CHAPTER - I

INTRODUCTION

1.1 Introduction:

The cooperative movement in India is the agricultural credit cooperative Movement. India is basically an agricultural country. Near about 70 percent of Indian population depends upon agriculture directly or indirectly. Agriculturists want credit for cultivation, because they are economically poor. They have to run to the village moneylenders for the purpose, as other credit agencies were not developed. As such, they came to the clutches of moneylenders and suffered a lot. To get away from sufferings and remain away from the clutches of the moneylenders, they formed cooperative societies at the village level, agricultural credit cooperative in India are the oldest and most important forms of cooperative organisation.

Firstly, the cooperative movement originated in England. The first cooperative society named "Roehdale friendly cooperative society" was formed there in 1830. As far as cooperative credit institutions are concerned, they first started in Germany in the middle of the 19th century, so far as the Indian cooperative movement is concerned the introduction of cooperative societies Act, 1904 was considered as the real beginning of the cooperative movement in India.

The Cooperative Credit Societies Act.1904 provided for organising cooperative credit societies in rural and urban areas. So it was realised that central organisation should be formed for assisting and guiding the primary societies. Accordingly, the central Government enacted cooperative societies Act in 1912, which gave legal recognition for the formation of central organisation since then central Banks were formed at district level to which
primary societies were affiliated. The Recommendations of the All India Rural Credit Survey Committee (1954). The structure of central Cooperative Banks was rationalised and smaller banking unions, central cooperative Banks were reorganised and strengthened into viable institutions.³

The first central cooperative bank was registered in Uttar Pradesh in 1906 as a primary society followed by Bombay in 1910. Soon after the amendment of the cooperative societies Act in 1912 a large number of central banks were established⁴. At present the Indian short-term cooperative credit structure consist of 29 state cooperative banks at a state level, 367 district central cooperative banks at district level and 93816 primary agricultural cooperative societies of village level⁵.

In India there are two sources of rural credit for the agricultural credit.  
1. Institutional agricultural credit; 
2. Non institutional agricultural Credit.

Institutional agricultural credit consists of Government, commercial banks, cooperative banks, the Regional Rural Banks and non-bank financial intermediaries, non institution agricultural credit included money lenders, commission agents, traders, landlords, relatives, friends and other financiers etc.

Moneylenders, indigenous bankers and other non-institutional lenders had a predominant role in rural credit, until the nationalization of 14 commercial banks in 1969. The all India rural credit survey committee (1951-52) found that 92.7 percent of the rural credit was provided by the private agencies. It means that the share of non-institutional agencies in the rural credit was 92.7 percent.

The importance of private agencies in rural credit has been decreasing
because of expansion of institutional credit agencies. The indigenous bankers and moneylenders have been following money malpractices to exploit the borrowers moreover, their accounts are not opened to inspection due to high rate of interest of moneylender. People have started doubting their integrity; It was also said that, the credit provided by the private agencies is unproductive as its main objective is not to increase agriculture, production but to bring the farmers in the grip of perpetual indebtedness and as Henry W. Wolff graphically put it." It is the bond of debt that shackles agriculture". Because of all these reasons the non-institutional agencies are bound to reduce their importance.

The development of institutional credit is a basic condition for agricultural progress. The history of agricultural development in all the countries shows that an integrated system of institutional credit laid the foundations of agricultural prosperity. The objectives of the institutional credit is to make a breakthrough in the vicious circle of poverty rack-renting, usury and debt and to stimulate the farmer to boost agricultural productivity

The Reserve Bank of India published the statistical tables relating to banks in India since 1941 reveal that organized banking structure of the country is composed of the Indian commercial bank (scheduled and non-scheduled), foreign banks (Scheduled and non-scheduled) and cooperative banks. Through organised banks constituted and governed by separate acts and rules; they are all engaged in surveying and providing credit to the different segments of our economy. Ultimately linked with the Reserve Bank of India at the top as the central banking

The cooperative bank provided the short and medium term agricultural credit. The central cooperative banks play a vital role. They are
the linking factor between the primary credit societies at village level and the state level, state (Apex) cooperative banks.

The central cooperative banks figure at the intermediary stage in the cooperative structures and so far as the passing of the loan is concerned, they act like a conducting pipe. Central cooperative banks collect the deposit in rural and urban areas and diverted to the agricultural development in rural areas. They mobilize deposit and borrowing from the state cooperative banks for financing the primary societies for agricultural and non-agricultural purpose. The official functioning assumes significance by virtue of their crucial role in the cooperative credit system. While these have been a consistent growth and diversification in the size and operation of central banks, since, the fifties, their operational efficiency has been at low ebb. Several bodies like all India Rural Credit Survey Committee, All India Rural Credit Review Committee, Banking commission, study team and overdues in cooperative credit Institutions, which have evaluated their performance from time to time, were critical of their delayed and inadequate loans, neglect of small farmers, heavy overdues ineffective supervision and control over members societies, inadequate deposit mobilization and deficiencies in day to day administration.

The District central cooperative banks play district and important role in the development of agricultural credit cooperative and other types of societies. The district central cooperative banks serve as connecting link between the state cooperative bank and primary cooperative credit societies. They act as balancing centers by Transferring the funds of these societies which have a surplus to others with a shortage of funds thus the district central cooperative banks occupy a position of cardinal importance in the cooperative credit movement largely depends on their financial strength. In
view of this the development and success of these banks is of great importance.

The district central cooperative banks are to meet the credit requirements of member societies. They finance agricultural credit societies for the production purpose, marketing societies for marketing and supply operations and industries and other societies for working expenses.

Besides providing loans, the district central cooperative banks also provides certain normal banking facilities to the members such as acceptance of deposits, remittances of funds collection of cheques etc, in some states they are responsible for supervision and inspection of primary societies. Very often the question arises "why do not away with the intermediary agency which acts like a toll-gate to add a bit to the ultimate rate at which, funds reach the borrower? However, a rational approach to the problem would suggest the necessity of the link for a healthy cooperative movement a close contact with the people is necessary. The cooperative credit movement depends on the financial strength and technical guidance of the primary credit societies. Central banks collect the deposit in the rural and urban areas and divert to them in rural areas. But many difficulties are faced in the supervision and administrative advice to the technical guidance, so central bank is the intermediary between primary credit cooperative bank in rural area and state cooperative bank at state level.

The district central cooperative bank is a financing bank of the primary cooperative societies. It is the middle tier in the cooperative credit structure of the state; it is also a federation of the primary credit societies and other types of primary societies within its area of operation. Besides financing the affiliated societies, most of the central banks do other banking functions, such as accepting deposits of various types from the public as well
as members, collecting bills and cheques, issuing drafts and safe custody of valuables they provide finance to small scale industrialists, petty traders, unemployed educated persons for getting self employment opportunities\textsuperscript{11}.

1.2 **Meaning and Definitions of District Central Cooperative Bank:**

National Bank for Agriculture and Rural Development lays down following definitions of district central cooperative banks.

"Central cooperative bank means the principal cooperative society in a district in a state, the primary object of which is to finance of other cooperative societies in the district. Provided that in addition to such principal society in a district, the state government may declare any one or more cooperative societies in that district to be a central cooperative bank of banks within the meaning of this definition\textsuperscript{12}.

According to Henry Wolf," Cooperative banking is an agency which is in a position to deal with the small mean of its own terms accepting the security it has and without drawing on the protection of the rich.

Devine defines cooperative banks as," A mutual society formed, composed and governed by working people for themselves for encouraging regular saving, and granting small loans on easy terms of interest and repayment\textsuperscript{13}.

1.3 **Aims of District Central Cooperative Bank:**

According to Prof. Belshaw the aim of cooperative credit before the International conference on agricultural and cooperative credit in 1952 as under\textsuperscript{14}.

1. To promote thrift so as to increase the supply of funds;
2. To draw on sources outside the society;
3. To promote the effective use of loans and to reduce the risks in granting loans by careful and continuous supervisions;
4. In consequence, to reduce risk to lenders and to credit cooperative by adequate security; 
5. By this means and by low cost of management to keep the cost of credit as low as possible; and 
6. To endeavour for making societies so credit worthy enough that, they can obtain sufficient funds to finance other cooperative undertakings. 

1.4 Objects of District Central Cooperative Bank: 

The object of district central cooperative banks is to meet the credit requirement of member societies for agricultural production purpose, marketing and supply operations and industrial and other societies for working expenses. They work as an intermediary to the primary societies with the money market. The district central banks serve as balancing centre for adjusting the surplus and deficiency of the working capital of the primary credit societies. 

According to G.M. Loud” The reason for the establishment of district central cooperative banks is that there should be an intermeditory agency between the primary credit society with rural bias run by the agriculturist having touch with the money market of the provisional cooperative banks run mainly by city man with Urban bias of having no close association with the country sides15. 

The district central cooperative banks also provide certain normal banking facilities to members such as acceptance of deposits, remittances of funds, collection of cheques etc. 

The following are the objects of the district central cooperative banks. 

1. To act as a balancing centre of finance for the primary societies in the district by providing them with funds when they have a shortage and by serving as a Clearing house for their funds which are surplus;
2. To encourage thrift and collect savings from members and others,
3. To provide a safe place for investing the reserves of primary societies;
4. To provide other banking facilities to the members;
5. To develop and extend banking facilities in rural areas;
6. To develop the cooperative movement in the district on the sound lines and to act as friend, philosopher, and guide;
7. To supervise, guide and control the working of member societies.

1.5 Types of District Central Cooperative Banks In India:

The district central cooperative banks can be classified as under three heads according to their constitution.  

1. Banks whose membership is open to individuals
2. Banks whose membership is confined to societies;
3. Mixed- types banks, which include both individuals and societies.

1.5.1 Banks whose membership is open to individuals:

The banks falling in the first category consist entirely of individuals or in which societies are admitted as shareholders on exactly the same footings as individuals, without any special provision for adequate representation on the board of management or for the reserve fund as a definite proportion of the share capital for them such bank stand in the same position as commercial banks. Banks having such constitution were either reorganised into cooperative urban banks or converted into pure central banks of primary societies.

1.5.2 Banks whose membership is confined to societies:

The banks falling in the second category, which are included in the pure type, are the purely federal type of district central cooperative banks consisting of the primary societies only. They are registered as "Banking
Unions" under the 1912 Act. The share holders, lenders and the borrowers being the same; The clash of interest between the shareholders, and the borrowing societies is, therefore, eliminated by the combination of the separate identities of the lenders and the borrowers.

1.5.3 Mixed-types Banks include both individuals and societies:

The district central cooperative banks, failing in the third category, are of the mixed type and have been organised on the guidelines suggested by the Maclagan committee. These banks consist of both societies and individuals. A large Majority of district central cooperative banks today confirm to this pattern. At the instance of the all India Rural Credit Survey Committee the process of gradual elimination of the individual members has been introduced in most of the banks in a bid to make them fully cooperative.

1.6 Functions of District Central Cooperative Banks: -

The main task of the district central cooperative banks is to lend to village primary societies, central cooperative banks occupy very important position in the cooperative credit. The district central cooperative banks have been playing a pivotal role in the development of cooperative credit; following are the main functions of a district central cooperative bank:\n
1. To finance the primary agricultural credit societies and other affiliated societies functioning within the area of operation.

2. To act as a balancing center for the resources of the primary agricultural credit societies in the district by providing them funds when there is a shortage and by serving as a clearing house for their surplus funds.

3. To attract local deposits and provide other banking facilities like
remittance of funds, collection of cheques and safe custody of valuables.

4. To develop and extend banking facilities in the rural areas and develop banking habit amongst the rural people.

5. To supervise, guide and control the working of the affiliated societies.

6. To borrow funds from the state cooperative bank whenever necessary for the purpose of financing the member societies.

7. To act as agent for any government or local authority or any other person or to carry on agency business.

8. To acquire, contract, maintain or alter any building or works necessary or convenient for the purposes of the bank.

9. To take necessary steps for the development of the cooperative movement in the district.

10. To maintain sufficient liquid resources in the shape of cash balances, unutilized cash credit with the state cooperative bank and government securities to pay the claims of the depositors whenever they arise.

11. To do all such other things as they are incidental or conductive to the promotion or advancement of the bank.

1.7 Size and Area Operation of District Central Cooperative Bank:

As size and area of operation have an important bearing upon its success, it is imperative for a central cooperative bank to have an area of operation large enough to provide it with sufficient business turnover to be able to employ the required staff, meet the overheads and build up strong reserves. At the same time, the area of operation should not be so vast as to render the bank unable to supervise and coordinate the work of its affiliated societies. The Maclagan committee (1915) observed." A central bank should cover as large an area as it is compatible with convenience and efficiency.
Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital either at once or within a reasonable time, with at least 200 to 250 societies\textsuperscript{18}.

The All India Rural Survey Committee endorsed the views expected by the Reserve Bank's standing advisory committee on agricultural credit that there should be only one central bank for each district but if however other conditions justified the formation of a bank for a region smaller than a district, there should be no objection to that. In view of existence of more than one central bank in a district, which did not confirm to the standard, the committee recommended that schemes of amalgamation must be introduced in all state almost on a compulsory basis. The following minimum standards in regards to owned capital and working capital of the central banks were also agreed by them. Paid up share capital and reserve should be above 3 lakhs and working capital Rs.20 to 25 lakhs. Recently the standing advisory sub committee on rural and cooperative credit of the Reserve Bank of India while reviewing the concept of viability laid down the following criteria\textsuperscript{19}.

1. Ability to earn sufficient profit;
2. Reasonable contribution to reserve; and
3. Declaration of reasonable dividends.

To satisfy the minimum criteria of viability a central cooperative bank should have a loan business of at least Rs. 1 crore, corresponding to a working capital of about Rs. 1.20 crores.

1.8 Membership of District Central Cooperative Bank:

The membership of central cooperative banks has undergone certain changes. In the early years of their establishment, there were a number of central cooperative banks whose membership was confined to individuals only. The Maclagan committee (1951) raised strong objections to the
registration of such banks under Cooperative Societies Act, on the grounds that "a bank of this class stands much the same position as a joint stock bank". Further more, it would cause friction with the societies on the one hand and the commercial banks on the other. Subsequently, these banks were either organised into cooperative urban banks or converted into pure central cooperative banks.

The central cooperative banks whose membership was slowly confined to primary cooperative societies. These banks were the perfect federations whose shareholders, lenders and borrowers were the same. The Maclagan committee (1915) expressed its views about these banks in the following words:

It is difficult to wards present conditions to find among the member of the societies, representatives with sufficient capacity to manage such an institution and this types of bank generally fails to excite the interest or leave room for the assistance of the middle classes, who by its constitution are excluded from active participation in the movement; nor has it the necessary prestige to command local deposits to the extent to which they would have been forth coming, if the middle classes were identified with the bank. In view of these practical difficulties, banks started on these lines have not hitherto proved an unqualified success and through they represent the model at which cooperation should ultimately aim, they should not be unduly forced\(^{20}\).

The recommendation of the Maclagan committee (1915), the membership of the central cooperative banks consisted of both societies and individuals, in which societies were assigned a certain proportion of shares and were given separate representation on the board of directors. The all India Rural Credit Survey Committee (1954) favored pure federal central
cooperative banks and recommended that their membership should be confined to cooperative societies only. The committee further suggested that wherever individual membership existed in the central cooperative banks, such individual should be gradually eliminated and their share capital to be transferred in favour of the primary societies. At present most of the central cooperative banks in India have both individual as well as primary societies as their members and the process of eliminating individuals from their membership still continues. It is worthwhile to mention that to ensure rural based central cooperative banks safeguarding the interest of the rural masses through cooperative principles it is sine quanon to expedite the process of elimination of individuals as shareholders. Members from Urban areas are usually Urban based individuals and by virtue of their membership they can influence the central cooperative to the disadvantage of the rural masses. Moreover, the principles of cooperation demand that only those who can make use of the services of a cooperative society should be taken as members. Since, individual members from urban areas do not come under the purview of the objectives and services of the central cooperative banks, their membership is opposed to the very basic principles of cooperation.

All the registered cooperative societies in the district and the state cooperative banks are eligible for membership according to bye-laws No.v(8) thus, every cooperative society registered within the area of operation of the bank and the state cooperative bank could be eligible for membership. After becoming a members of a bank every society shall be termed as "affiliated societies: byelaws No.v(10). The individuals and other members included individual members as per bye-laws No.v(9) / V.9(A) according to which any person who is resident of the district can be admitted as individual member of the bank provided he is of the age of over 18 years
and of sound mind. Further in terms of byelaw No.V9 (3) other members include all institutions such as firms partnership and quasi-government institutions such as Panchayats, Zilla Parishads, Municipal Corporation within the area of operation of a bank and also the state government, which might have been admitted to the membership of the bank. Pursuant to the contribution to its share capital directly or indirectly that is through the higher level of financing bank\textsuperscript{22}.

1.9 Co-operative Credit Structure in India:

The cooperative credit structure in India, so far as rural finance is concerned, consists of two wings one dealing in short-term and medium-term credit and the other in long term credit. The short-term and medium-term structure is three tiered. The primary agricultural credit societies at the village forms the base. It is on this, that the whole edifice cooperative credit is based. They federate into district central cooperative bank usually at the district level. At the state level these are federated into an apex bank serving the entire state, the state cooperative bank in its turn was closely linked with the Reserve Bank of India and with the National Bank for Agricultural and Rural Development which provides among others, considerable financial assistance to agriculture through the state cooperative banks, district central cooperative banks and primary societies. The long-term credit structure consists of two tiers. There are primary land development banks at taluka or block level and central land development banks at state level. The long-term credit is provided by the central land development banks for each state at the apex level. The apex bank operates through primary land development banks and where land development banks do not exist, it operates through its own branches or district central cooperative banks\textsuperscript{23}. 

14
The structure of the cooperative credit in India is as under.

The cooperative central banks occupy a crucial position in the pyramidal structure of agriculture cooperative credit system in a state. They form the backbone of the structure, and provide the vital link between the local primary societies and the state cooperative bank organised at the state level.

Structure of Cooperative credit

- Short-term and medium term credit (Three-tier system)
  - 1) State Cooperative Banks (Apex Institution at the state level).
  - 2) District Central Cooperative Banks (organisation at the district level).
  - 3) Primary Agricultural Credit Societies (Institutions at the village or root level).

- Long term credit (Two-tier system)
  - 1) State Development Banks or State Cooperative Agriculture and Rural Development Bank. (Apex Institutions at the state level)
  - 2) Primary Land Development Bank or Rural Development Bank (organisation at the district and Taluka level)

They act as balancing centers and provide funds to the primary societies in the district when they face shortage by diverting the surplus funds of the urban areas. They mobilize resources by accepting deposits and
by borrowing from the state co-operative banks. They provide facility for the investment of the resources of primary societies. They develop and extend banking facilities in semi-urban and rural areas. They finance primary societies affiliated to them, impart strength to them and supervise and guide the working of the member societies in the district\textsuperscript{24}.

It was recognised that agricultural societies could not be expected in all cases to raise their own funds. The societies could not always get proper persons in the village itself to manage them on sound lines. The problem was to find out an agency based on the same principle as that of the societies, which could meet all the above requirements. In India some official and non-official cooperatives gave their mind to this problem and plans were put forth by them. Mr. Dupernex promulgated a plan that the urban banks would be able to raise sufficient capital to meet both their own needs and those of the rural societies. Under these arrangements certain of the larger urban banks in various provinces gradually assumed the position of central financing agencies, and these were followed especially after the passing of the Act of 1912 by other central banks in many of which the agricultural societies were themselves in same way represented\textsuperscript{25}.

The number of central banks in the country grew, the problems of finance supervision, proper guidance and development along right lines became more complicated. While some banks had abundant funds and were managed efficiently, others were unable to raise enough, to meet the societies demand and had to borrow from other by circulating each other or through the registrar, cooperative societies in the absence of a common balancing center\textsuperscript{26}.

1.10 Management of District Central Co-operative Bank:

Management of a district central cooperative bank is in charge of a
board of directors elected annually, or in some case, triennially, on the basis of one member, one vote, at the general meeting, which is the ultimate authority in this and in other types of cooperative societies. The requirements for a director of such a bank were described by the Maclagan committee, which held that the work called less for technical skills than for ordinary probity and knowledge and should be well within the capacity of any professional man. He needs only to have a general knowledge of money rates and to fix his own to produce a required margin of profit; he should be careful to forecast the probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available.\(^{27}\)

All members, individual and societies form the general body of the bank. General body is the highest body, which takes ultimate decisions about the affairs of the bank. General body meets once a year to transact the following business:\(^{28}\)

1. To confirm the minutes of previous year annual general meeting of the bank;
2. To receive and consider the annual report, statement of the accounts;
3. To declare divided (as recommended by the board of directors);
4. To consider the audit memo of the government auditor;
5. To approve the budget for the next year as recommended by the board of directors;
6. Admit new members and consider expulsions if any.

The information regarding constitution of general bodies of the district central cooperative banks is given below discussed. The board of directors consisted of members elected by the general body to carry on day-to-day administration of the bank and it works under the direction of the
The management of district central cooperative bank is vested in hands of the board of directors consisting of 20 - 27 members. In order to shape the policies of the central bank for the benefit of the affiliated primary societies, the representative of the societies dominate the board by restricting the number of individual member 2 to 3 only. As per provisions contained in the bye- laws the board of directors has appointed different committees in order to expedite the working of the bank²⁹.

The managing directors are senior officers of the cooperative department. In view of great responsibilities assigned to them they should play the role of true lenders for promoting the cooperative functioning of these institutions. They should function with a missionary zeal and complete dedication to bring about integrated rural development through the media of the cooperative institution. They should implement the cooperative laws, the rules and the bye-laws with all the sincerity while discharging their functions as such managing directors. They should efficiently manage the affairs of the bank and provide the requisite guidance and supervision over the functioning of the officials working under them in the head office as well as in the field. They should periodically review the working of the head office as well as of the field by conducting periodical meetings and field visits. They have to be very vigilant all the time in their functioning to ensure smooth and efficient working³⁰.

The manager is responsible for general administration of the bank subject to the control of the president. He has powers to accept deposits of all amounts and carries on general banking transaction within the framework of the bye-laws. He is responsible for holding meeting of the board and general body and is the custodian of all the properties of the bank. He is also the officer to be used on behalf of the bank³¹.
1.11 The Concept of Funds Management:

Finance is the life blood of any firm or organisation, finance function occupies a key position in the firms general management and plays the major role in planning and measuring the firms need for funds, raising the necessary funds, and then putting the funds acquired to effective use.\textsuperscript{32}

The "funds management" is concerned with managerial decisions that result in acquisition of funds and utilization of these funds in long-term and short-term ventures in a most productive and profitable manner. In a country like India, where resources are scarce and the demand for funds are many, the need for good financial managers or bank manager is enormous. If proper financial management techniques are used the enterprise can reduce the capital raising cost and improve their return on investment.

Funds management plays very significant role for the development of an organisation. The cooperative banks are generally interested in service and growth. For the purpose of survival, the cooperative banks must have adequate funds with them to meet various requirements. For this purpose, bank must not reject any request for withdrawal. The maintenance of adequate liquid assets serves this purpose. This will not only increase the public faith and confidence but also brings the solvency of the bank. Besides, the banks have to earn profit for carrying out their day-to-day activities and appropriating funds for developing various funds such as reserve fund, building fund, etc. which strengthen the financial structure of the bank.

Thus the principle of liquidity, solvency and profitability is to be observed while undertaking the business operations. A good management of funds aims at mobilizing resources in the most convenient as well as at a low cost and optimum utilization of scarce resources, for the best return in
monetary and social manner. The mobilizing of resources deals with various sources of funds.\textsuperscript{33} 

\section*{1.12 Sources of Funds of District Central Co-operative Banks:}

The district central cooperative banks operations refer to raising procurement and utilization of funds by the banks. Procurement and utilization of funds are in fact the two vital functions of district central cooperative banks. Therefore; an attempt has been made for operations of district central cooperative banks.

The operation of district central cooperative banks can be grouped under two heads.

a) Procurement of funds through various sources,

b) Utilization of funds.

For the purpose of analysis of the first function; an inquiry into the procurement of funds from various sources has been made. Such sources are\textsuperscript{34}:

i. Share capital;

ii. Reserve and other funds;

iii. Deposits;

iv. Outside borrowings.

\textbf{i) Share capital:}

The share capital of the district central cooperative banks raise their share capital by issuing shares to affiliated societies as well as the individual members. The major portion of shares is issued to member societies. The face value of the shares varies from Rs.50 to Rs.100 In order to safeguard against any domination of the individual member, in the management of these banks, certain restrictions are generally imposed on the limits of the shares issued to individuals. The Mehta Committee (1960) stressed on the
strengthening of the share capital of central banks and suggested that primary societies should be required to contribute to the share capital of these banks to the extent of 1/20th of their borrowings. Recently the Reserve Bank has suggested that the central bank should collect from the primaries share capital up to 10 percent of their borrowings. In order to strengthen the financial structure of these banks and to enforce confidence of the public the state government has been participating in the share capital of the central cooperative banks.

ii) Reserve Funds:

The second sources of funds of district central cooperative banks is the reserve fund, which is an important part of their owned funds. Central cooperative banks generally maintain three types of reserve funds (a) statutory reserve funds, (b) bad and doubtful debts, risk reserve funds and (c) other funds, beside maintaining the statutory reserve fund, these banks also to write off their bad debts as and when necessary. The Rural Credit Survey Committee (1954) stated "As important as the need for adequate share capital is that for adequate reserve. We trust, this will engage, from time to time, the most careful attention of cooperative departments and of the directors of central banks".

iii) Deposits:

Deposits are the most important source of the working capital of district central cooperative banks. The importance of these sources hardly needs any emphasis. All the committees and commissions, hitherto set up to take stock of the cooperative movement, have, without any exception, stressed on the mobilisation of savings from urban and semi-urban areas by central cooperative banks in order to provide the large sums of credit required by primaries for the agricultural development.
iv) **Borrowings:**

When the internal sources of a central cooperative bank are not sufficient to meet its credit requirement, it becomes a normal practice of the bank to borrow from external sources. The volume of borrowings depends upon the magnitude of the bank's own funds. The limits of borrowings are decided as a percentage of owned funds or other enhanced limit as may be permitted by the registrar of cooperative societies from time to time.

The borrowings constitute the fourth component of the working capital of central cooperative banks. These banks receive borrowings from State Cooperative Banks, State Government, State Bank of India, State Bank of Hyderabad and its subsidiaries, etc. The main bulk of the borrowings of central cooperative banks however comes from the state cooperative banks.

1.13 **Utilization of Funds of District Central Co-operative Banks:**

The more common uses of funds by banks, as indicated by the main category on the asset side of a bank balance sheet are:

1. Cash;
2. Balance with other banks;
3. Money at call and short notice;
4. Investment, and
5. Advances.

The utilization of funds is broadly determined by the nature of the economy, the economic policies and a host of other factors. Since banks are not supposed to function in a manner harmful to the interest of the depositors, the share holders and borrowers in particular and the community in general, banks have to subject themselves to controls exercised by the central bank of the country. These controls also influence the choice of banks in marking use of their funds.
1) **Cash:**

For the liquidity point of view, banks provide themselves with enough cash; banks have the obligation to pay the demand deposits without notice and on demand, for which cash is needed. How much bank funds are to be kept in this portfolio depends upon several factors, which partly legal and partly practical and the section 24 requires that every cooperative bank in India shall maintain in cash, gold or unencumbered securities valued at a price not exceeding the current market price, an amount which shall not be at the close of business on any day less than 20 percent of the total of its time and demand liabilities in India. This may be inclusive of the cash reserve maintained under section 18. The Reserve Bank may raise that standard to 25 percent after two years.

2) **Money at calls and short notice:**

Since it is not profitable for banks to hold cash in large quantities, they use some portion of their funds in such assets as are near-cash and at the same time earn some income. Money at call and short notice includes the inter bank call deposits and the short notice money which banks place with other banks.

3) **Investment:**

Central banks also invest their surplus funds in deposits with the Apex Cooperative Banks to which they are affiliated. For this no permission of the registrar is required. But for the investments of funds in current accounts with other central banks, they have to obtain the permission of the registrar.

For the investment of funds in current account in joint stock banks within the state, including branches of joint stock banks whose head offices are outside the state, permission of the registrar must be taken under the Act.
The central banks which may find an outlet in investment in government and trustee securities, deposits with the commercial banks and deposit with the state cooperative banks etc.

4) Loans and advance:

Loans and Advances are the main uses of banks funds. A basic function of any bank is to lend the surplus funds deposited with it. Advances of a bank includes working capital and term finance to different types of borrowings on unsecured basis or against different types of securities in various forms of bank lending by way of loans and advances, overdrafts, cash credit, letters of credit and bill finance. Loans and advances represent that part of customer's deposits which the bank considers may be safely lent, while the remainder is in the form of cash and other assets. The loan amount and maturity can be tailored to the borrower's need. It is the loans and advances that constitute the core of a banks earning assets. It is this group of assets that is usually the most profitable. The district central cooperative banks provide short-term, medium-term and long-term loans and advances to consumer.

Very few studies have been conducted so far on the sources and utilization of funds management of district central cooperative banks at the national level. No study has so far been made to study the funds management of district central cooperative banks in Maharashtra in general and in Marathwada in particular. Hence, the present study is a sincere effort to fill this gap.

1.14 Objectives of the Present Study:

The present study is undertaken mainly to study the funds management of district central cooperative banks with special reference to Marathwada region during period 1990-91 to 2004-05.
The main objectives of the present study are as follows:

1. To study the origin and progress of district central cooperative banks in Marathwada Region.
2. To study the sources of funds of district central cooperative banks in Marathwada Region.
3. To examine the uses of funds of district central cooperative banks in Marathwada Region.
4. To make a comparative study of sources and uses of funds D.C.C. Bank in Marathwada Region.
5. To examine the profitability of District Central Cooperative Banks in Marathwada Region.

1.15 Research Methodology:

The present study pertains to Marathwada region of Maharashtra state and covers a period of 15 years from 1990-91 to 2004-05. The present study is based on secondary data. The secondary data about financial resources of District Central Cooperative Banks drawn from the financial statements, annual reports and office records of all the district central cooperative banks in Marathwada region. The secondary data is also collected from the sources like, The Cooperator and Indian Cooperative Review, published by National Cooperative Union of India, New Delhi, and from National Federation of State Cooperative Banks Bulletin, Bombay. The data compiled from published sources has constituted the basis of analysis. The secondary data for district central cooperative banks in Marathwada is collected for the period 1990-91 to 2004-2005.

The tools of analysis that are used include simple growth rates, trend analysis, ratio analysis, index-numbers, percentages, averages, standard
deviation, co-efficient of variation etc. The details about statistical tools and ratio, which are used for analysis, are as under:

A) For analyzing the growth performance of sources of funds of district central cooperative banks in Marathwada region. The sources of funds of district central cooperative banks in Marathwada have been studied under the sub-heads share capital, reserves, owned funds borrowings and other liabilities. For this purpose simple growth rates and index numbers of different parameters have been calculated. The variability in the different sources of funds is studied with the help of standard deviation and co-efficient of variation.

**Standard Deviation:**

\[ S.D. = \sqrt{\frac{\sum (Dx)^2}{N}} \]

Where,

- \( S.D. \) = Standard Deviation.
- \( Dx \) = Deviation from actual mean.
- \( N \) = Number of observation.

**C.V.** = \( \frac{S.D.}{x} \times 100 \)

Where,

- \( C.v. \) = Coefficient of variation.
- \( S.D. \) = Standard Deviation.
- \( x \) = Actual mean.

**Index number** = \( \frac{p_1}{p_0} \times 100 \)

Where,

- \( p_1 \) = Current year values.
- \( p_0 \) = Base Year values.
B) For examining the uses of funds of district central cooperative banks the parameters such as cash and bank balance, investment, loans and advances and other assets have been used. For analyzing the growth in uses of funds and examining the liquidity of District Central Cooperative Banks in Marathwada Region following ratios have been used.

i. Cash reserve ratio =  
   Cash reserve / Time and demand liabilities x 100  

ii. Statutory liquidity Ratio =  
    Liquid Assets/ Time and demand liabilities x 100  

iii. Credit Deposit Ratio = Advances/ deposits x 100  

iv. In order to study the profitability to District central cooperative Banks in Marathwada Region the ratio of Net profit with respect to paid up share capital, owned capital, assets and working capital of the bank have been used.

1.16 Scope of the Study:  

The study is mainly confined to Marathwada region of the Maharashtra state, the result of the study will be applicable particularly to the district central cooperative banks in Marathwada and broadly to the district central cooperative banks in Maharashtra state. It is possible to make broader generalizations as the study has used highly sophisticated techniques.

The whole study is divided into aggregative and segregative study on the basis of the available data. The aggregative study refers macro study of district central cooperative banks in Marathwada. The aggregative approach
provides a macro view of the working of the district central cooperative banks in general. The segregative approach refers to the micro study of the district central cooperatives bank in the study area.

1.17 Limitation of the study:-

The study deals with the work done by Marathwada region in Maharashtra state. A study of funds Management of district central cooperative banks in it's area of operation with special reference to Marathwada region. This study covers only a period of 15 years that is from 1990-91 to 2004-05. Following are the limitations of these study.

i) The present research work is limited to the selected aspects of the working of the district central cooperative banks in Marathwada region.

ii) The financial/ funds position reflected by annual accounts from which data is taken for analysis is true only on the last day of the accounting year and it may not be relevant for rest of the year. Therefore, inferences drawn and conclusions made on the basis of data from such annual accounts should be taken in the light of these deficiencies of data.

iii) The discrepancies in data published by banks and by their federations do exit. The data published in the annual reports of bank are subject to audit by banks, State Cooperative Department and Reserve Bank of India hence the data from annual reports are taken as base in case of discrepancies.

iv) The various accounting and statistical tools and techniques used in the present study are not free from limitations. Hence these limitations have their impact on the references of research work.
1.18 Scheme of Chapters:

The present study consists of seven chapters. The first chapter is devoted to discuss the objectives, classification, structure, functions, size, area of operation, importance, constitutions the concept of funds management of district central cooperative banks in India. The objectives of the present study, methodology adopted to study them and scheme of chapters are given in the same chapter.

The second chapter presents the review of current and relevant literature on the relevant subject.

The third chapter presents the origin and progress of district central cooperative banks in India. This chapter also focuses on origin and progress of district central cooperative banks in Maharashtra and place of Maharashtra district central cooperative banks on Indian scene.

The fourth chapter is devoted to the growth performance of sources of funds of district central cooperative banks in Marathwada region during the study period from 1990-91 to 2004-2005. The growth performance of sources of funds of these banks has been studied with reference to their, owned funds, share capital and reserves, deposits and borrowings related to Marathwada Region in aggregate. Districtwise performance of sources of funds in district central cooperative banks is also given in the same chapter.

The fifth chapter is devoted to present the uses of funds of district central cooperative banks in Marathwada region. Under the sub-heads, the major uses of funds of district central cooperative banks with respect to their cash in hand, money at call and short notice, investments, loans and advances and other assets. The categories of investment, various types of advances and the purposes of advances of district central cooperative bank in Marathwada are also shown in this chapter.
The sixth chapter is devoted to present the profitability of district central cooperative banks in Marathwada region. For analyzing the profitability of these banks profitability ratios and rate of return on capital are used. i.e. Net profit to equity ratio, net profit to owned capital ratio, net profit to assets ratio, as operation ratio, are used net Profit to income, income to expenditure and income to working capital.

The seventh chapter summarizes the findings of the present study and the policy measures based thereon.
REFERENCES:


21. Ibid.,


23. Ibid.,


29. Ibid.,


34. Deshmukh P.G. Op.Cit.,