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CHAPTER - I

RESERCH DESIGN

1.1 CO-OPERATIVE CREDIT MOVEMENT IN INDIA:

The term co-operation in laymen's parlance may refer to the act of people or institutions coming together to carry out legally recognized or acceptable activity beneficial to all members which otherwise is neither desirable or possible to be carried out by an individual.

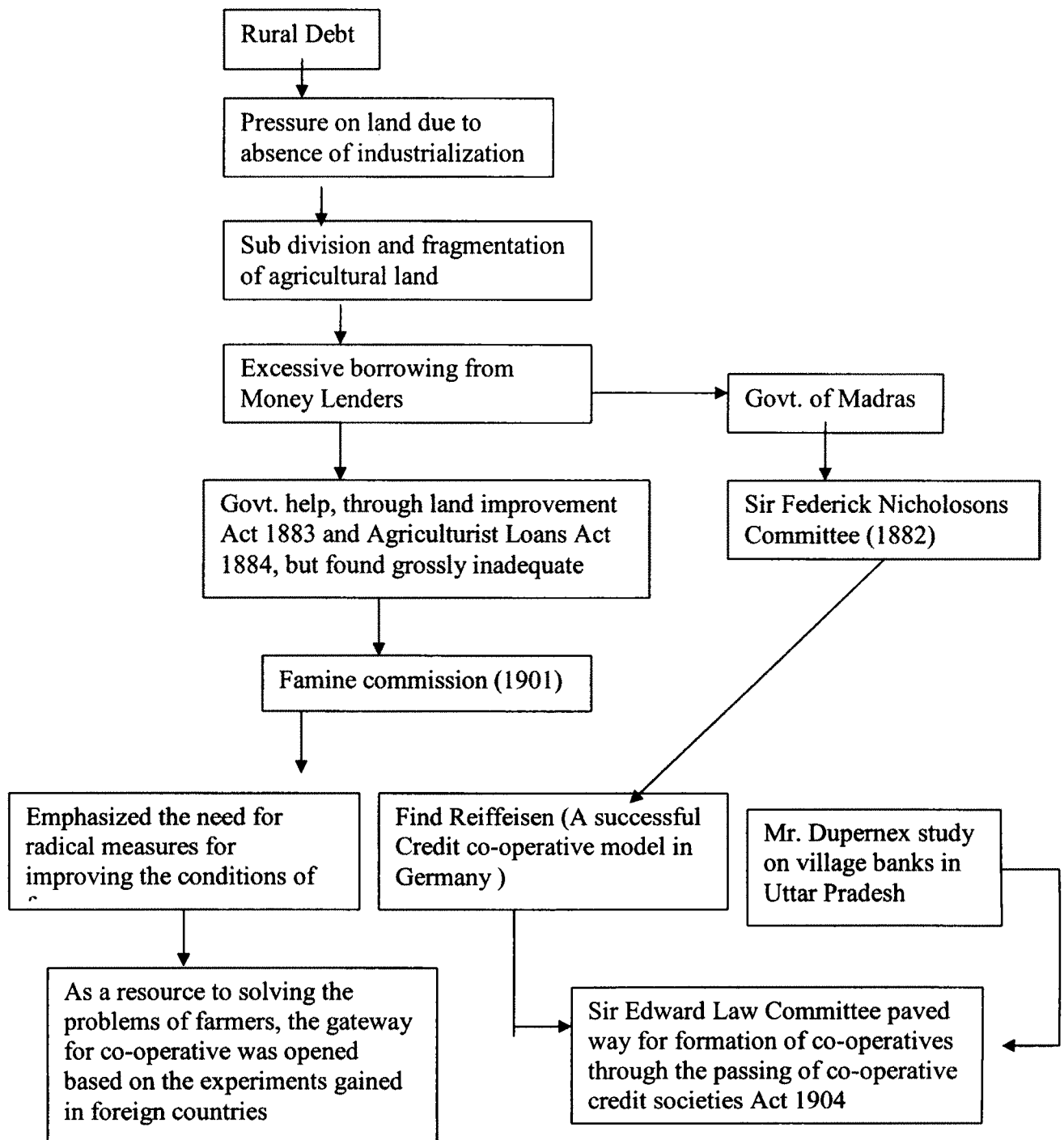
Co-operation means working and living together. The principle of co-operation is as old as our human society. Man is considered to be essentially co-operative rather than aggressive. The present socio-economic development of mankind is the result of the co-operative efforts of the individuals.

The Indian population of 75 % entirely depend upon agriculture. For the last many years Indian agriculture has suffered from need of supply of an efficient and adequate capital to oil the wheels of the Indian agriculture. In this respect, the money lenders and the indigenous bankers have played a prominent role. Their malpractices are controlled by the laws of the Government in many state. Still Indian agriculture is facing critical difficulties for getting the advances and improvement of the financial position of the agriculturist. Therefore the government feels the need of the co-operative credit movement to provide adequate efficient credit supply to the agriculture and weaker sections of the society.

In 1887, Madras Government sent Frederic Nikolson to Germany and other Western countries to study the co-operative movement. In 1893, he returned and gave his report in 1894

recommending that the movement should be sponsored by the government. The co-operative movement in other countries was initiated by the people, but in India the movement was initiated by the government. The following chart No.1.1 will make clear the origin of co-operative movement in India.

Chart No : 1.1 Origin of Co-operative Movement in India



Source: Co-operative Banking, Indian Institute of Banking and Finance, P.No. 34

From the chart No.1.1, it is clear that due to the rural debt, absence of industrialization, subdivision and fragmentation of land are the main reasons for origin of co-operative credit movement in India. The Money lenders and Indigenous Bankers are giving loans and advances to the farmers but it was not sufficient and they provide the loans and advances on their own terms and conditions at high rate of interest and there was no control on their activity.

In 1904, in India the first co-operative Act was passed. The Co-operative Credit Societies Act of 1904 heralds the drawn of the co-operative movement in India. There were loopholes in this Act. Later in 1912 and 1919 two more Acts were passed to improve and encourage the co-operative movement in India.

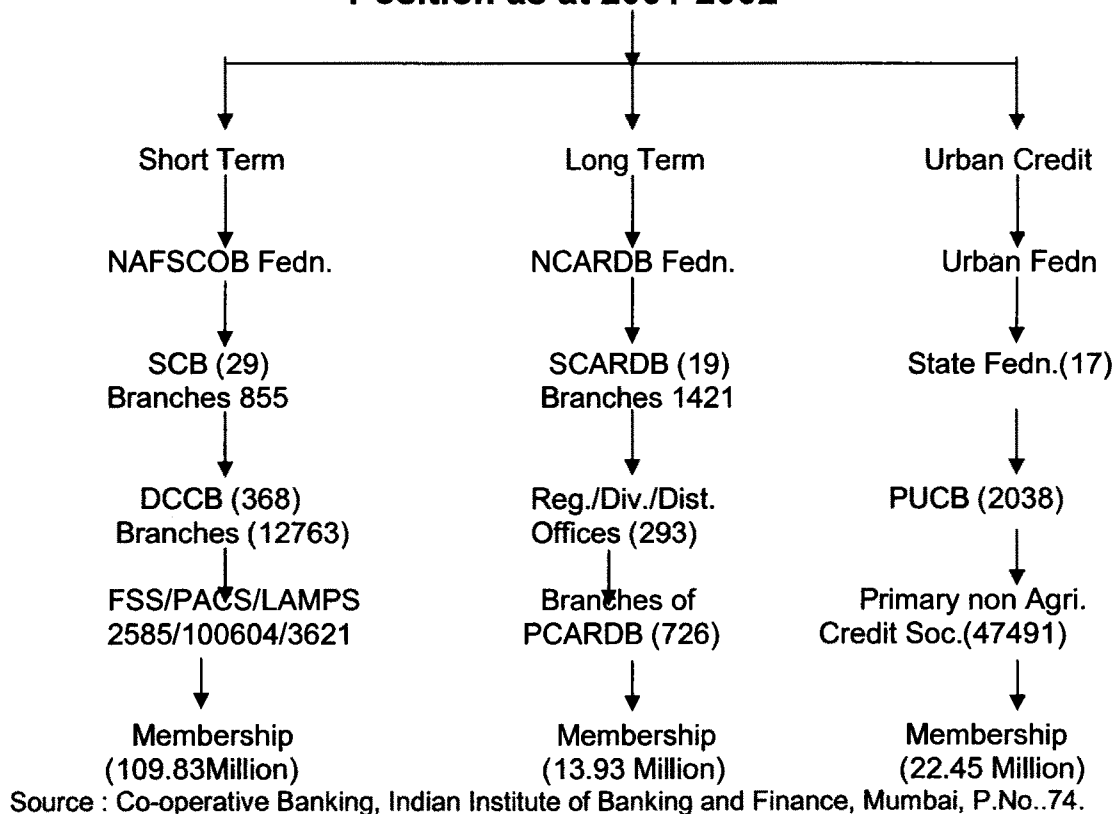
A co-operative movement in India has made rapid progress after independence. The Government of India realized that the co-operation is the best way of economic upliftment of rural India. After independence Government of India accepted planned economy, democratic and socialistic pattern for rapid progress of the country. The planning commission assigned vital important role to co-operative movement and government has taken important steps to recognize and to develop the co-operative movement in terms of the recommendations of various committees like, "Co-operative Planning Committee (1946)", "The all India Rural Credit Survey Committee (1954)", " The Vaikuntlal Mehta Committee (1960)", "Ram Nivas Mirdha Committee on Co-operation (1965)", "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD 1982)", "Committee on Co-operative Law for Democratization and Professionalization of Management in

Co-operatives (1987)", "Agriculture Credit Review Committee (1989)", "Committee on Financial System in India 1991", "The Committee on Model Co-operatives Act (1991)", "Committee on Banking Sector Reforms (1998)", "Jagadish Kapoor Committee (2000)", "Vikhe Patil Committee on Revitalization Support to Co-operative Credit Structure (2001)" and "Professor A. Vaidhanathan Committee (2005)."

1.1.1 Co-Operative Credit Structure in India -

The Co-operative Credit Structure can be brought under three broad categories i.e. Short Term Co-operative Credit Structure, Long Term Co-operative Credit Structure and Urban Co-operative Credit Structure. The status of co-operative credit movement will be more clear from the following chart No.1.2

**Chart No: 1.2 Status of Co-operative Credit Movement in India
Position as at 2001-2002**



(NAFCOB FEDN : National Federation of State Co-operative Banks, SCB : State Co-operative Bank, DCCB : District Central Co-operative Bank, FSS : Farmers Service Society, PACS : Primary Agriculture Credit Society, LAMPS : Large Size Adhiwasi Multi Purpose Society, NCARDB : National Co-operative Agricultural and Rural Development Bank, SCARDB : State Co-operative Agriculture and Rural Development Bank, PCARDB : Primary Co-operative Agriculture and Rural Development Bank, FEDN : Federation, PUCB : Primary Urban Co-operative Bank,)

Generally Short Term Co-operative Credit Structure is meant for taking care of production credit, whereas Long Term Co-operative Credit Structure is meant for extending investment credit to farmers. The Urban Co-operative Credit Structure largely meant for providing Consumption Credit.

However, the said arrangements lost its relevance as at present, due to passage of time as a result all the credit institutions started providing all type of credit arrangements.

a) Long Term Co-operative Credit Structure -

The long term credit structure which is known as investment credit structure, consists Primary Co-operative Agriculture and Rural Development Bank at grass root level and State Co-operative Agriculture and Rural Development Bank at the state level.

b) Urban Co-operative Credit Structure -

The urban co-operative banks are being a primary co-operative credit institution, has the unitary structure as there is no separate secondary or higher tier institutions functioning for them at district and state level.

c) Short Term Co-operative Credit Structure -

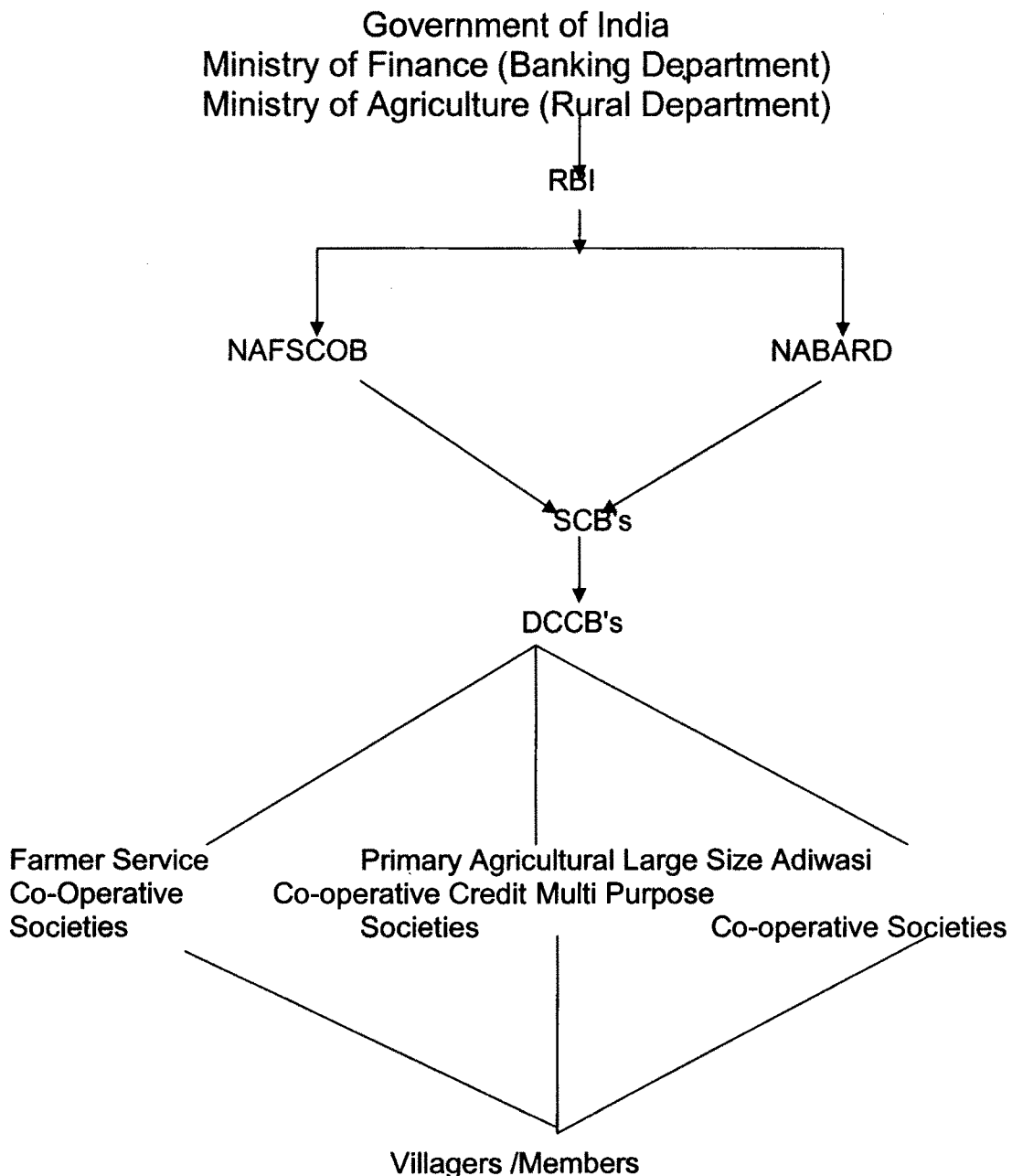
The short term co-operative credit structure consist of Primary Agriculture Credit Societies, at grass root level,

District Central Co-operative Bank at the intermediate level and State Co-operative Bank at state level.

The following chart No.1.3 will give the clear ideas of short term credit structure.

Chart No: 1.3

The present status of Short Term (Production) Co-operative Credit Structure



Source : Co-operative Banking, Indian Institute of Banking and Finance, Mumbai, P.No.81

The present Short Term Co-operative Credit Structure in India is a pyramidal or federal in character. At village level there are Primary Co-operative Societies which are federated at the district level in District Central Co-operative Bank. At state level the DCCB's are federated to State Co-operative Bank (Apex Bank). The SCB's in its turn is closely linked with the NABARD, which provides considerable financial assistance to co-operative credit structure.

i) Primary Agricultural Credit Societies (PACS)

The PACS is working at the grass root level in co-operative credit structure in India. PACS are established by farmers, living in the villages. PACS is established specially as a substitute for Money Lenders and to control their malpractices.

ii) District Central Co-operative Bank -

In the Co-operative Societies Act 1904 some defects are noticed, such as no permission to establish of Federal or Central co-operatives to function as a financing agencies for the primary co-operatives. This paved way for the enactment of the co-operative societies Act 1912, which permitted the establishment of higher federal or central co-operatives. Thus it gives birth to Central Co-operative Banks with the prime objective to mobilize the funds from urban outlets and drive the same to the PACS. The bank are so organized to know as District Central Co-operative Bank (DCCB).

Role of DCCBs :

The DCCBs form an integral part of the short and medium term co-operative credit delivery system and play a strategic role.

DCCBs impart strength to primaries in more than one way. They mobilize primary resources by collecting deposits as well as borrowing from State Co-operative Bank and channel them to primaries. The problem of primaries are conveyed to the State Co-operative Bank and the Government. The solution and suggestions offered by them are transmitted to the primaries with necessary guidelines. They guide, supervise and control the operations of the societies. They act as a "Balancing Centers" for primaries by pooling up the resources of primaries and distributing them to the needy societies. They also promote and develop co-operative activities in their areas. They constitute the basic unit of planning and development of co-operative activity of the district level.

Thus they act as a Financer, Friend, Philosopher and Guide to the societies and as a leader of the co-operative group of district level.

Growth of DCCB's In India:

The DCCBs have come to be organized since the passing of the Co-operative Societies Act 1912, to finance the primary societies and to act as a balancing center for them. The DCCBs plays important role in the development of the

co-operative movement in the District. The success of the co-operative credit movement largely depends on its financial strength. In view of this development the role of DCCBs is of the great importance.

The broad statistical indicators of DCCBs is given in the following T.No.1.1.

Table No: 1.1

Present status of DCCBs in India at the end of the Year 2002

S.No.	Broad indicators	Rs. in Million
1	Total No.of DCCB's	368
2	Total No.of Branches	12763
3	Total Membership (in million)	2.31
4	Total Share Capital	28236.3
5	Of which Govt. participation (per cent)	17.09
6	Total Deposits	555239.0
7	Total Reserves	55187.6
8	Total Loans Advanced	506381.8
9	Total Borrowings (000)	155334.1
10	Total Working Capital	829895.2
11	Total Demand	355308.5
12	Total Overdues	----
13	Percentage of Overdues to Demand	30.86

Source : Co-operative Banking, Indian Institute of Banking and Finance, Mumbai, P.No.83

iii) State Co-operative Banks :

On the recommendations of the Mehta Bhansali Committee 1939, the apex (SCB) was established with the prime objective of coordinating the work of DCCBs and linking up the co-operative credit organization with general money market and RBI.

iv) NABARD :

NABARD was established on the recommendation of CRAFTCARD which was set up by RBI under the chairmanship of Shri. B. Shivaram in March, 1979. NABARD was established under the NABARD Act 1981 and commenced functioning from 12th July, 1982. NABARD was established to act as a center piece of the rural credit structure and to provide funds to rural credit institutions such as Commercial Banks, Co-operative Banks and Regional Rural Banks (RRBs). The following are the important functions of the NABARD.

1. Refinance to (short term and medium term) to the co-operative and to RRBs.
2. Refinance to commercial banks against term lending for agriculture and rural development.
3. Developmental policy, planning and operational matters relating to credit for agriculture, allied activities, rural artisans and industries and other rural development.
4. Training, Research and Consultancy relating to credit for agriculture and rural development.

5. Coordinating and monitoring of all agriculture and rural lending activities.
6. Being available for advise and guidance to State Government, federations of co-operatives etc. in regard to co-operative movement in close collaboration with the RBI and Government of India.
7. To make evaluation, monitoring and inspection of client bank.

Thus DCCBs plays an important role in the co-operative credit structure and as well as in the development of agriculture and rural development of India.

1.1.2 Progress of DCCBs in Maharashtra -

Maharashtra State is well-known for co-operative movement. A number of co-operative units are working in Western Maharashtra, specially in the field of Banking, Processing, Industrial, Irrigation System, Dairy Co-operative Societies, Labour Co-operative Societies, Housing Co-operative Societies and Consumer Co-operative Societies. Maharashtra is the most progressive state in the co-operative sector. In the co-operative sector DCCBs plays an important role for the economic development of rural area. The DCCBs comes under the Rural Financial Market (RFM). The objective of RFM is mobilizing rural savings and their allocation by way of lending. The following T.No.1.2 shows the progress of DCCBs in Maharashtra.

Table No: 1.2
Progress of D.C.C. Banks in Maharashtra
From 1961 to 2003

Particulars	1961	1971	1981	1991	2001	2002	2003
No. of Banks	35	35	26	30	30	30	30
No. of Branches	N.A.	867	1703	3147	3718	3804	3807
Total Members (in Thousands)	57	55	62	84	144	119	121
Share Capital (in lakhs)	653	2515	4563	11896	68315	78632	86591
Working Capital (in lakhs)	6093	23637	83526	483492	2427842	2749865	2990487
Deposits (in lakhs)	2647	11323	58814	319940	1786285	1957347	2142020
Advances (in lakhs)	2465	8055	9355	91107	244574	299197	267556
Overdues (in lakhs)	460	4452	14452	56151	201613	341603	377632
Percentage of Overdues to Advances	10%	25%	29.4%	18.2%	14.8%	21.9%	23.6%

Source : Co-operative movement at a glance in Maharashtra - 2003

In the Sangli district the following Co-operative Leader help the co-operative movement such as Late Dr. Vasantrao-Dada patil, Late Yashwantrao Chavan, Late Rajarambapu Patil , Late Gulabrao Patil, Late Vishnu-Anna Patil and Late Prakashbapu Patil.

At the end of the year 2005 there were one Land Development Bank, 30 UCBs, 730 Service Development Societies,

1435 Rural and Urban Co-operative Credit Societies, one Primary Teachers Co-operative Bank and one DCC Bank working successfully in the Sangli district.

1.1.3 Sangli D.C.C.Bank Limited Sangli :

The DCCBs has been occupying the important place in the co-operative credit structure. It plays a distinct and significant role in the growth and development of co-operative credit, agriculture and non agriculture and act as leader of the co-operative movement at the district level.

Objectives of Sangli DCC Bank :

The major objectives of Sangli DCC Bank are as follows:

- 1) Provide, good efficient banking services at little distance to the people of the district.
- 2) To act as a balancing center of finance for primary societies in the district. It means when they have shortage of funds, to provide funds to them and when they have surplus to serve them as a clearing house.
- 3) To encourage thrift and collect savings from members and others in the district.
- 4) To guide the primaries in the district to invest there reserves at a safe place.
- 5) To provide other necessary banking facilities to the members in the district.
- 6) To supervise, guide and control the working of members societies.

The Performance of the DCC Bank assumes greater importance by virtue of its place in the Short term (Production credit) co-operative credit structure. It is being the vital connecting link in the chain of credit delivery, its performance will have a telling effect on the performance of the primaries as well as the apex bank. Since the RBI/NABARD and SCB find it difficult to channel credit through weak inefficient DCC Banks. The primaries also on their part cannot look to such DCC banks for financial and administrative help.

The DCC Bank plays an important role in the Economic and Rural development. All the Economic and Rural development is basically depend upon working performance of DCC Bank but at present the Sangli DCC Bank suffering from number of problems. Therefore the researcher has decided to study the working capital of the Sangli DCC Bank.

In simple word Working Capital Management means the management of current assets and current liabilities. The following are the important source of working capital for the DCC Bank i.e. Share Capital, Reserves and Funds, Deposits (from members as well as non members including government deposits), Borrowing from SCB/RBI/NABARD and State Government etc. These funds are used for giving loans and advances to primaries, individuals and also used for investment purpose.

There are various aspects in relation to working capital management. The Management of Deposit Mobilization, Borrowing Management, Liquidity and Profitability management, Investment Management, Loans and Advances Management and Recovery Management etc.

1.2 STATEMENT OF THE PROBLEM :-

It is true that several committees and commissions like All India Rural Credit Survey Committee, All India Rural Credit Review Committee, Banking Committee and CRAFICARD have evaluated the performance of DCCBs from time to time and suggested several measures for strengthening them. But not much research has been done in the field of credit planning and in the management aspects of co-operative credit and hence it is necessary to conduct studies in the area of Management, Credit Planning, "Financial Management" at the institution level. The District Central Co-operative Bank works as a link between Primary Credit Co-operative Societies in the District and State Co-operative Bank. The Central Co-operative Bank occupy vital importance in the Co-operative Credit Structure. The DCC Bank plays an important role in the rural economic development. All the economic and rural development is basically depend upon working performance of DCC Bank. The Sangli DCC Bank suffering from number of problems such as new policy of the Government, loan and advances policy, NPA, recovery and profitability.

Table No: 1.3**Progress of Sangli D.C.C. Bank Ltd., Sangli from 2001-02 to 2005-06****(Rupees in lakhs)**

Sr. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1	Membership -					
	a) No.of Individual	364	363	363	363	363
	b) No.of Societies	3401	3524	3626	3700	3770
2	Share Capital	3586.80	4153.86	4406.87	4569.98	4706.31
3	Reserves Fund and Other provision	9485.54	12362.31	16202.93	18254.45	19660.22
4	Deposits	84138.88	94747.81	100455.10	111636.19	123206.89
5	Borrowings	25993.33	24891.10	17938.22	15021.90	17935.21
6	Investments	24376.54	26071.55	26385.10	49554.73	57563.30
7	Loans and Advances	96896.96	107263.27	107817.17	95409.27	104423.51
8	Working-Capital	127828.38	140489.32	142791.94	154215.45	171610.22
9	Profit (+)/ Loss(-)	(+)866.46	(+)781.60	(+)87.62	(-)1335.15	(-)1787.64
10	Dividend Rate	15.00	12.00	--	--	--
11	Branches	220	220	220	220	220

Source : Annual Reports of Sangli DCC Bank Ltd., Sangli from (2001-2002 to 2005-2006)

From the above T.No.1.3 it is reveal that the Sangli DCC Bank has made adequate and satisfactory progress but at present due to various problems bank facing various financial crises from the year 2003.

The sources of working capital of DCC Bank consists of the following :

Share Capital, Reserves and Other funds, Deposit (from members as well as non-members including government deposits. Borrowings from SCBs/ RBI/NABARD/State Govt. This amount is

used for giving loans and advances to PACs and individuals but due to some financial crises working/functioning of DCC Bank is affected. The researcher has decided to make a study of the various problems and suggest important remedies with reference to working capital. The researcher has hope that the study will be helpful to the Sangli DCC Bank Ltd. Sangli.

1.3 OBJECTIVES OF THE STUDY :-

The broad objectives of the study are to assess critically the working capital of Sangli DCC Bank Ltd. Sangli. The following are the specific objectives of the study.

1. To study the financial performance of Sangli District Central Co-operative Bank Ltd., Sangli, with relation to working capital.
2. To analyze the problems faced by Sangli District Central Co-operative Bank Ltd., Sangli, related to Profitability, Funds, Overdues, Recovery and Non Performing Assets.
3. To suggest the remedial measures to overcome the weaknesses with relation to working capital.

1.4 HYPOTHESIS:-

The study is based on certain assumptions keeping in view the objectives of the study, the following hypothesis have been formulated the validity which is to be tested in the study.

- 1) Profitability is reducing because of low recovery, increasing overdues, increasing Non Performing Assets and Traditional Funds Management.
- 2) The earnings of bank is going down because of the excess borrowings from State Co-operative Bank which is specially

taken for refinance to the Sugar Co-operative Industries in the Sangli District.

1.5 METHODOLOGY :-

The methodology adopted for carrying out this study is summarized as follows:

The study is confined to the working capital of SDCCB. The present study has been pursued with both Primary as well as Secondary Data.

1) Primary Data -

This information is collected by the researcher, therefore it is original and first hand. The method that used for collecting primary data is interview, personal contact and discussion with the bank officers.

2) Secondary Data -

The published statements, final accounts, annual reports, audit reports and other relevant record of the bank under study have been used which is the source of secondary data. Besides, annual reports of other DCCB, Journals, Articles, reports published by the Government, published Ph.D thesis and other books related to the subjects are used as secondary data.

The data, collected for the study are analyzed by using various accounting and statistical tools such as ratios, percentages, tables, graphs and charts. Further to find out the performance of SDCCB with regards to sources of funds and there deployments, dynamic ratio analysis is calculated. Break Even Point is studied to highlight the operational efficiency of the

SDCCB. Ratio analysis technique is used to draw inferences from the statistical data.

1.6 SCOPE OF THE STUDY:-

The Sangli DCC Bank mobilizes the rural as well as urban resources and channalizes them to the needy and priority sectors for the development of Agricultural, Rural, Industrial, and co-operative sectors in the district. The commercial banks have neglected providing loans to needy and priority sectors in the rural areas. This study deals with the "Study of Working Capital of Sangli DCC Bank".

The Sangli DCC Bank Ltd. was established in the year 1927 on 28th March. However, this study covers only period of five years from 2001-2002 to 2005-2006. Out of 33 district of Maharashtra state Sangli is one of the most important district in case of co-operative movement and co-operative development. So the researcher purposefully selected this district for the present research.

The scope of the study is restricted to the "Working Capital of Sangli District Central Co-operative Bank Ltd. Sangli". The study is useful to the researcher for understanding the practical significance of working capital management. The study is also useful to the organization and understanding the effectiveness and importance of the concept of working capital management. On the basis of this study the organization can improve its effectiveness and performance by adopting suitable policies and practices.

However the care is taken by researcher in collecting and processing primary and secondary data. The scope of the

research study is restricted to the aspects mentioned in the objectives.

1.7 SIGNIFICANCE :-

Now-a-days Working Capital Management is become the most important issue in the banking sector. The working capital management deals with the management of Deposit Mobilization, Management of Loans and Advances, Management of NPA, Overdues, Recovery, Borrowings, Funds and Investment Management and Liquidity Management. This study reveals the reasons which the Sangli DCC Bank is facing in the various financial problems and what measures can be taken to keep the control.

1.8 LIMITATIONS OF THE STUDY :-

The study has the following limitations:

- 1) The study is limited to Sangli DCC Bank Ltd. Sangli.
- 2) The research is mostly depended on secondary data that is annual reports of the bank.
- 3) The primary data collected through with interviews and personal discussion has its own limitations.
- 4) The information is related to last 5 years from 2001-02 to 2005-06. The data for the year 2006-07 is not audited and hence figures are not available.
- 5) Bank has not been disclosed any secret information, which would have been proved to useful for the study.
- 6) The study is limited to "Working Capital".
- 7) There was no uniformity in the definitions of working Capital and Owned Funds, the definitions as applied by the

RBI/NABARD in preparing the statistical statements relating to co-operative movement has been taken for the study.

Thus in the above chapter the research has explain the Introduction and Research Design and the next chapter is prticularly deals with the profile of the bank.
