CHAPTER I

DESIGN AND EXECUTION OF THE STUDY
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1.1 INTRODUCTION:

Central Co-operative banks occupy a key position in the co-operative credit structure. Such banks are aimed at meeting the credit requirements of member societies. Central banks act as an inter-mediar between the state level apex co-operative bank and village level primary societies. The Primary Co-operative Credit Societies in compact areas federate themselves into Banking unions and organized central banks to collect funds from the Urban areas and divert it to village societies. Thus, every district in a state got one or more banking union or central bank.

1.1.1 CONSTITUTION OF DISTRICT CENTRAL CO-OPERATIVE BANKS:

The Central Co-operative banks in India can be classified under three heads according to their constitution:

1) Banks whose membership is confined to societies
2) Banks whose membership is open to individuals
3) Mixed type banks which include both individuals and societies
The banks falling in the first category consist entirely of individuals or in which societies are admitted as share holders on exactly the same footings as individuals, without any special provision for their adequate representation on the board of management or for the reservation to definite proportion of share capital for them. Such banks stand in the same position as commercial banks. Banks having such constitution were either re-organized into cooperative urban banks or converted into pure central banks of primary societies. Such banks are now rarely found.

The banks falling in the second category are the purely federal type of central banks consisting of the primary societies only. They are registered as "Banking Unions" under the 1912 Act. The share holder and the borrowing societies is therefore, eliminated by the combination of the separate identities of the lenders and borrowers.

The central banks, falling in the third category, are the mixed type and have been organized on the lines suggested by the Maclagan committee. These banks consist of both societies and individuals, in which societies are not only assigned certain
proportion of the shares but are also given separate representation on the board of directors. A large majority of central banks today conform to this pattern. At the instance of All India Rural Credit Survey Committee the process of gradual elimination of the individual share holders has been introduced in most of the banks in a bid to make them fully cooperative in character.

A certain school of thought feels that central banks or banking unions are superfluous intermediaries in between the apex bank, the actual lender of funds, and the ultimate borrower, which may help in making credit costlier by adding their own margin. Therefore, they advocate that the central banks should be substituted by the branches of the apex banks, in order to make credit still cheaper and efficient to the farmer. The Bombay Provincial Banking Enquiry Committee (1931) did not favour the proposal. The Rayalaseema Cooperative Committee (1946), however supported the view regarding the elimination of central banks and the establishment of branches of apex banks. The Standing Advisory Committee of the Reserve Bank of India on Agriculture Credit in 1952 was of the view:
"Other things in regard to finance, local support, administrative efficiency, etc., being equal, the establishment of a central bank should be preferred to that of a branch of the State Cooperative Bank. In many areas which are relatively underdeveloped in the economic and cooperative aspects, the proper course is likely in many cases to be, to establish branches of the apex banks with such financial assistance from the State Government as may be necessary. In such instances, the policy should be that of eventually replacing the branch by a full-fledged Central Bank.” The All India Rural Credit Survey Committee also endorsed this view.

1.1.2 SIZE AND AREA OF OPERATION:

The size and area of operation is very important for the successful working of a central bank. In 1915, the Maclagan committee had expressed the view that "a central bank should cover as large an area as compatible with convenience and efficiency."

The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India was of the view that there should be only one central bank for each district, but if, however, other
conditions justify the formation a bank in a region smaller than a
district there should be no objection to that. This view was
endorsed by the All India Rural Credit Survey Committee. The
following 'minimum' standards in regard to owned capital and
working capital of the central banks were laid down as: Paid-up
share capital and reserves about Rs 3 lakhs and working capital
Rs 20 to 25 lakhs. The Statutory Advisory Committee on
Agricultural credit of the Reserve Bank of India laid down the
following criteria for judging the viability of a central bank:

1) Ability to earn sufficient profits
2) Reasonable contribution to reserve and
3) Declaration of reasonable dividends

1.1.3. ORIGIN AND GROWTH OF DCCB IN INDIA:

The first DCCB was registered in Uttar Pradesh in 1906 as
a primary society. But the first full fledged D C C Bank in the
modern sense saw the light of the day in the former Central
Provinces and Berar. In Rajasthan likewise the first D C C Bank
was started in 1910 at Ajmer.
The period from 1906 to 1918 maybe called the period of origin of the D C C Banks in India. As in this period these banks came into be established in many parts of the country. The decade from 1919 to 1929, which was roughly the period between the end of the first world war and the onset of the world depression was marked by the expansion of co-operative banking system. The number of D C C Banks went on increasing between 1919 and 1929. These banks increased from 233 in 1919-20 to 588 in 1929-30 while their membership increased from 1.22 lakhs to 1.91 lakhs. The total working capital moved from Rs 6.43 crore to Rs 30.90 crore.

However, during the period of depression in the thirties, there was a great setback in their working. There was a significant increase in the over dues of these banks. Their membership both of the individuals and the societies had also declined. The membership both of the individuals and the societies had also declined. The membership of the individuals declined from 0.90 lakhs in 1929-30 to 0.85 lakhs in 1936-37, while that of the societies from 1.01 lakhs to 0.91 lakhs. The number of these banks, however, increased from 588 in 1929-30 to 611 in 1936-37 because of the registration of new banking unions in the former princely states in Uttar Pradesh and Bihar.
The whole structure of the central financing agency was haphazard in most states which needed reorganization. The capital structure of the DCC Banks was very weak. Their own resources were meagre and their dependence upon apex bank was very large. The loan operations of these banks also showed unsatisfactory features like large proportion of advances to individual members and non-satisfaction of the needs of primary credit societies, etc.

1.1.4. DEVELOPMENT IN POST-INDEPENDENCE PERIOD:

The National Government after coming into power in 1947, began taking steps for the expansion and reorganization of the cooperative movement in general and co-operative credit structure in particular.

Finding the structure of the central financing agency very weak, the Rural Credit Survey Committee in 1954 in their report suggested that each state should draw up plans for the rationalization and strengthening of DCC Banks in several of their aspects including financial and administrative. So, in the fifties the emphasis was on the structural re-organization of DCC Banks and strengthening of their capital base. During the first
plan period, therefore, the states began to follow the progress of re-organization and amalgamation of the DCC Banks. This process was vigorously followed during the second plan period also. The basic principle of one DCC Bank for one district began to follow in all the states. And wherever more than one bank or banking union existed in one district, the same was amalgamated so as to form one strong and viable unit. Where a DCC Bank was serving more than one district, its area was curtailed and new banks were registered in such district. Their share capital base was also strengthened by Government contribution in large measures. Further, their financial position was also strengthened by Government grants and subsidies for various purposes.

In the sixties, the emphasis was on re-organization of the lending policies of DCC Banks and strengthening of their deposit position. With a view to rationalize the loaning policies of co-operative at all levels, the crop loan system was introduced in 1966. The banks were entrusted with the major responsibility for the successful implementation of the co-operative loan system. The policy of the production-oriented system of lending for identified agricultural purposes for medium-term was introduced.
in 1968. The banking regulation (as applicable to co-operative societies) was enacted in 1966 to bring co-operative banks, including the D C C Banks, under the preview of the Reserve Bank of India for regulating their banking business. The deposit insurance scheme was also extended to co-operative banks in 1968 with the hope that they may gain public confidence and attract more deposits. The State Government, on the advice of the Government of India, approved the State Co-operative Banks and the D C C Banks as being eligible for receiving deposits of local bodies like Panchayats, Zilla Prishads and Municipalities. The State Government continued to grant marginal subsidies to DCC Banks to help them for improving marginal competence.

In the seventies, the emphasis was

(a) on the rehabilitation of weak D C C Banks,
(b) on ensuring financing to small farmers D C C Banks,
(c) on extensive branch expansion to attract deposits,
(d) on diversification of their loaning business, and
(e) re-organization of primary agricultural societies into viable units.
A plan for rehabilitation of selected weak DCC Banks came into force in 1972-73. Under this plan, special finance assistance was made available to weak DCC Banks to write off their bad and doubtful debts, accumulated losses, and chronic overdues. In 1970, the weak DCC Banks were replaced by commercial banks to finance primary agricultural credit societies directly through a scheme and this scheme has been continued in selected areas to fill the credit gaps. Since 1970-71, the DCC Banks have been required to finance the small farmers on a large scale by ensuring that their lending to them for seasonal agricultural operations through primaries would not be less than the prescribed minimum proportion of total lendings. The cooperative loan system was revised in 1971 and the medium-term loan policy was further liberalized many a time during the seventies. The policy of issuing consumption loans through primaries was introduced in 1976.

In order to induce DCC Banks to mobilize more deposits and to discourage borrowings from the Reserve Bank of India, a scheme of linking borrowings with deposit mobilization was introduced in 1973. The producers relating to branch licensing were liberalized and the subsidies for opening of branches were enhanced to facilitate branch expansion.
Although the programme of re-organization of primary agricultural credit societies had been in operation since the sixties, it had received special attention and priority only in the fifth plan. Special schemes were drawn for their re-organization into viable units and DCC Banks were associated with implementation of these schemes.

Thus, it is clear from the foregoing review that the business activities of DCC Banks have grown and diversified over the years. They are also largely guided and controlled by Reserve Bank of India and the State Government to insure uniformity in their policies and procedures.

Now, the Central Co-operative Banks occupy a crucial position in the pyramidal structure of Agricultural Co-operative Banking System. They act as balancing centers and provide funds to the Primary Societies in the District by pooling surplus funds of the urban area. They mobilize resources by accepting deposit and by borrowing from the State Co-operative Bank and provide facility for the State Co-operative Bank and provide facility for the investment of the resources of PACB.
The attend to the banking needs of semi urban and rural customers. They supervise and guide the working of the member societies in the District. Above all, they lead the co-operative movement at the district level. At the end of March 1997, there were 364 Central Co-operative Banks in India having 11791 branches out of which 657 branches were in Tamilnadu (5.57% of total branches). Maharashtra had the highest number 3516 branches (29.82% of total branches) followed by Uttar Pradesh 1455 branches (12.34% of the total branches). The Central Co-operative Banks is eminently fitted to the co-operative banking system and therefore the success of the co-operative movement in a district largely depends on the effective functioning of Central Co-operative Bank.

1.1.5. DCCB IN TAMILNADU:

The cooperative credit and banking structure in TamilNadu consists of two parts, one dealing with short-term and the other with long-term credit. The farmer in TamilNadu State is a type of pyramid or federal in character, based on a three-tier system with primary credit societies at the bottom, the District Central Cooperative Banks (DCCBs), constituting the middle-tier and State Cooperative Bank covering the entire State at the apex level.
The DCCBs hold a position of great importance as they from the back-bone of the three-tier structure. They are the strongest units in the cooperative credit and banking system. The DCCBs also play a vital role in the development of the co-operative movement in the entire district. They act as a fulcrum of finance for the affiliated societies in the district by providing them funds when in shortage and by serving as a clearing house for their funds when in surplus. They are also helpful in extending banking facilities both in rural and urban areas inculcate thrift and saving habits among the people.

The Central Co-operative Banks are the federation of Primary Agricultural Co-operative Banks and cooperative of other types in their respective areas. There were 18 central cooperative banks in Tamil Nadu as on 31/3/92. Subsequently, 2 more central cooperative banks have been stated on 29/9/93. At the end of the year 1999-2000, there were 367 Central Co-operative Banks in India having 13,030 branches out of which 731 branches were in Tamil Nadu. The Central Cooperative Banks finance PACBs from their own resources of share, reserves and deposits and from the credit limit sanctioned by the NABARD through the TNSACB. The CCBs advance loans and financial assistance to all types of cooperative functioning in their respective areas/circle.
1.2. IMPORTANCE OF FUNDS MANAGEMENT:

(I) SUCCESSFUL PROMOTION:

Sound financial administration is very necessary for the success of business enterprise. In the words of Hoagland, “Unwarranted optimism and lack of the information are more often the cause of faulty financial plans, optimism about the probabilities of an untried enterprise, and lack of the information the specific needs and limitations.”

(II) SMOOTH RUNNING OF AN ENTERPRISE:

Sound financial planning is necessary for the smooth running of an enterprise. As finance is required to at each stage of an enterprise i.e., promotion, incorporation, development, expansion and administration of day to day working etc., proper administration of finance is very necessary.

(III) CO-ORDINATING VARIOUS FUNCTIONAL ACTIVITIES:

Financial Administration provides complete co-ordination between various functional areas such as marketing, production etc. to achieve the organizational goals. If financial management is defective, the efficiency of all other departments can, in no way, be maintained.
(iv) FOCAL POINT OF DECISION MAKING:

Almost, every decision the business is taking in the light of its profitability. Financial administration provides scientific analysis of all facts and figures through various financial tools, such as different financial statement, budget, ratio analysis, various analysis, cost profit volume analysis etc., which help in evaluating the profitability of the plan in the given circumstances.

(v) DETERMINANT OF BUSINESS SUCCESS

The financial managers assist that of management in its decision making process by suggesting the best possible alternative out of various alternatives of the problem available. Hence financial management at different levels in taking financial decisions.

(vi) MEASURE OF PERFORMANCE

The performance of the firm can be measure by its financial results i.e., by its size 01-earnings. Riskiness and profitability are two major factors, which jointly determine the value of the concern. Financial decisions, which increase risks – will decrease the value of the firm and on the other hand, financial decision which increases the profitability will increase the value of the firm.
1.2.1. SIGNIFICANCE OF FUNDS MANAGEMENT:

As a result of the liberalization, globalisation and privatization of financial system and consequent upon the implementation of Narasimhan Committee recommendations, the importance of funds management has increased to a great extent. The committee had recommended mobilization of government borrowings at market related rates to rationalise the interest rate structure and to help the banks in argumenting their income. Further, the committee had also recommended biturcating the investment portfolio into permanent and current categories and suggested that full provision should be made for depreciation in the value of current investments leaving the treatment of other category to the managements. Several earlier committees have also recommended increasing the width and the depth of the securities market in order to impart necessary liquidity by increasing the number of players and investments in the market.

1.3. REVIEW OF LITERATURE:

Many studies on financial management have been made in the past. But most of these studies are related to public sector enterprises. A few studies made on financial management in cooperatives are reviewed here.
A study on financial management of Co-operatives has been undertaken by Sir G M Laud in 1954 on all India basis which covered liquidity and extent of credit dispensation though, it was a comprehensive study it did not bring out the evils at base level.

Dr C S Ratnod, has attempted to study the management of co-operative bank (1981) which dealt with the management of DCCBs in Gujarat state in terms of management of funds, mobilisation of resources and purpose wise financing of various sections of Co-operative activities.

Sri Kutumba Rao (1982) did a study on “Management of central Co-operative Banks”. A case study of Krishna District- It has stated that the elected management is able to keep the bank in a better position when compared to nominated management.

Srinivas M. conducted micro-level study, “Organisation and Management of Co-operative Bank”. (1990) to examine the management of Central Co-operative Banks in Andhara Pradesh. The main objectives of his study were to examine the performance of management of the Bank in relation to its objectives and goals. This study period from 1968-69 to 1980-81.
Another study namely “Central Co-operative Banking in Developing Economy” by Govind Pareek was reported in 1990. This work was continued to Rajasthan and aimed at examining the financial viability of DCCBs, which were designed to play a vital role in survey or of credit at the district level. It concluded that the financial condition of all the Central Co-operative banks in the state of Rajasthan was in poor state. The worst situation was faced by eight DCCBs, which were facing some strata of undeclared insolvency.

Marriappan M. did a study on “Business performance appraisal” (2001) – A case study of Kozhikodu” district Cooperative Bank Ltd. Performance of the bank under study in terms of deposits, loans and advances are fairly satisfactory. There has been a declining trend in agriculture loans. The recovery performance has shown improvement declining as the percentage of overdues was reduced significantly. Along with the key business performance indicators, bank’s profitability recorded a positive growth and projects a greater scope for future development.
A study on SWOT analysis of Ajmer Central Co-operative bank has been undertaken by Sir Sharad Joshi in 2001. The author highlighted the background and importance of SWOT analysis in the changing economy environment. SWOT analysis of Ajmer DCCB is carried out and the author felt that weakness can be converted into strength by hard working and threats can be transformed into opportunities.

Thus, the RBI in its report to the Government viz "Trends and Progress of Banking in India" (1982) observed that "For some years past, the banking industry has been confronted with the problem of rising costs, owing to rapid expansion of branches and increase in the establishment expenses, resulting from periodical awards of industrial tribunals, commissions and raising of interest rates paid by the banks on deposit from public.

In a similar report for 1966, the RBI observed that "Establishment expenses" increased by Rs 16 Crores (1986) while they had increased by 13 Crores (1985). This was due to the growth of the staff and increase in their dearness allowances payments, following upward surge in price level. Moreover, a
number of services provided by the banks are free, while the countries abroad attract appropriate fees and charges. In this context, the banks have to find out way and means to augment their savings.

A Study on Funds Management in co-operative Banks has been undertaken by Sir U. Pancras in 1978. An attempt has been made to bring an analytical approach to the problem of Funds Management in the Co-operative Banks. Use the same, both as a tool for day-to-day management and as an analysis for control purposes would immensely improve the utilization of the funds available in the Co-operative sector.

A. C. Deorukhakar & S. C. Borude, has attempted to study the progress of Ratnagiri DCCB(MS) with special emphasis on crop loan (1981) which dealt with the bank has made good progress particularly in respect of share capital, working capital, loan advances and collection of deposits. The loan advances by the banks to non-agricultural sector are the greater proportion than to agricultural sector.
Another study namely "Role of central bank in India in raising the level of productivity income and employment in agriculture in district Etawah" by G N Singh and S P Tewari was reported in 1982. The work increased percentage area under irrigation on borrower farms due to the development of own irrigation structures with help of borrowed money on these farms.

1.4 STATEMENT OF THE PROBLEM:

The Indian Banking and Financial System has made commendable progress in extending its geographical spread and functional reach. The spread of the banking system has been a major factor in promoting financial intermediation in the economy and in the growth of financial savings. One of the basic functions of banks is to facilitate channelising of funds from savers to the 'Users.' This intermediation by the banks has to necessarily aim at providing the best possible returns. Implied in this intermediation process is a balance between the two objectives and maximum returns to the depositors and minimum cost to the borrowers.
The Central Co-operative Bank's growth and success depends to a very great extent on the proper management of its finances. Financial management is an important aspect of Management of a active Central Banks which are primarily financial institutions. As dealers in others money, thriving on the confidence of the depositors, creditors and the public, judicious management of funds is of utmost importance for them. The financial operations of a Bank like other operations are also regulated by the Reserve Bank of India (RBI) and the Register of Co-operative Societies (Registrar). As such the management performance is examined in terms of its adherence to the norms set by the RBI and the Registrar with regard to financial matters.

In this context, it is necessary to find out how this bank raises its funds from various sources and how it invests its funds as it functions as self-sufficient organization. The problem areas are defective loan policy, absence of proper rules relating to loans, absence of proper scrutiny of loan applications, etc. There are many Central co-operative Banks that are not able to utilize their funds properly even though they have surplus funds. The present study has been undertaken to know how far the Kumbakonam central Co-operative Banks has been able to manage its financial resource on sound business lines.
OBJECTIVES OF THE STUDY:

i) To study the efficiency and effectiveness in mobilization of resources by the selected bank.

ii) To make an in-depth analysis of deployment of resources by the selected CCB.

1.5 METHODOLOGY:

Case study method was adopted for this study. Necessary information were collected through a schedule and from the records, books, statements and audit reports of the bank. Explanations and interpretations were obtained from the officers of the bank through discussion.

1.6 SAMPLING:

The Kumbakonam Central Co-operative Bank was purposively selected as it was considered as one of the good working banks.

1.7 TOOLS OF DATA COLLECTION:

The data were collected by means of a detailed schedule administered at the Head Office. The schedule included questions to elicit information regarding Area of Operation, Share Capital,
Reserve and Other Funds, Deposits, Borrowings and Loans of the bank. It was constructed in order to study the funds management of Kumbakonam Central Co-operative Bank.

1.8 FRAME WORK OF ANALYSIS:

The collected data was codified and transcribed before the actual commencement of tabulation and interpretation. Appropriate tables have been used wherever necessary.

1.9 DEFINITION OF TERMS:

1.9.1 FINANCIAL ANALYSIS:

Financial analysis may be defined as the process of obtaining relevant economic information about a project in order to establish its financial viability. It is undertaken as one of the feasibility analysis in project formulation. Most of the data required for financial analysis are obtained from market analysis, technical analysis, and cost analysis. In order to develop adequate financial information, financial analysis looks at the projected capital cost estimates, projected operating cost estimates and operating revenue estimates. The information collected for the purpose is presented in the form of proforma balance sheet, profit & loss account, statement and cash flow statement.
1.9.2. CASH FLOW:

'Cash Flow' analysis the flow of cash in an enterprise. In this analysis the cash flows are taken into consideration and then presented in a statement called cash flow statement. The cash flow statement is developed from the income statement and comparative balance sheets.

1.9.3. FUND FLOW STATEMENT:

The funds flow statement in summary form that indicates changes in terms of financial position between two different source and application of funds. The concept of 'funds' is defined in different ways depending upon the purpose of analysis. The concept of 'funds' is defined in different ways application of funds. The most commonly used definition are:

(a) Funds mean cash:

When the concept is used in this sense the funds statement showing the changes in the cash position is termed as a cash flow statement.
(b) **Funds means working capital:**

When it is used in this sense, the statement showing the change in the working capital position current assets and current liabilities is called as the funds flow statement.

(c) **Funds mean all financial resources:**

When it is used in this sense, the statement showing the changes in all financial resources (all assets and all liabilities) is called as statement of changes in financial position.

1.9.4. **RATIO ANALYSIS:**

Ratio Analysis refers to the analysis and interpretation of financial statement through ratios, are statistical yardsticks, which provide a measure of relationship between one variable and another. It is computed by dividing one number by another. Ratios are customarily presented either in the form of coefficients or quotients or a percentage or as a proportion.

1.9.5. **WORKING CAPITAL:**

Working capital is the amount of capital that is required by an enterprise to carry out its day to day operations. In other words, it is defined as all the short term assets used in daily operations. They consists of primarily cash, marketable securities, account receivable and inventory.
1.9.6. **NET WORKING CAPITAL**:  
Net working capital may be defined as the difference between current assets and current liabilities – claims payable within the accounting year. Both gross as well as networking capital concepts have greater significance in working capital management.

1.10 **LIMITATIONS**:  
Any study of their nature with a wide coverage is likely to have certain limitations and this study is no exception. This study attempt to find out the practices of funds management as obtaining in the selected Kumbakonam Central Cooperative Bank Ltd.

1.11 **CHAPTER SCHEME**:  
The first chapter deals with the Design and Execution of study.  
Third chapter deals with the Deployment of funds by the Bank.  
Fourth chapter furnishes the Findings, Conclusions and Suggestions of the study.