Financial institutions play a significant role in economic development of a country by promoting mobilization of resources and allocating them efficiently in the form of loans and advances. The resources available with the financial institutions are to be carefully managed and distributed in order to maintain efficiency. Efficiency of funds management lies not only in the efficient mobilization of funds but also in the effective and optimum use of resources. This argument is very much relevant in the present context because, out of the total resources of the banking institutions, a good share is to be kept as reserves and the banks have to improve their spread by efficiently managing the remaining resources. The problem becomes further complicated in the current environment of global economic reforms and the resultant cut-throat competition. Co-operative banks are also not free from this global problem.

1.1 Statement of the problem

The Central Co-operative Banks, widely known as District Co-operative Banks, occupy a cardinal position in the co-operative credit structure. They constitute an important link in the system of financial institutions of the country.
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1.1 Statement of the problem

The Central Co-operative Banks, widely known as District Co-operative Banks, occupy a cardinal position in the co-operative credit structure. They constitute an important link between the Apex Co-operative Bank and the Primary Agricultural Credit Societies and other types of societies working within their jurisdictions. The District Co-operative Banks (DCBs) are nodal centres of financial institutions in the co-operative sector of the district. They have to mobilise the available resources and utilise them in the most efficient and profitable manner. A significant problem observed recently in Kerala is the low rate of funds mobilised by DCBs compared to the volume of deposits. This is in sharp contrast with the DCBs of other states where the profitability of the DCBs in Kerala is found decreasing.
between the Apex Co-operative Bank and the Primary Agricultural Credit Societies. District Co-operative Banks are in fact a federation of Primary Agricultural Credit Societies and other types of societies working within their jurisdiction. District Co-operative Banks (DCBs) act as the leader of the co-operative movement in a district and play an effective role in the all-round growth of the co-operative movement. It has to undertake various promotional and developmental activities also. Being the social banker, it has to take banking facilities to the rural areas and unbanked centres. It is the spokesman for not only the primary agricultural credit societies, but also for other kinds of co-operative institutions in the district. The DCBs are also doing personal banking along with the financing of primary credit societies.

The District Co-operative Banks (DCBs) are nodal centres of financial institutions in the co-operative sector in a district. They have to mobilise the available resources and utilise them in the most efficient and profitable manner. A significant problem observed recently in Kerala is the low deployment of funds mobilised by DCBs compared to the volume of deposits. This is in sharp contrast with the DCBs of other states, where deployment is far ahead compared to mobilisation of funds. As a consequence of this situation, efficiency in funds management has come down considerably and consequently the profitability of the DCBs in Kerala is found decreasing.
1.2 Relevance of the study

Funds management in DCBs in Kerala has received only limited attention. This has been brought out in the review of literature presented in the next chapter. The above problem invites greater attention today especially because of the growth of competitive banking and the liberalised economic policies which are likely to affect the working of DCBs. The present study is an attempt to bring out the various facets in the working of DCBs in Kerala in relation to funds management.

1.3 Objectives of the study

The present study is proposed to examine the efficiency of funds management in the District Co-operative Banks of Kerala. The major objectives of the study are:

1. To examine the trend and pattern in the sources and uses of funds of District Co-operative Banks in Kerala.

2. To analyse the efficiency in funds management by District Co-operative Banks with respect to resource mobilisation and utilisation.

3. To evaluate the management practices adopted for harnessing the mobilisation and deployment of funds by District Co-operative Banks.
1.4 Scope of the study

The present study is limited to the funds management of the DCBs in Kerala. Though funds management is a very broad concept, the present study explores only the sources and utilisation of funds and their management efficiency. However, the concept of efficiency is relative and hence precise and direct measurement is difficult.

1.5 Hypotheses

1. The major parameters of funds management in the DCBs like share capital, reserves and other funds, deposits, borrowings, reserve requirements, loans and advances and investments are presumed to be an increasing function over time and the magnitude of their change is proportional.

2. The composition of investment portfolio of DCBs varied significantly over the period.

3. There is an inverse relationship between cost of funds and funds management efficiency.

4. Efficiency in reserve management and profitability of DCBs are directly related.
5. Management practices followed by DCBs contribute to the efficiency in funds management.

The study made use of both primary and secondary data. Trend and pattern of funds, 15 years data were collected from annual reports of these selected banks. The data for analysing the efficiency in funds management were taken from the records of these banks for five years from 1986-87 to 1990-91. The databases were confined to five years because ledger wise details were not available for more than five years.

1.6 Methodology

a. Sample selection

The DCBs in Kerala constituted the universe of the study. There were 14 DCBs in the State as on 30th June 1991, of which three started functioning only after 1979-80, covering only a part of the reference period (Wynad DCB on 25.5.82, Pathanamthitta DCB on 29.11.84 and Kasaragode DCB on 1.10.86). The three District Co-operative Banks started after 1979-80 were omitted while selecting the sample banks. Hence, six banks were selected from the remaining 11 banks. In order to select the sample banks, three common indicators of performance, viz., the averages of working capital, volume of business and profit for five year period from 1986-87 to 1990-91 for these banks were computed and they were arranged in order of magnitude and ranked. The ranks for each bank in terms of the above mentioned three variables were integrated. Later, six banks were selected as sample banks, two from top performing group, two from average performing group and the remaining two from the least performing group. The selected banks are of Ernakulam, Kottayam, Palakkad, Kozhikode, Kollam and Idukki districts.
b. Data collection and procedure

The study made use of both primary and secondary data. For analysing the trend and pattern of funds, 15 years data were collected from annual reports of these selected banks starting from 1979-80. The data for analysing the efficiency in funds management were taken from the records of these banks for five years from 1989-90 to 1993-94. The detailed study was confined to five years because ledger wise details were available only for five years. To analyse the management practices for harnessing the sources and uses of funds, details were collected from the general managers and accounts superintendents of these six banks and also from 18 branch managers (i.e. 10 per cent of the 179 branches of these selected six banks) with the help of pre-structured schedules.

c. Tools for analysis

In order to analyse the trend and pattern of sources and uses of funds, compound growth rates have been worked out by fitting exponential functions:

\[ Y = ab^t \]

Where

\[ Y = \text{The dependent variable} \]
\[ a = \text{constant} \]
\[ \log b = \frac{1}{1+r} \]

This chapter gives a detailed account of the growth of District Co-operative Banks from 1970-71 to 1993-94. The theoretical framework of funds management is discussed in the next chapter. This chapter outlines the conceptual logic and operation of funds flow statements, the methodology of preparing funds flow statements, etc. The chapter also made an attempt to adapt the theory into the practice.

For studying the efficiency in funds management, opportunity cost, X-efficiency analysis and ratio analysis have been used. The following ratios are calculated:

1. Ratios of spread, burden and profitability.

2. Credit/deposit ratio, borrowings/deposits ratio, borrowed funds/owned funds ratio, liquid assets/demand and time liabilities ratio, demand deposits/term deposits ratio, deposits/working capital ratio, borrowings/working capital ratio, liquid assets/working capital ratio, loans and advances/working capital ratio, investments/working capital ratio, total overdue/total demand ratio, manpower expenses for employee and volume of working funds per employee.

1.7 Scheme of the study

The study is organised under nine chapters. Besides the first chapter, the second chapter reviews the literature on commercial banking and co-operative banking.

The third chapter is devoted to examine the growth, evolution and trends of District Co-operative Banks in India
and Kerala. This chapter gives a detailed account of the growth of District Co-operative Banks from 1970-71 to 1993-94.

The theoretical framework of funds management is discussed in the next chapter. This chapter outlines the rationale behind the preparation of funds flow statements, the methodology of preparing funds flow statements, etc. The chapter also made an attempt to adapt the theory into the co-operative banks.

The major objective of the study is to examine the trends and pattern of sources and uses of funds in DCBs, is attempted in the fifth chapter. The trends in the sources and uses of funds is examined in detail with the help of exponential equations.

The sixth chapter examines the sources and uses of funds in DCBs in detail. It also examines the composition of deposits, borrowings, cash in hand and at bank and loans and advances.

The efficiency of funds management in DCBs in Kerala is discussed in chapter seven with the help of ratios, estimation of opportunity cost and X-efficiency test.

Management practices followed in DCBs are discussed in chapter eight. This chapter starts with the fundamentals of
a well organised management system and is followed by the results of field survey carried out among the bank officials. As they require measurement of qualitative aspects in a

The last chapter presents the summary of the study and a few suggestions.

1.8 Limitations of the study

1. The study is primarily based on the data gathered from the records maintained by the DCBs. The variations in the procedure of maintaining the data and records in the banks created difficulties in making necessary classifications and appropriations. These problems were solved to a considerable extent with the help of collecting details from Form IX, the form used for sending returns to Reserve Bank of India.

2. The main tools and techniques used for the analysis is borrowed from the corporate accounting practices because a systematic accounting framework is not readily available for co-operative banks. Thus, the researcher was compelled to make slight deviations and appropriations in the computation of ratios and other relevant indicators.

3. The detailed analysis is restricted to five years because ledger wise details were available only for five years even after extensive search.
4. The social objectives of DCBs as they are co-operative enterprises have been kept out of the ambit of this study as they require measurement of qualitative aspects in a totally different mode of analysis.