Chapter - I

INTRODUCTION AND DESIGN OF THE STUDY
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1.1. INTRODUCTION

In most of the developing countries the importance of co-operatives as an instrument for social change is well recognised. The national development plans make explicit mention about the roles assigned in the co-operatives. For instance in India, the co-operative sector has been assigned a significant role in all the five year plans. The recent Indian textile policy also states clearly that handlooms should be developed in the co-operative sector.

Today, the co-operative sector, the foremost sector in the field of socio-economic development spread from village to national level in the country. In our mixed economy approach co-operative sector will have to continue to play balancing role in carrying the socio-economic activities in almost every sphere of life. The importance of co-operatives thus hardly needs any expression.

In the past two decades, there had been great deal of diversification particularly in size and business of the co-operative movement but in the absence of effective information technology, the co-operative sector should not project their achievements effectively. The need to have modern and
systematic co-operative information system was felt from time to time. And in the year 1986 the National Co-operative union of India has set up a National Co-operative Data Bank (NCDB) to ensure flow of co-operative information and feed-back to the persons involved in the management of co-operatives and policy makers. Another aspect is promote the concept of modern information technology for strengthening the effective decision making process.

1.2. GENESIS OF THE CO-OPERATIVE MOVEMENT:

Co-operation means working together. The principle of co-operation is as old as human society. It is truly the basis of domestic and social life.

Mans evolution has not been competitive in terms of aggression as has been supported by Darwin and his followers. It has been competitive in terms of co-operation. Man is now considered to be essentially co-operative rather than aggressive in nature.

Modern biologists believe that the co-operative forces are biologically more important and vital. In the modern technical sense the genesis of co-operative movement and its applications in the economic field can be traced after the industrial revolution which took place in England during the second half of the eighteenth and first half of the nineteenth century.
Co-operation was conceived as the answer to the injustice of capitalism and was developed as its antidote. Poorer men saw in it a price advantage, economists a new incentive to efficiency, and the utopian socialists as a method of developing a completely new society. "The herd found that by showing a common front they were a match for the economic carnivores.

Although the ideas of the co-operative movement are basically the same all over the world, its form and content varies from country to country. Co-operation took birth in different countries among people with different economic functions. Everywhere, however it originated as a defensive bulwark against exploitation of the weak by those in a stronger economic position.

1.3. PRINCIPLES OF CO-OPERATION:

In the year 1937, the ICA laid down certain principles which were applicable to all co-operatives. The second ICA commission on principles (1966) under the chairmanship of Pro.Karve laid down the following six principles of co-operation, which are now followed in all countries.

1.3.1. Voluntary and Open Membership

The membership of a co-operative society shall be voluntary and open. That means, the membership shall be available without any restriction or
discrimination. This principle can be divided into voluntary association and open membership.

1.3.1.1. Voluntary organisation:

Voluntarism cannotes that a person can join a co-operative on his own will and the society must also admit him voluntarily without imposing restriction. He should also be free to withdraw himself from the membership if he desires to do so.

1.3.1.2. Open membership:

The principle of open membership means that:

i) There shall be no artificial restriction on the administration of members.

ii) There shall be no social, political, racial or religious discrimination against persons who wish to join and

iii) Membership shall be available to all persons who need and can make use of the societies services and are willing to accept the responsibilities of membership.
1.3.2. The principle of democratic control.

The principle of democratic control means that:

i) The general meeting of the members of a co-operative society is the supreme authority in regard to the conduct of the affairs of the society.

ii) The members of the primary society shall enjoy equal rights of voting and participation in decisions affecting their society, each member having only one vote and the members of a federal society shall enjoy these rights provided that they may enjoy voting power on any other democratic basis.

iii) The affairs of the society are administered by the management in accordance with the democratically expressed will of members.

iv) The management is elected and appointed in a manner agreed by the members, and

v) The management is accountable to the members.

1.3.3. The principle of limited interest on capital:

This principle has been practiced for long time, originating Rochdale pioneers, capital is not unwelcome in co-operatives., It is very much needed but it act as a servant and not as a master. Unlike capitalism, capital is not
allowed to dominate human beings. Hence to give importance and to serve its purpose, capital is provided limited interests on co-operatives.

1.3.4. The principles of equitable division of surplus:

In capitalistic organisations the surplus is distributed on the basis of the number of shares held by the shareholders, irrespective of their dealings with the organisation. The surplus is distributed on the basis of the members dealing with the society.

1.3.5. The principle of co-operative Education:

The members office bearers and the non-members must be educated about the values of co-operation and the fundamentals of co-operation. This is none of the earliest principles of co-operation which has not been eliminated by the two commissions on principles appointed by ICA. In view of the commission, education of appropriate kinds for the different groups of persons who make up all but the very simplest of co-operative societies is a necessary responsibility of co-operative institutions.

1.3.6. The principle of co-operation among co-operatives:

This is a new principle added to the principles by the commission of the ICA. This principle has been enunciated to increase the strength of the co-operatives and the enhance the interdependence among various co-operatives.
This principle has also been termed as “Principle of growth”. The co-operatives must also unite to preserve their movement and to increase their competitive spirit at national and international level:

1.4 LEGAL DEFINITIONS:

In some countries a co-operative society is defined by law as an organisation which has the object “the promotion of the economic interests of its members”. Or the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs, so as to bring about better living, better business and better methods of production”. Sometimes a co-operative society is defined as a body formed and working under the “co-operative Act” of the country concerned. Under the Australian Act, a co-operative society is defined as an association with unlimited number of persons, the object of which is the promotion of industry or trades of their members by means of common action or credit.

The Indian Co-operative societies Act of 1912 has not given any definition of co-operation. Section 4 C considers a co-operative society as “a society which has its object the promotion of the economic interests of its members in accordance with co-operative principles”.

7
1.5. OTHER DEFINITIONS:

According to Talmaki, "Co-operation is an organisation where a person voluntarily associates together with others on a basis of equality for the promotion of economic interest by honest means".

A good definition of organised co-operation is found in the Report of the Inquiry on co-operative Enterprise, published by the government of United States. It states "a co-operative enterprise is one which belongs to the people who use its services, the control of which rests equally with all its members and the gains of which are distributed in proportion to the use they make of its services.

According to the co-operative Independent Commission, "A co-operative society in its economic aspects, is a voluntary organisation set up by consumers or producers to serve their own needs".

1.6. SIGNIFICANCE OF THE STUDY:

The District central co-operative Banks have played a vital in the economy of our country. They provide more assistance to the agriculturists to develop their life and the economic development of their region. Hence, the development and rapid growth of the District Central Co-operative Bank is very important for the success of the agriculturists. But the co-operative
central banks like non-co-operative banks don't have sufficient facilities and experts to analyse its financial components to check the profitability position and liquidity position, etc., for the purpose of taking managerial decisions.

Hence, a critical analysis of the financial management of various components would help the management bodies to take appropriate decisions to manage financial affairs more effectively and efficiently.

In the above context it was felt that the study of Financial Management of District Central Co-operative Banks — A case study in the Salem District Central Co-operative Banks Limited, by means of various accounting tools would be of immense use in evaluating the overall financial management of this bank. Further this analysis points out both the weakness and strength of a bank and serve as a health test to exhibit the signs of soundness or otherwise of the bank.

1.7. STATEMENT OF THE PROBLEM:

Agriculture is the backbone of our economy. Nearly 70 per cent of the population derive their livelihood from this sector and about 62 percent of the total labour force is engaged in the farm and allied activities. Therefore, the progress and development of agriculture is very important for a developing country like India. The sustained growth in agriculture, which in turn
depends upon the formation of capital at farm level and existence of a modern farm technology including high yielding varieties, fertilizers, insecticides and irrigation facilities. To meet with the increasing demand for credit, a multi-agency approach has been adopted since long by way of co-operative institution, nationalised banks and other financing institutions. The co-operatives being functioning in rural areas play pivotal role among all the financing institutions for supplying agricultural credit and inputs.

Numerically small and marginal farmers and agricultural labours occupy a predominant place in the Indian Economy. Lack of integration of credit with farm services and supplies compels them to approach various agencies. Therefore, massive efforts are needed in the form of finance to help the small and marginal farmers. Commercial banks have rendered only little financial assistance to the farmers. Only the co-operatives predominate in helping the small farmers. Hence its becomes of paramount importance to study the performance of co-operatives.

There are a number of aspects that can be considered for evaluating the performance of rural banking system in a country. Some of the problems that can be considered for this study purposes are given below.
1. The co-operative banking system do not generate adequate savings and also not mobilize them as deposits in order to accelerate the economic growth in a planned way.

2. The co-operative banking systems are not able to satisfy all the credit needs of the rural and urban people in whatever nature (Short-term/medium-term/Long-term).

3. The co-operative banks depend on higher financing agencies like NABARD and NCDC for its working.

4. The co-operative Banks are have satisfying its members, by combining technological efficiency, financial soundness and effectiveness of service.

5. The opening of new branches in large numbers is not possible for all area.

6. The problem of non-viability is wide-spread in the case of the rural banking system.

7. The co-operative Banks normally confine their scope of operation and business to certain conventional lines of activities which always pose a perennial threat to their viability.
8. There is no proper procedures for rules and regulations for the distribution of loans and advances.

9. Lack of efficiency when compared to the non-co-operative Banks.

10. Poor collection of loans and advances due to defaultment of utilizers of co-operative bank.

11. Higher rate of borrowed funds.


1.8. OBJECTIVES OF THE STUDY:

The following are the main objectives of the study:

1. To study the operations of central co-operative banks in India and Tamil Nadu

2. To study the role of Co-operatives in Agricultural credit.

3. To study the performance of the Salem District Central Co-operative bank Limited

4. To find out the financial position of the Salem District Central Co-operative Bank Limited, over a period of eleven years.

5. To find out the short-term solvency and profitability position of the Bank.
6. To offer suggestions for improving the financial performance of the bank.

1.9. METHODOLOGY

1.9.1 Collection of Data:

The present study is purely based on secondary sources. The secondary data and other relevant particulars are collected from annual reports, records and ledgers of the following institutions.

1. The head office and branches of the Salem District Central Co-operative Bank Limited.

2. The Tamil Nadu State Co-operative bank – Head Office, Chennai.

3. Office of the Tamil Nadu Co-operative Union, Chennai.


1.9.2 Analytical Tools:

Statistical technique like percentages have been adopted for the purpose of analysing the financial performance of the Bank during the period of the study.
Ratio analysis have been applied to assess the financial performance and profitability position of the Bank. In addition, graphic methods have also been used to give a diagrammatic representation of the study.

1.10. Coverage of period:

Data relating to eleven years from 1990-91 to 2000-2001 have been collected from them Salem District Central Co-operative Bank Limited.

1.11. Presentation and Interpretation of Data:

The data gathered were classified and tabulated. Two way tables were prepared showing the changes in the amounts and percentages of the various parameters.

1.12. Chapter scheme:

The first chapter deals with the significance of the study, statement of the problem, objectives of the study, Methodology, Analytical tools, coverage of period, Presentation and Interpretation of data and the chapter arrangement.

The second chapter deals with role of co-operatives in Agricultural credit.

The third chapter deals with the progress of Central Co-operative Banks in India and Tamil Nadu.
The fourth chapter deals with the performance of the Salem District Central Co-operative Bank Ltd.

The fifth chapter deals with the performance appraisal of the Salem District Central Co-operative bank Limited.

The concluding chapter deals with the summary of the findings of the study and the suggestions offered for the effective utilisation of finance and betterment of the financial position of the Salem District Central Co-operative Bank Limited.