Fund, Operational, Profitability, Solvency, Liquidity and Productivity of the banks.
4. To analyse the flow of funds in the District Central Cooperative Banks and
5. To spell out the implications for better financial performance by the DCCBs.

3.6 Hypotheses Tested
As an incidental to the study of the above objectives the following hypothesis were also tested.

1. More fund flow as loans pave way for more gains i.e. more the turnover more the profit.
2. Boost up in deposits lead to shoot up in loans issued
3. Increase in deposits lead to increase in loans outstanding
4. Higher investments and the profitability are negatively related
5. More the membership, higher the deposits
6. More the deposits, higher the profit

3.7 Definitions of the terms used in the Study

a) Financial Management: Financial Management is the application of the planning and control functions to the finance function.

b) Financial Performance: The state of financial affairs of an organization at a given point of time and over a period.

c) DCCBs: District Central Cooperative Banks-An intermediary District level units of the three tier ST and MT Cooperative credit institutions in Tamil Nadu State.

d) Fund Flow: A statement of sources and application of funds is a technical device designed to analyse the changes in the financial condition of a business enterprise between two dates.
e) **Working capital:** The source of working capital of the selected DCCBs consists of i) share capital ii) reserves and other funds iii) deposits and iv) Borrowings.

f) **Working fund:** working fund is taken as total of assets less accumulated losses.

g) **Operational Ratio:** The operational efficiency of any business activity can be examined by employing ratio analysis.

h) **Profitability Ratio:** The term profitability may be defined as the ability of given investment to earn a return from or its use. Profitability provides an incentive to achieve efficiency. Profitability also indicates public acceptance and shows that the firm can perform competitively.

i) **Solvency Ratio:** Financial strength is an important pre-requisite for any bank in order to run its banking operations successfully. To measure the financial strength, we need to calculate banks solvency ratios. These ratios evaluate the long term financial viability of the bank.

j) **Liquidity Ratio:** Liquidity ratios are generally based on the relationship between current assets (the sources of meeting short term obligations) and current liabilities.

k) **Productivity Ratio:** Productivity is the measure of efficiency in production of factors, inputs and factors input services.

3.8 Methodology

The Descriptive-analytical method was adopted to study the general working, funds mobilization, funds utilization, fund flow and financial performance of the District Central Cooperative Banks in Coimbatore Region. Among the four Cooperative Regions in Tamil Nadu (comprising 23 District Central Cooperative Banks), the Western region of Tamil Nadu was purposively selected by applying purposive sampling procedure. There are five DCCBs in this region. The secondary data were gathered through the pre-tested schedules. The secondary sources of data include various records of the banks, annual reports, audit reports, records in the office of the Regional Joint Registrar of Cooperatives, District Cooperative Audit Officer, Tamil Nadu State Cooperative Union, Documentation of NABARD, Tamil Nadu State Apex Cooperative Bank and NAFSCOB.
3.9 Sampling

A purposive sampling procedure was adopted for the selection of the sample banks. Among the four regions (Chennai, Coimbatore, Trichy and Madurai) categorized by the office of the Registrar of Cooperative Societies for the administrative conveniences, Coimbatore region was purposively selected. The considerations kept in mind were that the Coimbatore region of Tamil Nadu is popular for both agricultural and industrial growth and early start of cooperative credit institutions. This region also covers hill and plain areas with different cropping patterns. Seven Districts in this Region were served by five District Central Cooperative Banks (DCCBs) namely Coimbatore, Erode, Nilgiris, Salem and Dharmapuri DCCBs. All the five DCCBs were selected for the present study.

3.10 Period covered by the study

A decadal period was covered by this study (i.e., from 1996-97 to 2006-07). As complete and comprehensive secondary data both for macro and micro levels were available only for these years, this decadal period was considered for analysis.

3.11 Data-base and Tools used for data collection

For collecting the required secondary data from the selected DCCBs, a comprehensive schedule was prepared and used. The schedule covered working aspects like membership position, various sources of funds, loan operations, business results etc., Financial aspects like working fund, financial margin, net margin, cost of management, assets, liabilities, changes in funds, non-performing assets etc., were also covered. The schedule was pre-tested and finalized.

3.12 Framework of analysis

The data collected were subdued into a digestable account by appropriate coding, computing and tabulations. The basic tools of statistical analysis like percentages, growth index, compound growth rate, trend and fund flow analysis were used for analysis. Ratio analysis was resorted to for finding out the operational relationship on various aspects like, operational, solvency, profitability, etc., of the banks. About 43 ratios were worked out. The computer statistical package for social sciences (SPSS) was used for statistical analysis.
3.13 Scope of the study

A strong network of the District Central Cooperative Banks is a prerequisite for a sound performance of the three-tier cooperative credit structure in India. DCCBs not only provide the much needed financial assistance to PACBs but also ensure the smooth flow of credit to various sectors in the district. The success of these banks depends on efficient management of funds. This study analyses the financial performance of the District Central Cooperative banks with reference to profitability, solvency, productivity etc. The results of this study helps in identifying the lacunae in the financial performance of the DCCBs and to frame financial policies and programmes to the benefit of the banks and the community.

3.14 Limitations of the study

1. The study was conducted in the Western region of Tamil Nadu State. The environment, particularly demographic, geographic and economic, the contributing factors for the financial performance of DCCBs, differ from region to region and state to state. Hence, the findings and conclusions arrived out of the study may or may not be applicable to the banks in other regions and state.

2. The data used in this study are mostly derived from balance sheets of the selected units. Window-dressing in any financial aspects is not easily traceable.

3. Reactions/ opinions of the concerned DCCB personnel and members are not studied by collecting the primary data however these limitations did not affect the main scope of this analytical study.

3.15 Layout of the Thesis

This thesis is presented in seven Chapters

Chapter-I Financial Management-An overview

An overview of financial perspective are presented in this chapter. The concept of financial management, importance, objectives, goals, scope, functions, responsibilities of the financial management and tools of financial analysis and planning are focused. A theoretical discussion on financial management in cooperatives is also included in this initial chapter.
Chapter-II Review of Literature
A Review of related literature is presented in this second Chapter.

Chapter-III The Design and execution of the study
The Design and Execution of the study i.e. the Methodology, objectives, sampling, tools of data collection, method of analysis etc., find place in this chapter.

Chapter-IV DCCBs- Macro and Micro Scenarios
Part-A. DCCBs at all India and Tamil Nadu state Levels
Part-B. Working aspects of the DCCBs in the Selected Region
Growth in membership, composition of working capital, lending portfolio, management and administration, administrative cost, non-performing assets and business results of the selected DCCBs are analysed in this chapter. Linear trend of growth is worked out for time serious data. Factor analysis pertaining to the various aspects of working are also included in this chapter.

Chapter-V Financial Performance – A network of ratio analysis
The analysis is made to find out the performance of the banks under seven major areas viz., working capital, working fund, operational, profitability, solvency, liquidity and productivity.

Chapter-VI Funds flow analysis

Chapter-VII Main findings, conclusion and Suggestions
Important findings and conclusions are presented in the last chapter. Based on the findings, a few suggestions for improvements are also offered. In the appendix part the questionnaire and classified Bibliography are annexured.