FUNDS MANAGEMENT OF DISTRICT CO-OPERATIVE BANKS IN KERALA

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CERTIFICATE

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Introduction

CHAPTER-I

INTRODUCTION

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

1.1 Statement of the problem

The Central Co-operative Banks, widely known as District Co-operative Banks, occupy a cardinal position in the co-operative credit structure. They constitute an important link

between the Apex Co-operative Bank and the Primary Agricultural Credit Societies. District Co-operative Banks are in fact a federation of Primary Agricultural Credit Societies and other types of societies working within their jurisdiction. District Co-operative Banks (DCBs) act as the leader of the co-operative movement in a district and play an effective role in the all-round growth of the co-operative movement. It has to undertake various promotional and developmental activities also. Being the social banker, it has to take banking facilities to the rural areas and unbanked centres. It is the spokesman for not only the primary agricultural credit societies, but also for other kinds of co-operative institutions in the district. The DCBs are also doing personal banking along with the financing of primary credit societies.

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

1.2 Relevance of the study

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

1.3 Objectives of the study

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

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

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

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

1.4 Scope of the study

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

1.5 Hypotheses

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

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

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

4. Efficiency in reserve management and profitability of DCBs are directly related.

5. Management practices followed by DCBs contribute to the efficiency in funds management.

1.6 Methodology

a. Sample selection

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

b. Data collection and procedure

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

c. Tools for analysis

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

$$Y = ab^t$$

Where

Y = The dependent variable

a = constant

log b = 1+r

r = compound growth rate

t = Time variable

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

1. Ratios of spread, burden and profitability.

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

1.7 Scheme of the study

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

The third chapter is devoted to examine the growth, evolution and trends of District Co-operative Banks in India

and Kerala. This chapter gives a detailed account of the growth of District Co-operative Banks from 1970-71 to 1993-94.

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

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

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

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

Management practices followed in DCBs are discussed in chapter eight. This chapter starts with the fundamentals of

a well organised management system and is followed by the results of field survey carried out among the bank officials.

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

1.8 Limitations of the study

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

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

3. The detailed analysis is restricted to five years because ledger wise details were available only for five years even after extensive search.

4. The social objectives of DCBs as they are co-operative enterprises have been kept out of the ambit of this study as they require measurement of qualitative aspects in a totally different mode of analysis.

Review of Literature

CHAPTER-II

REVIEW OF LITERATURE

Literature relating to banking institutions encompasses literature on commercial banks, co-operative banks, foreign banks, central bank and other national and international financial institutions. However, the present review is limited to literature on commercial banks and co-operative banks. Literature on commercial banks are included as the operational details of these banks are almost the same and they are controlled within the broad framework of Banking Regulation Act, 1949.

The review of literature is presented in two major sections, viz., those relating to commercial banks and those relating to co-operative banks. These two sections are further classified into review relating to (1) general performance, viability, profitability, and operational efficiency (2) cash management, statutory requirements and reserve management and (3) mobilisation and deployment of funds, cost of banking, collection and recovery of overdue and professionalisation of management.

2.1 Commercial Banks

a. Studies Relating to Performance, Viability, Profitability and Operational efficiency

Some of the notable studies relating to performance and viability of commercial banks were made by Gupta (1981), Ashok Kumar (1990), Pandey (1990), Agarwal (1990), Bal Ram Singh Yadav (1990), Vipin Kumar Agarwal (1990) and Rajat Khater and Sanjay Kumar Arora (1994). They evaluated the performance of commercial banks, trends in banking after nationalisation and the extent of deprivation of banking facilities in India to rural and remote areas. Their major suggestions include the necessity to regulate the service charges including interest rates which are not uniform even in the nationalised banks, need of developing a suitable model of `performance budget' in these banks covering all major banking functions, necessity of taking measures to prevent qualitative deterioration in standards of customer services, professionalisation of management and measures to improve recovery performance and a complete shift in the current system of profit planning in banks.

The profitability of commercial banks was examined in detail by Varsha and Sampat (1979), Joshy (1986), Ojha (1987), Muralidharan (1987), Angadi (1987), Jayantha Kumar

(1987), Bharot (1988), Voore (1991), Subhash Bhujbal (1991), Vijayakumar and Nazar Krishnan Bakshi (1993). They observed that the efforts to improve profitability should include simple and practically workable strategy, profit planning at the national level, and the volume of funds pre-empted in the form of cash reserve ratio and statutory liquidity ratio need to be seriously viewed.

A few detailed studies of trend and operational efficiency of commercial banks were made by Desai (1979), Ammannya (1986), Srikrishna (1989), Peeyush Kumar (1990), Sree Rama Murthy and Varsha Chattre (1990), Toor (1993) and Jayanthi Lal Jain and Balachandran (1996). The important observations of these studies include (1) improved cash management is necessary to eliminate avoidable loss of interest on surplus cash holdings (2) after nationalisation banking has not taken roots in our rural and remote areas in comparison with semi-urban and urban areas (3) investors are sensitive to interest rates (4) the business mix in the nationalised banks is of a highly varying nature (5) the factors involved in the operations of banks in India today are various kinds of risks such as those relating to non-paying and non-performing assets, interest rate risk, exchange risk, maturity risk, technology risk, etc.

b. **Studies Relating to Cash Management, Statutory Requirements and Reserve Management**

Some of the early studies to evaluate cash management and reserve management were done by Narasimhan (1984), Anil Kishora (1987), Kuttur (1987), Pandey (1987), Shankar (1991) and Bhole (1993). All these studies agreed that the ideal objective before all banks would be to achieve zero excess reserve, in terms of both cash reserve ratio and statutory liquidity ratio. They considered resource management in banks to be very important because deposits in excess of the stipulated levels of cash reserves brought no returns, and hence heavy reserves lead to resource crunch. They also pointed out that the operational efficiency in cash management is very much dependent on the efficiency and effectiveness of the system of planning and control at macro and micro levels.

c. **Studies Relating to Mobilisation and Deployment of Funds, Cost of Banking, Collection and Recovery of Overdue and Professionalisation in Management**

Mobilisation and deployment of funds have been studied by Rangarajan and Gupta (1973), Babathosh Banerjee (1974), Bharat Metha (1981), Agarwal (1987), Natarajan (1988), Syed Sharafat Hussain (1990), Sengupata (1991), Rajendra Naidu 1992) and Subramaniam (1993). They were of the opinion that too much

funds may lead to deterioration in funds management efficiency. They also suggested introduction of cost control and cost reduction measures.

Cost of banking was examined in detail by Thakker (1974), Shanker (1994) and Vijayakumar (1995) and they found that total cost of banks can be classified into cost of deposits, cost of advances, cost of interbranch transactions and head office relations and cost of bills department. They opined that a substantial reduction in expenditure can be achieved if banks alter their deposit mix to include a large percentage of low cost deposits. For better working of scheduled commercial banks in India, reduction in operating cost, ensuring high quality service, greater degree of supervision and infusion of high degree of morale among the employees were suggested by these authors.

A few studies on the collection and recovery of overdues in commercial banks were made by Satya Sundaram (1991), Bhagwan Rao and Sakariya (1994) and Gurumoorthy (1995). These studies noted that lack of effective credit appraisal mechanisms and follow-up strategies were highly responsible for overdues. The Governments' policy of compelling the nationalised banks to write-off these loans was questioned by these authors. They noted that unless the course of action like "waiver" is halted and if possible reversed, it would result in much sharper fall in the banks' profitability.

The necessity of professionalisation and training in banks was studied by Bhatnagar (1991), Rajeswari (1992), Sudhir Bhave (1993)and Mishra (1994). These authors felt that the survival and success of the training system in banks will depend upon its ability to adapt to the demands of future. They noted that the training should provide a brigade of well trained and experienced officers to main bank branches at district level. So also it was pointed out that a proper research work can go a long way in redesigning human resource management strategies for the future and to improve the quality of work through productivity gains and better employer/employee relations in the banking industry.

2.2 Co-operative Banks

(1) Studies Relating to Performance, Viability, Profitability, Trend and Operational Efficiency

One of the earliest studies in this direction was made by the All India Rural Credit Survey Committee (1954). The Committee found that the system of crop finance has assumed new significance by 1948-49 when the co-operative credit in the Bombay state was reorganised with the active support of the co-operators of the state. The Committee noted that under the new arrangements, the reorganised Bombay State Co-operative bank and the central financing agencies together

with the primary credit societies were expected to provide short-term finance to all credit worthy agriculturists. Instead of fixing credit limits on the basis of landed securities, special attempts were made to provide short-term finance on the basis of crop acreages and to link the time of repayment on the harvesting season, as was suggested by the Committee.

Venkitesan (1984) measured the extent of achievement of Primary Agricultural Credit Societies (PACS) in credit disbursement and other related aspects. He also studied short-term agricultural loans and its impact on agricultural production in Kerala. His study revealed that PACS working on profit had a strong resource base, high rate of deposit mobilisation, low borrowings, high distribution of agricultural advances and high rate of loan recovery compared to those incurring losses. The study also identified the major factors contributing to the resources of the PACS, such as live cropping pattern and occupational structure of the members, saving habits of the people, satisfaction to the beneficiaries arising from simplified loaning procedures and active participation of members in the affairs of the society.

Savaraiah and Thirupal (1984), tried to make an inter-comparison of financial performance of Prakasam District Central Co-operative Bank (DCCB) and Nellore DCCBs with the

help of statistical tools. They also evaluated the financial soundness of these two banks. The study noted that the DCCBs should acquire permanent capital of its own as speedily as possible and should aim at mobilising deposits from the public to the maximum possible extent to make these operations viable.

Sharma (1985), conducted a case study of the short-term agricultural credit of Rajastan Central Co-operative bank (CCB). He brought out the case that with regard to short term credit the CCBs should re-orient their loan policies and procedures on the basis of crop loan system. The study noted that loans should be given in instalments and there should be a proper link between advancing and repayment of loans with sowing and harvesting season.

Varma (1985) in his study observed that the overall performance of the Central Co-operative banks in Maharashtra is, a mixed one. In his opinion, their weaknesses are, overdues, poor recoveries, insufficient management, inadequate and untrained staff, lack of supervision, poor deposits, defective loan policies, defective book adjustments, inadequate bad and doubtful reserves, etc.

Shah (1986), in his study called for the establishment of Research and Development cells in co-operative banks as the

need of the hour essential for survival, especially in view of the competitive multi-agency banking concept which has come in the field of rural finance. He mentioned that the present profile of the functioning of the co-operative credit institutions, amply establish the rule of thumb as a modus operandi at all levels of management. Planning in co-operative banks is also asked to be more systematic without losing the sense of flexibility and entrepreneurial flair. He opined that co-operative banks have to be more imaginative on their approach in marketing and selling of banking services.

Narayanaswamy and Ramachandran (1987), studied the impact of income and expenditure on profitability with the help of key ratios developed by Varsha S. Varda and Sampat P. Singh. The study revealed that the profit of the bank has increased due to the rise in the volume of business over a decade and it can be attributed to higher rate of decline in spread ratio, a consequence of a fall in interest received. According to them, there is vast scope of increase in profit and profitability, if proper attention is paid on areas like recovery, deposit mobilisation, branch expansion, reduction in manpower and operating expenses, building up of more owned funds and scientific management of funds.

James Paul (1987), discussed and evaluated the operational efficiency of Ernakulam DCB and was of the opinion

that the bank was efficient in the mobilisation of funds which is evident from owned funds to borrowed funds ratio and the borrowed funds to working capital ratio. It was however found to be inefficient in the deployment of funds. Again the ratio of net profit to owned funds ratio showed a declining trend due to lack of efficient utilisation of funds. The liquidity position of the bank was reported to be very sound. He was of the opinion that the bank can improve its position by finding out new avenues for investment, better cash management and by taking all efforts to curtail the overdue position of the bank and by forming an extension wing to study the problems of its member societies.

Khusro Committee Report (1989), pointed out that the DCBs, besides exercising supervisory functions over the PACS, should extend them legal and other help when needed. It was suggested that DCBs will continue to function as the liquidity reservoir and balancing centre of PACS and at the same time perform the task of operating as a bank for other co-operative societies in the district. According to the Committee, the linking of share capital to borrowings at the DCB level for PACS may be fixed at 5 per cent, so that they are able to retain with them a part of the share capital received from their members. The ratio of cash credit to PACS was advised to be reduced from 2.50 per cent to 1 per cent.

Abdul Majeed (1989), conducted a study of Malappuram DCB in order to find out its credit operations. He examined the change in composition of loans issued by Malappuram DCB on the basis of priority, period, purpose and section wise classification of loans. He came to the conclusion that loans recovery was low and was declining over the period under study (1980-81 to 1987-88).

Dhanarajan (1989), made an attempt to study the trend in the profitability of Palakkad DCB (1977-78 to 1986-87) and to evaluate the impact of primary and secondary factors on spread and burden of Palakkad DCB. He found that the profitability of the bank showed a decreasing trend throughout the period as burden increased continuously.

Salim Uddin (1990), evaluated the working and impact of various co-operative financing institutions in Haryana State. He suggested that the professionalisation of co-operative management is the need of the hour and a well defined code of conduct for managers is also needed. The author also recommended that for the success of the movement, the central co-operative banks should have a balanced board of directors with diverse talents, sound policies and commitment for proper implementation. He also suggested that the cost of administration should be reduced and, various new practices be introduced for the sound functioning of the banks.

Sukumaran and Shaheena (1991), analysed the efficiency of the Palakkad DCB in managing the interest, spread, burden and profitability of the bank with the help of secondary data from annual reports. They observed that the excess reserves kept by the bank is an indication of ineffective management of funds within the bank.

Financial performance of Kottayam DCB was examined in detail by Bobby C. John (1991), with the objective of measuring the profitability. He was of the opinion that the operating profit ratio of the bank was not satisfactory. The study showed that non-interest income increased five fold whereas the non-interest expense increased six fold. The increase in manpower expenses was the main reason for increase in the non-interest expenses and the resulting declining trend in profitability. He suggested that the bank should take effective steps to reduce the cost of management and design its assets and liabilities mix to reduce the cost of funds and raise the return on funds.

Viswanathan and Radhakrishnan (1991), analysed the over all performance of DCBs in Kerala by examining the different sources of funds, the costs associated with raising these funds, different channels of flow of funds, revenue realised and their growth over the years. They suggested the reorganisation of the various activities by which the DCBs can

augment their income. Subscription of maximum reserve funds, lower level of fixed deposits, higher level of savings bank and current deposits and a moderate level of borrowings were some of the emerging suggestions on the source of funds.

The performance and economic viability of PACS in Kerala were studied by Suresh and Vinaikumar (1993). They also analysed the performance of PACS in general at the All India level and remarked that only a few states satisfied the norms stipulated by the RBI and NABARD. However, all the PACS in Kerala satisfied the five quantifiable norms of NABARD on an average. On the basis of the index of viability constructed considering eleven variables, the authors found that PACS in only five districts in Kerala were viable, five potentially viable, while the remaining four less viable. To promote economic viability of PACS it was suggested that auditors should be trained, procedures should be streamlined to detect misappropriations and effective actions should be taken to curb them and loans and advances and business policies ought to be revamped to suit member needs to increase the user members. They further suggested the professionalisation of co-operatives, inservice training to inculcate managerial skill and the establishment of state level Recrutment Board for co-operatives, and the transformation of the present status of PACS as Government extension agencies to peoples' organisation.

Tucker (1993), in his study noted that Human resource development (HRD) has a definite role to play in improving productivity in co-operatives.

Muthupandian (1995) conducted a study on the overall performance of Tirunelveli District Central Co-operative Bank (TDCCB). He noted that the success of TDCCB in future will depend not only upon the development of primary societies and the growth of the co-operative spirit among the members but also upon the extent to which they are able to mobilise deposits and savings and make recoveries of bad debts. He further pointed out that the bank will have to encourage agricultural development and will have to come up regarding the standard of supervision of the societies under their charge.

Joy Joseph (1995), examined the funds management of the Agricultural and Rural Development Banks in Kerala and found that the growth rates of cost components were high compared to income factors. The cost of management was also high in these banks and it was found to adversely affect the profitability. He further opined that, because of maintaining overdues, profitability was deteriorating year after year and the operational efficiency and overall return was very low in these institutions. The margins received by primary banks were not sufficient for their profitable running. In his

opinion, major reasons for heavy overdues were high family expenditure, wilful neglect, modification of subsidy system, misutilisation of income from the project and inappropriate Government policy.

(2) Studies Relating to Cash Reserves, Statutory Requirements and Reserve Management

Unnikrishnan (1985), examined the details of cash reserve management of Trichur DCB and highlighted the need for reducing the cash reserves of the bank. He also suggested that for better deployment of funds, technologically feasible and economically viable schemes may be undertaken.

Shaheena and Kannan (1989), made an attempt to measure the excess reserves kept and the opportunity cost of excess reserves for Palakkad DCB for the period 1978-79 to 1987-88. They recommended that the bank should try to reduce the excess amount kept under CRR. If at all the bank is keeping an excess, they suggested that it should be under SLR, which can be utilised by the bank for short-term investments preferablly in the Stock Exchange Market. With this, their liquidity position is expected to be protected and they can resort to inter bank deposits on a larger scale.

Mani and Letha (1990), in their study found that the Trichur DCB used to keep excess reserves under cash reserve

ratio (CRR) and statutory liquidity ratio (SLR). The magnitude of excess reserves under CRR was reported to be high. This was due to lack of scientific portfolio management techniques in the bank.

Rajan (1990), conducted a study on reserve management of Kozhikode DCB in order to assess the excess reserves kept by the bank and to estimate the opportunity cost of excess reserves for the period 1979-80 to 1988-89. He found that this bank was keeping excess reserves under the regulations of CRR and SLR. The magnitude of excess reserves under CRR was reported to be very high mainly due to non-availability of scientific portfolio management techniques. The bank was however, said to have achieved efficiency in the management of SLR. He, further, recommended the improvement of branch information system in order to minimise the loss due to the practice of keeping excess reserves in the branches of the bank. Other alternatives suggested are investment in call money market and inter-bank deposits.

(3) Studies Relating to Mobilisation of Funds, Deployment of Funds, Cost of Banking, Recovery and Overdues

An early study in this area was made by the Study Team appointed by Reserve Bank of India (1972). They went into the problems of overdues of the co-operative credit institutions

in the country. The team found that the position of overdues in backward and undeveloped districts were quite high. It was also reported that the members of the managing committee of societies and the director of the central co-operative banks were showing a general apathy in the matter of recovery of loans.

John Winfred (1974), while analysing overdues in co-operatives in India noted that for prompt recovery of loans, a well co-ordinated and energetic drive for recoveries in each DCB around harvest time with supervisory staff and non-official leadership should be mobilised. He also recommended a member education programme to make them understand the implications of prudent use of credit, a programme to generate additional income - through subsidiary occupation to farmers and to organise marketing through marketing societies which can recover the loans from sales proceeds.

Subhash Chandra Sarkar (1974), examined the overdues of co-operative banks in India and found that the heavy overdues at the level of DCBs are said to impair their capacity to borrow from the higher financial institutions. He was of the opinion that the reasons for the rise in the level of overdues were the failure of the DBCs to recover their dues and not due to any inherent inability of the borrowers to repay. The

failure of the executives of the co-operative institutions to adopt appropriate measures, political patronage to defaulters, defective lending policy pursued by the DCBs and Primary Agricultural Credit Societies and administrative weaknesses were the other reasons cited for higher overdues in co-operative financial institutions.

Kanakasabhai (1976), made an attempt to study the credit planning and financial management in co-operative banks in Orissa and observed that the success of a co-operative society will be judged from the way it deals with the management of funds, increases the profitability and thereby improves the image of the institution.

Varkey (1976) found that the main problem faced by co-operative societies is in the raising of resources. The ratio of deposits between commercial and co-operative banks was 88.19: 11.81 in 1970-71 and the same has deteriorated to 89.05: 10.95 during 1973-74. The author noted that the co-operatives have to concentrate more on the deposit mobilisation aspect instead of depending on government contribution.

Pandey and Muralidharan (1977), observed that the size of loan and consumption expenditures were the major factors influencing overdues in co-operative credit societies at the

farmers level irrespective of the categories. They reported that the loans issued were without keeping the repayment capacity of the borrower in mind and were not properly supervised resulting into diversion of loan either for consumption purposes or for non-stated capital investments.

According to the Report prepared by the Co-operative Training College, Trivandrum (1977), an all-out effort was made in 1976 by the Kerala State Co-operative Bank, DCBs, PACS and urban banks for mobilising deposits. It noted that the results of the programme had surpassed even the best expectations of its sponsors with an additional amount of 85 per cent of mobilisation and most of the districts exceeding their targets.

Bhaskar Rao (1978), observed that the growth in investment is not adequately supplemented by satisfactory recovery performance both in DCBs and Primary Agricultural Credit Societies.

Desai and Narayana Rao (1978), are of the view that the default rate in co-operative credit is very high. It is relatively high for short-term loans than for long term loans. Excepting a few states like Tamil Nadu, Andhra Pradesh, Kerala, Punjab and Haryana all the other states have more than 30 to 35 per cent default rate. The analysis revealed that

inappropriate loan terms and administration were the most important reasons. It also revealed that these factors were interrelated. For solving these problems, the study emphasised the need for reorientation of the credit projects with better economic analysis.

Pancras (1978), studied the funds management in co-operative banks and came to the conclusion that the co-operative banks in the far flung areas are forced to keep more cash/liquid assets due to their far away location from apex banks. He opined that profitability in co-operative banks is a factor of efficient management of funds-mobilisation and deployment of funds. Further, he stressed that it should be the objective of a bank to increase profitability by efficient control of costs associated with funds management.

A study on the performance of Trichur District Co-operative Bank in deposit mobilisation scheme by Jose, *et al.* (1984), revealed that the total deposits of the Trichur DCB increased from Rs.635.19 lakhs in 1976-77 to Rs.1763.63 lakhs in 1981-82, making an annual average increase of 35.53 per cent. The share of fixed deposits was reported to show a decline during the period 1976-77 to 1978-79, and to increase considerably during the deposit mobilisation campaign in 1981-82.

Sharma (1985), conducted a case study of short-term agricultural credit of Rajasthan Central Co-operative Bank. The study brought out the case that, with regard to short-term credit, the central co-operative banks should re-orient their loan policies and procedures on the basis of crop loan system. He suggested that loans should be given in instalments and there should be a proper linkage between advancing and repayment of loans in the sowing and harvesting seasons.

John Winfred (1986), made an attempt to discuss the funds management of Central Co-operative Banks (CCBs) in India and found that mobilisation of resources is one of the core functions of CCBs. He noted that they have to tap the rural resources not only to keep the credit system in an efficient order but also to reduce their dependence on outside borrowings. He opined that co-operative capital should be employed judiciously and in the most economical and fruitful manner so as to derive maximum benefits with minimum expenditure. Again, the efficient utilisation of resources calls for a developmental approach in the diversified direction without sacrificing the main principles of banking, namely liquidity, safety and profitability. Lastly, he reported that better deployment of funds not only improves the image and income earning capacity of the banks but also reduces regional and functional imbalances.

Naidu and Prasad (1987), analysed the utilisation pattern of cooperative short-term production credit with the help of cross tabular analysis and regression analysis. They found that, the proportion of co-operative short-term credit used for production purpose was inversely related to farm size and the amount diverted was mostly used for consumption purpose by marginal and small farmers while it was used for other non-agricultural purpose by medium and large farmers. They further opined that regular follow-up visits are necessary to assure the use of loan amount for stipulated purposes.

According to Rajeevkumar Saxena 1987), Central Co-operative Bank at district level form an important link between the state co-operative bank and the primary agricultural credit societies at the base. He noted that in the case of central co-operative banks, overdue was the main problem, and the recovery of the same was urgently needed to make the central co-operative banks financially and administratively strong and viable units. Effective supervision over the end use and close contact of higher officials with the farmers was further highlighted by the author.

Arulanandam and Namasivayam (1987), were of the opinion that the level of deposits mobilised by any co-operative bank depends on the efforts made by the bank to identify the

savings potential of the target group and their effective channelisation into its system, the overall image of the bank, the quality of the service offered, the type of deposit schemes introduced and their attractiveness and branch network. They mentioned that deposit mobilisation can be very well understood by comparing the ratio of bank deposits to the national income of various countries, and to increase this ratio, the motto of co-operative banks should be "no place is too insignificant and no deposit is too small".

Vaikuntha (1988), made an attempt to study the reasons for non-recovery of loans of the Dharward DCB, in Karnataka, with the help of a survey of 180 borrower households belonging to big (60), medium (60) and small farmers (60) during 1984-85. He opined that the causes of overdues were natural calamities, unsound lending policies, inadequate supervision, unsatisfactory management and lack of right type of leadership. He suggested that the overdue problem can be checked by imposing abnormal interest penalties and effective recovery policies.

John Winfred (1988), made another attempt to study the funds management in DCBs in India and found that the sources of funds consisted of internal sources (share capital from banks, members and reserves created by banks) and external sources (deposits from individuals, co-operatives, other

institutions and loans and advances from apex financing banks, government and commercial banks). He also noted that there is an imperative need to analyse the cost and returns of funds to understand the margin available to a bank in its resource mobilisation and utilisation effort. He further highlighted the necessity to know whether the margin available is adequate to run a bank viably. The author pointed out that the cost of deposits varied from bank to bank depending upon their composition - the higher the level of current and savings deposits (which are much less costlier) the lower will be the average deposits rate and vice-versa.

Moorti *et al.* (1988), made an attempt to study the growth of co-operative credit societies in respect of their membership, share capital, deposits, loans and advances, pattern of utilisation and problems of overdues. They observed that the main reasons for the large amount of overdues in credit societies were slackness on the part of management of societies, poor management of societies and the untimely release and inadequate amount of loan that weakens the repayment capacity.

Bhoslae and Dangat (1989), conducted a study on co-operative societies in Kolhapur district. The study probed the extent of medium term borrowings of farmers from co-operative societies, repayment position of the loan borrowed

and the factors responsible for overdues. The main reason for overdues stated was misutilisation of loan. The authors noted that the total amount borrowed had a direct relationship with the amount of overdues and it calls for a very careful scrutiny of the loan application by the financing institution. This study suggested an appropriate policy with regard to supervision of credit at the farm level.

Bhatt *et al.* (1989), analysed credit-deposit ratio and its inter-relationship with other components contributing towards credit of DCBs with the help of correlation co-efficient and `t' test. The study revealed that effective credit-deposit ratio reflects the real picture of management of deposits and credit. The researchers stressed that the effective credit-deposit ratio should be used for judging performance efficiency, in relation to credit and deposits of banking sector function in rural area.

Cheriyakoya (1989), analysed the extent and composition of the additional deposits mobilised during deposit mobilisation campaign and the impact of these additional deposits on the lending pattern of the Trichur DCB for the period 1978-79 to 1987-88. He observed that the credit-deposit ratio, which is an indicator of banks' efficiency in the deployment of funds, was lower during the deposit mobilisation campaign than in normal months. This was said

to be due to the undue pre-occupation of the staff for mobilisation of deposits and the total disregard for lending during this period. The April-May period was seen to be more appropriate for the deposit mobilisation campaign, as the increase in deposits found was significant in all years during this period.

Ranga Reddy (1989), studied the working of corrective and preventive measures taken for reducing farm co-operative overdues in the Guntur District Central Co-operative Bank and the sample PACS. Measures taken for reducing overdues noted in the study are the stream-lining of management, strengthening of the supervisory staff, restructuring of the working capital by raising the share of owned resources and prompt legal and executive action covering all delinquents.

Mohandas (1990), tried to examine the effect of additional deposits on the resource base of Trichur DCB in terms of the extent of incremental deposits, proportion of various types of deposits, share of deposits to working capital and ratio of deposits to loans and advances. Further, the effect of resources on lending is examined in terms of the composition of loans, credit-deposit ratio, incremental credit-deposit ratio and relative efficiency in resource management. The study revealed that deposit mobilisation campaigns have helped the bank to increase appreciably the quantum of working capital as well as the proportion of

deposits in the working capital. The main weakness of the programme noted was the obsession of the staff with the targets and achievement in deposit mobilisation and the neglect of corresponding expansion in lending activities. Another problem noted was the lower incremental credit-deposit ratio because of the tendency of the depositors to withdraw a sizeable part of the new deposits immediately. Notwithstanding these weaknesses, the study noted that the state patronaged deposit mobilisation campaigns have enhanced the credibility and social acceptance of the working of co-operative credit institutions in Kerala, eventhough the security of their deposits is not yet guaranteed by any form of deposit insurance. It concluded that there is still scope for refinement of the scheme in the DCBs with a 'project approach' which can ensure better results from the campaigns - both quantitatively and qualitatively.

John Winfred (1990), made an attempt to measure the extent of overdues and causes of overdues of 16 DCBs in Tamil Nadu for a period of 12 years (1970-1971 to 1981-1982) based on both primary and secondary data. He found that there had been slackness in recovery of loans resulting in mounting overdues and suggested that the directors of PACS should play an active and effective role in periodically reviewing the recovery performance of the societies followed by strict measures for recovery against the defaulters and launching of

regular and timely recovery action. He also recommended that the tempo of recovery drive should be maintained by the societies through out the year instead of initiating it towards the close of the year. The author suggested that the interest rate structure of the central banks may be so devised as to provide for interest rate rebate as a reward for prompt repayment of loans on scheduled dates and for improving recovery performance, the rate of interest should be initially fixed at somewhat higher level and a rebate of two or three per cent to the borrowers on repayment of loans on the scheduled dates. He further pointed out that the State Government should ensure that there is strict observance of financial discipline by all concerned for sound and sustained growth of co-operative credit system.

Satendra Pal Singh *et al.* (1990), made an attempt to identify the factors affecting overdues of agricultural loans. The four major variables identified by them were amount of loan borrowed, amount of loan put under non-productive uses, size of holding and repayment capacity. The authors noted that loans must be provided only to those farmers who satisfy the test of technical feasibility and financial viability. They also suggested that appropriate steps be taken to educate farmers for proper utilisation of loans and avoiding excess expenditure at the cost of repayment of loans.

Lakshminarayana and Adinarayana (1990), conducted a study on borrowers of crop loans in Visakhapatanam District. They analysed the nature and pattern of overdues and factors influencing overdues both under co-operatives and commercial banks and by farm size with the help of two stage stratified sampling. They observed that the repayment capacity of a borrower is a measure of his ability to ensure the return of funds acquired for purposes of investment and consumption. It was based on the analysis of productivity, ie., the additional returns that would accrue due to borrowed funds and the anticipated income from all sources of the borrower during the year. Repayment capacity was worked out as a residual after meeting the requirements of family consumption needs, payment of other dues, debts outstanding and payments. Accordingly, the authors found that the repayment capacity of farmers who borrowed from co-operatives was less per farm for small, large and pooled farmers, compared to those who borrowed from commercial banks. Irrespective of farm size, all borrowers from commercial banks enjoyed better repayment capacity, particularly in the case of small farms. They found that the inadequacy of loan amount from co-operative banks has resulted in mounting overdues and suggested that the scale of finance and individual maximum borrowing power should be increased keeping in view the present day costs of cultivation.

Obul Reddy and Malla Reddy (1990), made an attempt to identify the socio-economic factors influencing the borrowers in repaying the co-operative dues by collecting information from 150 borrowers under the Bhongir DCB in Nalgonda district of Andhra Pradesh. The study revealed that the association between socio-economic factors and repayment of co-operative dues is not significant.

Abdul Noorbasha *et al.* (1990), studied the impact of certain selected variables on the mobilisation of deposits, deployment of funds as advances and net profits of Vijayawada DCB in order to identify factors of growth. It was found that the selected cogent variables explained more than 98 per cent of variability in respect of deposits and advances. While time and share capital of societies were positively related to deposits of the bank, the number of shareholders was also found to have significant influence on the advances of the bank. However, the selected variables for identifying the impact on net profits, could not explain any significant influence. In short, this study showed that the deposits and advances of the banks have been influenced by certain well identified factors.

Mohandas and Indira (1991), observed that according to All India Debt and Investment Survey (1971-72), the deposits of DCBs of Kerala had increased from Rs.253.14 lakh in 1960-61 to Rs.3117.75 lakh by 1974-75. The increase was appreciable

since 1971-72. In spite of the appreciable increase in the deposits of the co-operatives they noted that the co-operatives are still far behind the commercial banks.

James Hadlant Gunther (1992), made an attempt to study the extent of deposit mobilisation, deployment and the profitability of Ernakulam DCB. He found that fixed deposits contributed to about 40 per cent of the total deposits. The loan mix of the bank showed that short-term loans constituted the major portion of loans. The loans and advances disbursed was increasing over the years. Seasonality in lending was observed by the author in the months of May and June. He pointed out that the performance of Ernakulam DCB, especially relating to mobilisation of resources, its deployment and profitability were fairly good.

Chinnappa (1992), tried to identify the problems of DCBs in Andhra Pradesh and opined that the managing committees of the primary co-operatives and directors of DCBs have shown a general apathy in the matter of recovery. The author found that a large number of members in the managing committees had themselves defaulted in the repayment of dues and the managements were not prompt in initiating coercive action against recalcitrant members. He noted that the DCBs were supposed to be autonomous in character, they were more so in paper than in practice. It was also noted that no policy decisions were taken by the institutions at the base level and

all the rules and regulations were framed from above and mostly they were ill-timed and unsuited to the varied circumstances that prevailed in various parts of the country.

Sivaprakasam (1993), discussed the personnel management in DCBs and found that the employee turn over ratio of DCBs was low when compared to those in Regional Rural Banks. He found that `influence' was an important criterion for nearly 1/3 of the employees in getting appointment. The author suggested that the DCBs should evolve a promotion policy in such a way that the base level employees are able to get at least two promotions in their entire career. According to him majority of the employees oppose deputation because of such reasons as lack of knowledge, lack of commitment on the part of the deputationist, lack of banking knowledge, blocking the promotion of bank employees, delay in policy and decision making and frequent transfer since they are from the Government. The study also revealed that the employees were able to improve their work after undergoing training.

Thirupathi Rao (1995), while analysing the financial management of Srikakulam DCB, felt that the finance function of a DCB is highly regulated by the Reserve Bank of India and the Registrar of Co-operatives. The borrowings, lendings and investments are regulated and subjected to rigorous discipline in respect of several other financial operations. But, he found that this DCB has failed to observe the financial

discipline. The Bank has experienced a deficit in the maintenance of required cash reserves and liquid assets throughout the study period (1980-81 to 1992-93) and was responsible for its down grading.

Toomkuzhy (1995), made a review of the changing environment of co-operativies and examined the need for professionalisation of management in co-operatives. He noted that the environment in which co-operatives operate has been changing very fast and it has been characterised by rapidly growing size, complexity and ambiguity. To cope with the new tasks, he suggested that professional management has become an absolute necessity.

Now it is apparent from the review of literature that quite a lot of studies have been made on various aspects of funds management in DCBs in different parts of the country. But only a very few studies have attempted a detailed analysis of mobilisation, deployment and other aspects of funds management. Even such studies have limited themselves to either individual DCBs or were limited to their scope. This was quite true of the few typical studies made in Kerala on the DCBs of Ernakulam, Trichur, Palakkad, etc. They were lacking in depth as well as in coverage. The present study is suggested in this background.

Co-operative Banking in India - An Overview

CHAPTER-III

CO-OPERATIVE BANKING IN INDIA - AN OVERVIEW

In the previous chapter, we have reviewed the available literature on cooperative banking. In continuation of that, in this chapter, an attempt is made to review the developments in co-operative banking in India in general and that of Kerala in particular. This is considered essential for getting a clear picture of the background in which the DCBs are working and for their evaluation later.

3.1 Origin

The history of co-operative movement in India is about a century old. The movement was started in India with a view to encourage and promote thrift and mutual help for the development of persons of small means such as agriculturists, artisans and other segments of the society. It was also aimed at concentrating the efforts in releasing the exploited classes out of the clutches of the money lenders. Keeping this as one of the objectives, credit societies were formed under Co-operative Societies Act of 1904.

The 1904 Act was largely based on the English Friendly Societies Act, 1896. Under this Act, only primary credit

societies were permitted to register and non-credit and federal organisations of primary co-operative credit societies were left out. This lacuna was bridged by the Co-operative Societies Act, 1912. This Act paved the way for the organisation of central co-operative banks throughout the country. But the provisions of 1912 Act were inadequate to meet the requirements of those states where co-operative movement had made considerable progress. Bombay, the pioneers in this regard passed a new Act, viz., the Bombay Co-operative Societies Act, 1925 for serving the many sided development of the state. Later on, Madras, Bihar and Bengal passed their own Acts in 1932, 1935 and 1940 respectively.

3.2 Structure of Co-operative Banking in India

India's co-operative banking structure consists of two main segments, viz., agricultural and non-agricultural credit. There are two separate structures in the case of agricultural credit - one for short and medium term credit and the other for long term credit. The co-operative credit structure for short and medium terms is a three tier one with primary agricultural credit societies at the base level, the central co-operative bank at the district level and state co-operative bank at the apex level. Over and above these institutions, grain banks are actively functioning as primary societies in

certain states. Though the organisation of central and state co-operative banks was mainly for the benefit of the agricultural credit sector, they serve non-agricultural societies too.

3.3 Primary Agricultural Credit Societies

Primary Agricultural Credit Societies (PACS) are the foundation of the co-operative credit structure and form the largest number of co-operative institutions in India. Most of these societies have been organised mainly to provide credit facilities and to inculcate the habit of thrift and economy among their members.

The share capital of a society is divided into units, called shares, contributed by the members. The most important source of finance of PACS is members' deposits. Borrowings constitute the most important element of their working capital. The criteria for borrowings differ from state to state according to their liability. Punctuality in the repayment of loans has hardly been observed by the members with the result that there has been a steep rise in the amount of overdues all over the country.

3.4 Primary Agricultural Credit Societies in India

In India, PACS are passing through an era of crisis. Increasing incidence of non-viability is one of the major set backs. PACS have made little progress in attracting deposits. In majority of the cases, the deposits were collected through book adjustments by carving certain portion of loan amount. The repaying capacity of the PACS has been dwindled considerably, as a result mounted overdues in the loan outstanding against members. Alongwith the increasing volume of business the number of PACS running into loss and the amount of loss have increased considerably over the years. The important reasons for this situation are, existence of non-viable and dormant societies, uneven growth of agricultural credit movement, inadequacy of the quantum of loan supplied by them, defective loan policies, delay in loan disbursement, inadequate supervision and defective audit, no linking of credit with marketing, high overdues, ineffective management, neglect of small farmers and domination of vested interests. Salient data of PACS in India from 1975-76 to 1990-91 is given in table 3.1.

Table 3.1 Progress of PACS in India for the period 1975-76 to 1990-91

(Rupees in crores)

Year	Number of societies	Membership (in'000)	Share capital	Reserves	Deposits	Borrowings	Loans issued	Percentage of overdue to demand
1975-76	134838	39521 [0.2930]	327.31 [0.0024]	109.55 [0.0008]	113.31 [0.0008]	1154.44 [0.0085]	1023.44 [0.0075]	41.4
1983-84	92496 (-31.40)	66669 (68.69) [0.7207]	720.75 (120.20) [0.0077]	235.81 (115.25) [0.0025]	463.93 (309.43) [0.0033]	3163.73 (174.04) [0.0342]	2499.31 (144.20) [0.0270]	43.6
1985-86	92408 (-0.09)	72117 (8.17) [0.7804]	831.54 (15.37) [0.0089]	296.08 (25.55) [0.0032]	571.98 (23.29) [0.0061]	3927.22 (24.13) [0.0424]	3140.37 (25.64) [0.0339]	41.8
1990-91	88921 (-3.77)	84869 (17.68) [0.9544]	1295.03 (55.73) [0.0145]	434.30 (46.68) [0.0048]	1361.98 (138.11) [0.0153]	8135.53 (107.15) [0.0914]	4777.30 (52.12) [0.0537]	43.50

Note : (1) Figures in [ ] represent per bank details
(2) Figures in ( ) represent percentage change over the previous period

Source: (1) Report of the Agricultural Credit Review Committee, 1989

(2 Statistical statements relating to Co-operative Movement in India for the period 1975-76 to 1990-91

It is clear from table 3.1 that the number of societies decreased from 1,34,838 (1975-76) to 88,921 (1990-91) due to re-organisation and amalgamation of societies since 1975-76. But membership and share capital considerably increased during the period. Same is the case with borrowings and reserves also. Deposits increased from Rs.113.51 crores in 1975-76 to Rs.1361.98 crores in 1990-91 while loans and advances issued increased from Rs.1023.44 crores to Rs.4777.30 crores during this period.

The average membership per society has increased from 293 in 1975-76 to 954 in 1993-94. Deposits per society has increased considerably during this period. It has increased from Rs.80000 in 1975-76 to Rs.1530000 in 1993-94 whereas loans issued has increased from Rs.750000 to Rs.5370000. Even though per society deposits has increased 19 times, loans issued has increased only 7 times during this period. It is inferred that these PACS were not utilising the deposits mobilised efficiently.

3.5 Primary Agricultural Credit Societies in Kerala

The comparative performance of PACS in Kerala with respect to their counterparts in the rest of the country is remarkable. Kerala had the highest rank (1987-88) with regard to membership, population coverage, borrowing members, loans and advances, deposits mobilisation and share capital contribution (Suresh, K.A. and Vinaikumar, E., 1993. p.43). The rank with regard to percentage of overdue to demand was lowest during this period. The progress of PACS in Kerala for the period 1970-71 to 1991-92 is explained in table 3.2.

Table 3.2 Progress of PACS in Kerala for the Period 1970-71 to 1993-94

(Rupees in thousands)

Year	No. of societies	No. of members	Paid up share capital Rs.	Reserves Rs.	Deposits Rs.	Borrowings Rs.	Loans outstanding Rs.	Loans overdue Rs.	Working capital Rs.	No. of societies earning profit		No. of societies incurring loss	
										No.	Amount Rs.	No.	Amount Rs.
1970-71	1888	1659885	93896	30362	93754	364338	360182	106677	48350	1052	13826	757	10984
		[879.18]	[49.73]	[16.28]	[49.66]	[192.98]	[190.77]	[56.50]	[25.61]		[7.32]		[5.82]
1976-77	1646	2469745	169988	84386	424159	470328	759920	230175	1508386	912	20395	733	22207
	(-12.82)	(48.79)	(81.04)	(177.93)	(352.42)	(77.93)	(110.98)	(115.77)	(212.72)	(-13.31)	(47.51)	(-3.17)	(102.18)
		[1500.45]	[103.27]	[51.27]	[257.69]	[285.74]	[461.68]	[139.84]	[916.39]		[12.39]		[13.49]
1981-82	1574	4666521	337615	167764	1527607	1259849	2424120	525246	4175315	818	48398	740	50633
	(-4.37)	(88.95)	(98.61)	(98.81)	(260.15)	(167.87)	(219.00)	(128.19)	(176.81)	(-10.31)	(137.30)	(0.95)	(128.00)
		[2964.75]	[214.49]	[106.58]	[970.53]	[800.41]	[1540.1]	[333.70]	[2652.68]		[30.75]		[32.17]
1986-87	1570	6818647	561785	357385	4577408	2502621	6119012	1090678	7969199	807	80042	728	172278
	(-0.25)	(46.11)	(66.40)	(113.03)	(197.68)	(98.64)	(152.42)	(107.65)	(90.86)	(-1.34)	(65.38)	(-1.62)	(240.25)
		[4343.09]	[357.82]	[227.63]	[2915.55]	[1594.03]	[3897.46]	[694.70]	[5075.92]		[50.98]		[109.73]
1991-92	1581	9205073	1021900	836000	11775700	3804600	12360900	2582700	22142400	712	159000	809	538900
	(0.70)	(35.00)	(81.90)	(133.95)	(158.95)	(52.02)	(102.00)	(136.80)	(177.85)	(-11.77)	(98.65)	(11.13)	(212.81)
		[5822.31]	[646.36]	[528.78]	[7448.26]	[2406.45]	[7818.4]	[1633.59]	[14005.31]		[100.57]		[340.86]
1992-93	1580	10066705	1157715	1003657	15064690	4267516	14947987	3227425	26790943	663	169756	874	529411
	(-0.06)	(9.36)	(13.29)	(20.05)	(27.93)	(12.17)	(20.93)	(24.96)	(20.99)	(-6.88)	(6.76)	(8.03)	(-1.76)
		[6371.33]	[732.73]	[635.22]	[9534.61]	[2700.95]	[9460.75]	[2042.67]	[16956.29]		[107.44]		[33.50]
1993-94	1583	10.85446	1347810	1119350	18912273	4539304	18404881	3051496	32441278	764	258999	784	508935
	(0.18)	(3.16)	(16.41)	(11.52)	(25.54)	(6.36)	(23.12)	(-5.45)	(21.09)	(15.23)	(52.57)	(-10.29)	(861.32)
		[6560.61]	[851.42]	[707.10]	[11947.10]	[2867.53]	[11626.58]	[1927.66]	[20493.54]		[163.61]		[321.50]

Note : (1) Figures in [ ] represent per society details
(2) Figures in ( ) represent percentage change over the previous period

Source: (1) Administration report of the Department of Co-operation for the period 1970-71 to 1993-94
(2) Handbook on Co-operative Movement in Kerala for the period 1970-71 to 1993-94

From Table 3.2, it is observed that the number of Societies showed a declining trend while the membership kept on increasing. The number of members increased from 16.59 lakh from 1970-71 to 92.05 lakh by the end of 1991-92. Another notable feature is the significant decline in the number of profit making societies. The number of profit making societies stood at 1052 (55.72 per cent) in 1970-71. In 1993-94, only 764 societies (48.26 per cent) could make profit, the average profit being Rs.3.39 lakh.

It is further noted that per society paid up share capital of Kerala has increased from Rs.49730 in 1970-71 to Rs.851420 by the end of 1993-94. There was considerable increase in deposits and loans outstanding also. Deposits per society has increased from Rs.49660 to Rs.1.19 crores and loans and advances has increased from Rs.1.90 lakh to Rs.116.26 crores during this period. While profit per society has increased from Rs.7320 to Rs.163610, loss increased from Rs.5820 to Rs.321500.

3.6 District Co-operative Banks in India

District Co-operative Banks (DCBs) occupy the middle level position in the three tier co-operative credit structure of the country. In the beginning of the formation of PACSs,

they could not function effectively without gaining financial support from an outside agency. Over and above this, they were in need of technical guidance and administrative support. At the same time, there were some societies which have gained strength and posses surplus funds as well as talents. As a precondition to get mutual help it became necessary that all these primary societies form a federation for ensuring rational use of their funds and provide a common place to meet for exchange of ideas and co-operative experience. The formation of DCBs was thus a felt need for mutual help.

The Co-operative Societies Act of 1912 permitted the registration of DCBs. Even before the enactment of this Act, some DCBs were established to cater to the needs of primary societies. In 1906, forerunner of the first DCB was established as a primary society in Uttar Pradesh. At Ajmer in Rajasthan the first DCB was established in 1910. But the first full fledged DCB as per the provisions of the Act of 1912 was started in Jabalpur District of the Central Province.

As recommended by Maclagan Committee (1915) DCBs in India were classified into, (Nakkiran, S., 1980, p.162).

1. Banks whose membership is confined to individuals - These are banks wherein membership consists entirely of individuals or in which societies are admitted as

shareholders on exactly the same footings as individuals, without any special provision for their adequate representation on the board of management. The Maclagan Committee was of the opinion that these type of banks should not be given registration under the Co-operative Societies Act. Hence, no such banks exist in our country at present.

2. Banking Unions wherein only primary societies are allowed to become members under this category. As the shareholders, lenders and borrowers are the same, the clash of interest between the shareholders and borrowing societies can be eliminated.

3. Banks with individuals and societies as members, certain portion of shares are assigned to societies and also have separate representation in the board of directors. This category is considered to be better as it provides a combination of both rural and urban population. Majority portion of the DCBs in India are of this type.

The DCBs are formed mainly with the objective of meeting the credit requirements of member societies. As an institution for helping the societies in times of need, they

finance agricultural credit societies for production purposes, marketing societies for marketing operations, industrial societies for supply operations and other societies for working expenses. In short, the major objectives of the DCBs are to provide loans to affiliated societies, to act as a balancing centre of finance for primary societies, to arrange for the supervision and control of the affiliated societies, to raise deposits from members and non-members, to convene conferences of the member societies and also prescribe uniform procedure for the working of primary societies, to open branches of the bank at important places with the permission of the Registrar of Co-operative Societies and to maintain and utilise state partnership. Generally, the area of operation of a DCB is limited to one district. Progress of DCBs in India is exhibited in table 3.3.

Table 3.3 Progress of District Co-operative Banks in India for the period 1970-71 to 1991-92

(Rupees in thousands)

Year	No. of banks	No. of members	Paid up share capital Rs.	Reserves Rs.	Deposits Rs.	Borrow-ings Rs.	Working capital Rs.
1970-71	509	231318 [454.46]	490814 [964.27]	435148 [854.91]	382347 [751.17]	120724 [237.18]	601139 [1181.02]
1976-77	387 (-23.97)	396000 (71.19) [1023.26]	476584 (-2.90) [1231.48]	141426 (-67.50) [365.44]	1244629 (225.52) [3216.69]	1663910 (1278.28) [4299.51]	3526547 (486.64) [9112.52]
1981-82	341 (-11.89)	319000 (-19.44) [935.48]	1576320 (230.75) [4622.64]	680253 (381.00) [1994.88]	5097337 (309.55) [14948.20]	4010993 (141.06) [11762.44]	1935698 (238.45) [5676.53]
1986-87	337 (-1.17)	275363 (-13.68) [817.10]	3884321 (146.42) [11526.18]	13130800 (1830.28) [38963.80]	27701307 (443.45) [82199.72]	15348736 (282.67) [45545.21]	53960000 (352.09) [160118.69]
1991-92	357 (4.45)	369434 (34.16) [1034.83]	8297300 (113.61) [23241.74]	7163700 (-45.44) [20066.39]	93384700 (237.11) [261581.79]	51582600 (236.07) [144489.07]	167665200 (210.72) [469650.42]

Note : (1) Figures in [ ] represent per bank details
(2) Figures in ( ) represent percentage change over the previous period

Source: (1) Statistical statements relating to Co-operative Movement in India for the period 1970-71 to 1993-94

(2) Basic data on performance of District Central Cooperative Banks for the period 1970-71 to 1991-92

It is noted from Table 3.3 that the number of DCBs is showing a declining trend which came down from 509 in 1970-71 to 357 in 1991-92. But the number of members showed a different picture. It has increased from 2,31,318 during 1970-71 to 3,96,000 during 1976-77 and to 3,69,434 during 1991-92. Paid up capital and reserves also showed an increasing trend which has boosted from Rs.49.08 crores to Rs.829.73 crores and the latter from Rs.43.51 crores to Rs.716.37 crores during the same period. Deposits and borrowings also showed considerable increase. There was increase in working capital too which has shown an increase of Rs.16706.4 crores during this time span.

It is further pointed out that number of members per DCB was 454 in 1970-71 and it increased to 1035 in 1991-92. There was a sharp increase in paid-up capital and reserves also per DCB. Deposits per DCB shot up from Rs.7.51 lakh in 1970-71 to Rs.26.15 crores in 1990-91. Position of working capital per DCB also boosted which increased from Rs.11.81 lakh to Rs.46.95 crores in 1991-92. It is clear from the above table that as a whole there were tremendous increase in all components of funds.

3.7 District Co-operative Banks in Kerala

The DCBs in Kerala have a history of about 80 years. They were organised separately in the erstwhile states -

Travancore and Cochin and in the Malabar district of the Madras Presidency before the re-organisation of the states on linguistic basis in 1956. There were separate Co-operative Societies Act for these regions, viz., the Cochin Co-operative Societies Act 1913, The Travancore Co-operative Societies Act 1914 and the Madras Co-operative Societies Act 1932 respectively. In 1949, The Travancore-Cochin State was formed by amalgamating Travancore and Cochin States. For this new state, The Travancore-Cochin Co-operative Societies Act was passed in 1952. These legislations were in force in the Kerala state till the enactment of the Kerala Co-operative Societies Act 1969.

The Kerala Co-operative Societies Act, 1969 came into force on 15.5.1969 and the preamble states it as an "Act to consolidate, amend and unify the law relating to Co-operative Societies in the State of Kerala" (Government of Kerala, 1969. p.1). The progress of DCBs in Kerala is exhibited in table 3.4.

Table 3.4 Progress of DCBS in Kerala for the period 1970-71 to 1993-94

(Rupees in thousands)

Year	No. of banks	No. of branches including H.O	No. of members	Paid up share capital Rs.	Of which Govt. Rs.	Reserves and other funds Rs.	Deposits Rs.	Borrowings Rs.	Working capital Rs.	Loans advanced Rs.	Loans outstanding Rs.	Loans overdue Rs.	Profit/ loss Rs.
1970-71	10	82 [8.2]	3771 [377.1]	50026 [5002.6]	11535 [1157.5]	12060 [1206.0]	151496 [15149.6]	42050 [4205.0]	186660 [18666]	55844 [5584.4]	142105 [14210.5]	69820 [6982]	1491 [149.1]
1976-77	11 (10)	177 (115.85) [16.09]	3720 (10.35) [338.18]	105992 (111.87) [9635.63]	34060 (195.28) [3096.36]	54261 (349.93) [9932.81]	532258 (251.33) [48387.09]	196392 (367.04) [17853.81]	933541 (400.13) [84867.36]	574555 (928.86) [52232.27]	667353 (369.62) [60668.47]	129309 (85.20) [11755.36]	8034 (438.83) [738.36]
1981-82	11 (0)	244 (37.85) [22.18]	4354 (17.04) [395.81]	163201 (53.97) [14836.45]	46052 (35.21) [4186.54]	132107 (143.47) [12009.72]	1327649 (149.44) [120695.36]	718324 (265.76) [65302.18]	2619176 (180.56) [238106.9]	1637397 (184.99) [148854.2]	1806723 (170.73) [164247.54]	244444 (89.04) [22222.58]	16069 (100.01) [1460.81]
1986-87	14 (27.27)	319 (30.74) [22.78]	4957 (13.85) [354.07]	230430 (41.19) [16459.28]	72454 (57.33) [5175.28]	476381 (260.60) [34027.21]	3283780 (147.34) [234555.71]	1289581 (79.53) [92112.92]	5287148 (101.86) [317653.42]	3403234 (107.84) [243088.14]	3699951 (104.79) [264282.21]	448768 (83.59) [32054.85]	6652 (-58.60) [475.14]
1991-92	14 (0)	410 (28.53) [29.28]	6204 (25.16) [443.14]	356500 (54.71) [25464.28]	118400 (63.41) [8457.14]	443100 (-6.99) [31650]	6922300 (110.80) [494450]	3853800 (198.84) [275271.42]	10015900 (89.44) [715421.42]	5326300 (56.51) [380450]	6736900 (82.08) [481207.14]	1128200 (151.40) [80585.71]	11700 (75.88) [835.71]
1992-93	14 (0)	415 (1.22) [29.64]	7647 (23.26) [546.2]	399100 (11.95) [28507.14]	138300 (16.81) [9878.57]	428400 (-3.32) [30600]	8400400 (21.35) [600028.57]	2458500 (-36.21) [175607.14]	11237100 (12.19) [802650]	8175100 (53.49) [583935.71]	8054100 (19.55) [575292.85]	1278100 (13.29) [91292.85]	16200 (38.46) [1157.14]
1993-94	14	418 (0.72) [29.85]	7903 (3.34) [564.5]	441300 (10.57) [31521.42]	144700 (4.62) [10335.71]	677400 (58.12) [48385.71]	10735800 (27.80) [766842.71]	2503300 (1.82) [17880.71]	13792900 (22.74) [985207.14]	10643700 (30.19) [760264.28]	9136500 (13.43) [652607.14]	1106200 (-13.44) [79014.28]	37500 (131.48) [2678.57]

Note : (1) Figures in [ ] represent per bank details
(2) Figures in ( ) represent percentage change over the previous period

Source: (1) Administration Report of the Department of Co-operation for the period 1970-71 to 1993-94
(2) Handbook on Co-operative Movement in Kerala for the period 1970-71 to 1993-94

In Kerala, at present there are 14 DCBs. The number of branches made substantial progress during the period 1970-71 to 1993-94. For instance, the number of branches which stood at just 82 in 1970-71 increased to 418 by the end of 1993-94. Correspondingly membership also increased from 3771 to 7903, during the same period. The deposits of the DCBs increased from Rs.15.14 crore in 1970-71 to Rs.1073.58 crore in 1993-94. Similarly, loans advanced increased from Rs.5.58 crore in 1970-71 to Rs.1064.37 crore in 1993-94. All these trends are well reflected in the behaviour of profit also. In 1970-71, the district Co-operatives Banks' profit was only Rs.14.91 lakh which increased to Rs.66.52 lakh in 1986-87 and Rs.3.75 crore in 1993-94, the situation improved marginally.

The table further reveals that the average membership per DCB increased from 377 in 1970-71 to 565 in 1993-94. The average deposit per DCB rised from Rs.1.51 crore to Rs.76.68 crore during the same period. Similarly average loans advanced also increased considerably. The average loans overdue increased from Rs.69.82 lakh in 1970-71 to Rs.7.90 crore in 1993-94. The average profit per DCB increased from Rs.1.49 lakh in 1970-71 to Rs.26.78 lakh in 1993-94. Eventhough there was slight increase in profit, it is not satisfactory when compared to the increase in working capital.

3.8 State Co-operative Banks in India

The State Co-operative Banks (SCBs) or the apex banks occupy a crucial position in the three tier co-operative credit structure in India. These apex banks or State Co-operative Banks are formed by federating DCBs in each state. The apex banks assume a key-position in the co-operative credit structure because the financial assistance from RBI and the National Bank for Agriculture and Rural Development are invariably routed through them. Table 3.5 presents the key statistics relating to SCBs in India for the period 1975-76 to 1990-91.

Table 3.5 Progress of State Co-operative Banks in India for the period 1975-76 to 1990-91

(Rupees in crores)

Year	Number	Deposits	Borrowings	Loans & advances outstanding	Overdues	Percentage of overdue to demand
1975-76	26	723.68 [27.83]	343.73 [13.22]	893.60 [34.36]	43.60 [1.67]	7.0 [0.26]
1983-84	27 (3.84)	1674.25 (131.37) [62.00]	608.47 (70.01) [22.53]	1836.45 (105.51) [68.01]	161.74 (270.90) [5.99]	10.0 (42.85) [0.37]
1985-86	31 (14.81)	3385.41 (102.20) [109.20]	1227.00 (101.65) [39.58]	3852.79 (109.79) [124.28]	291.76 (80.38) [9.41]	9.2 (-8.00) [0.29]
1990-91	27 (-12.90)	6727.88 (98.73) [249.18]	3575.07 (191.36) [132.41]	5378.97 (39.61) [199.22]	987.31 (238.39) [36.56]	18.0 (95.65) [0.66]

Note: Data in respect of four SCBs ie., Jammu and Kashmir, Manipur, Andaman and Nicobar Island and Chandigarh are not available for the year 1990-91.

(1) Figures in [ ] represent per bank details
(2) Figures in ( ) represent percentage change over the previous period

Source: (1) Report of the Agricultural Credit Review Committee, 1989

(2) Statistical statements relating to Co-operative Movement in India for the period 1975 to 1993

It is clear from Table 3.5 that the deposits and loans and advances of SCBs recorded notable progress during 1975-76 to 1990-91. In absolute terms deposits increased from Rs.723.68 crores in 1975-76 to Rs.6727.88 crores in 1990-91. Correspondingly loans and advances increased from Rs.893.60 crores to Rs.5378.97 crores. Overdues, one of the important yardsticks of performance of co-operative institutions recorded a phenomenal growth from Rs.43.60 crores to Rs.987.31 crores during the reference period. This indicates the declining efficiency of the SCBs in collecting the loans disbursed in the appropriate time. As a consequence, the percentage of overdue to demand which remained at 7 per cent in 1975-76 increased to 18 per cent in 1990-91.

Average deposits per SCB in India in 1975-76 increased to Rs.249.18 crore in 1990-91. There was considerable increase in overdues per SCB during the same period. Overdues has increased from Rs.1.67 crore to Rs.36.56 crore.

3.9 State Co-operative Bank in Kerala

The Kerala State Co-operative Bank (KSCB) was initially registered as the Travancore Central Co-operative Bank on 23rd November 1915. In 1954 the bank was transformed as the Travancore Cochin State Co-operative Bank and on November 1st,

1956 the bank was reorganised as the Kerala State Co-operative Bank Ltd. It is the first State Co-operative Bank to be included in the second schedule of the Reserve Bank of India Act, licenced to carry on the organised business in banking. The bank has built a highly organised network consisting of 14 DCBs and 1581 PACSs functioning at the village level (on 31.3.92). This wide network has enabled the District Co-operative Banks to reach the weaker sections and the common man in the rural areas in Kerala. Progress of KSCB for the period 1970-71 to 1991-92 is displayed in Table 3.6.

Table 3.6 Progress of State Co-operative Bank in Kerala for the period 1970-71 to 1993-94

(Rupees in thousands)

Year	No. of members	Paid up share capital Rs.	Reserves Rs.	Deposits Rs.	Borrowings Rs.	Invest-ments Rs.	Loans outstan-ding Rs.	Loans overdue Rs.	Working capital Rs.	Profit/ loss Rs.
1970-71	11	13915	12312	42747	150635	16572	196671	1327	219609	2238
1976-77	12 (9.09)	20707 (48.81)	27032 (119.56)	191810 (348.71)	96623 (-35.86)	54584 (229.37)	251483 (27.87)	1214 (-8.52)	353506 (60.97)	1773 (-20.78)
1981-82	12 (0)	42360 (104.57)	58248 (115.40)	505085 (163.33)	473397 (389.94)	138802 (154.29)	846090 (236.44)	15324 (1162.27)	1163640 (229.17)	5192 (192.84)
1986-87	15 (25)	72558 (71.29)	145545 (149.87)	1223673 (142.27)	664184 (40.30)	387423 (179.12)	1588210 (87.71)	17433 (13.76)	2292508 (97.01)	4440 (14.48)
1991-92	15 (0)	121000 (66.76)	217000 (49.09)	2709800 (121.45)	1520300 (128.90)	746100 (92.58)	2797100 (76.12)	97400 (458.71)	4526400 (97.44)	6950 (56.53)
1992-93	15 (0)	125600 (3.80)	198300 (-8.62)	3566800 (31.63)	1542200 (1.44)	935400 (25.37)	3432800 (22.73)	109400 (12.32)	5432800 (20.02)	8000 (15.11)
1993-94	15	127706 (1.67)	210020 (5.91)	5025160 (40.88)	1773536 (15.00)	1189828 (27.19)	4113289 (19.82)	99506 (-9.04)	7098000 (30.65)	8402 (5.02)

Note : Figures in brackets represent percentage change over the previous period

Source: (1) Administration Report of the Department of Co-operation for the period 1970-71 to 1991-92
(2) Handbook on Co-operative Movement in Kerala for the period 1970-71 to 1993-94

Table 3.6 shows that the number of members of KSCB is showing an increasing trend. Membership has increased from 11 in 1970-71 to 15 in 1993-94. Paid up capital and reserves also increased considerably during this period. There was sharp increase in case of deposits which increased from Rs.4.27 crore during 1970-71 to Rs.502.51 crore during 1993-94. Borrowings also showed similar trend. However, compared to deposits, increase in borrowings was less. Investments by the Bank increased from Rs.1.65 crore in 1970-71 to Rs.118.98 crore in 1993-94, the average annual increase being 3.47 per cent. Compared to loans outstanding, loans overdue have increased considerably. The loans overdue increased from Rs.13.27 lakh in 1970-71 to Rs.9.95 crore in 1993-94. But the increase in profit was very low. It has increased from Rs.22.38 lakh in 1970-71 to Rs.84.02 lakh in 1993-94, the average annual increase being 2.24 per cent.

This chapter has examined the origin, growth and trends in co-operative banking in India and also in Kerala. The chapter also presented a profile of the co-operative banks from 1970-71 to 1993-94 which spelt out a clear picture about the growth of number of members, share capital, reserves, deposits, borrowings, loans outstanding, working capital and profit earned or loss incurred by PACS, DCBs and SCBs in India and also in Kerala.

Funds Management - A Theoretical Perspective

CHAPTER-IV

FUNDS MANAGEMENT - A THEORETICAL PERSPECTIVE

The primary objective of the study is to examine the funds management in DCBs and this chapter briefly explains the concept of funds, preparation of funds flow statement, funds management in commercial banks and co-operative banks, accounting techniques for funds management and different types of ratios used by banks.

4.1 The concepts of funds

The term 'funds' has been used in the financial circles in different senses. The three most common usages of the term 'funds' are to refer to cash, to working capital and to the total financial resources. However, the concept of funds as working capital is the most popular one and in this study 'funds' refers to working capital. Working capital includes that part of total capital which is used for carrying out the routine or regular business operations. The success and efficiency of an organisation to a large extent depends on effective utilisation and management of working capital. Working capital can be gross working capital or net working capital. Gross working capital is defined as total of current assets (current assets include cash in hand, cash at bank,

stock, debtors, bills receivables, prepaid expenses, etc.). Net working capital is defined as current assets minus current liabilities.

4.2 Funds flow statement

Flow of funds means changes in the amount of funds or net working capital. A funds flow statement is a statement of sources and uses of funds. There is said to be flow of funds when a business transaction results in a change, either in an increase or decrease in the amount of funds or net working capital. If a transaction results in an increase in the amount of fund, it is considered as a source of fund. If a transaction results in a decrease in the amount of funds it is taken as an application of funds or use of funds. If a transaction does not cause any change in the amount of funds, then there is no flow of funds ie. there is neither a source of fund nor an application of funds.

A funds flow statement is useful in knowing the sources and uses of funds, in suggesting the ways in which working capital can be improved, in planning temporary investment of idle funds, in planning a sound investment policy, in assessing the efficiency of the management in the utilisation and mobilisation of funds, in forecasting the flow of funds and in projecting the working capital requirements. It also indicates how much of the net working capital is provided by

funds from operations and the causes for the financial difficulties faced by a concern, such as improper mix of short term and long-term funds, unnecessary accumulation of fixed assets, etc.

4.3 Preparation of funds flow statement

The preparation of funds flow statement involves the preparation of schedule of changes in working capital, preparation of statement showing the funds from operations and preparation of funds flow statement.

4.4 Schedule of changes in working capital

The schedule of changes in working capital is the statement which shows the changes in working capital that occur during the current year. Working capital represents the excess of current assets over current liabilities. Since several items, ie., all current assets and current liabilities are the components of working capital, it is necessary, in order to ascertain the working capital or funds at the beginning and at the end of the period, to measure the increase or decrease therein and to prepare a statement or schedule of changes in working capital. A proforma of schedule of changes in working capital is given in Chart 4.1.

Chart 4.1 Schedule of changes in working capital

Items	Previous year	Current year	Effect on working capital	
			Increase	Decrease
	Rs.	Rs.	Rs.	Rs.
a. Current Assets				
Stock	a_1	c_1	$a_1 - c_1 = e_1$	
Debtors	a_2	c_2	$a_2 - c_2 = e_2$	
Cash	a_3	c_3	$a_3 - c_3 = e_3$	
Bank	a_4	c_4	$a_4 - c_4 = e_4$	
Bills receivable	a_5	c_5	$a_5 - c_5 = e_5$	
Prepaid expenses	a_6	c_6	$a_6 - c_6 = e_6$	
Total (a) Rs.	Ea_i	Ec_i		Ee_i
b. Current Liabilities				
Creditors	b_1	d_1	$b_1 - d_1 = f_1$	
Bills payable	b_2	d_2	$b_2 - d_2 = f_2$	
Outstanding expenses	b_3	d_3	$b_3 - d_3 = f_3$	
Total (b) Rs.	Σb_i	Σd_i		Σf_i
c. Working Capital				
Difference between (a) and (b)	$\Sigma a_i - \Sigma b_i$	$\Sigma e_i - \Sigma d_i$		$\Sigma e_i - \Sigma f_i$
Increase/decrease in working capital	$(\Sigma a_i - \Sigma b_i)$	$- (\Sigma e_i - \Sigma d_i)$ +		$(\Sigma e_i - \Sigma f_i)$

4.5 Statement showing the funds from operations

The current operations of the business are the most important single source of funds and over the long run they are the largest source of funds. The funds from operations can be ascertained by preparing a statement called the statement of funds from operations. A proforma of this statement is given in Chart 4.2.

Chart 4.2. **Statement showing the funds from operations**

Closing credit balance of profit and loss appropriation account		xxx
Add	non-fund and/or non-operating debit items or expenses which have decreased the net profits, but do not decrease the funds from operations. (All the items given on the the debit side of the adjusted profit and loss account)	xxx
		xxx
Less	non-fund and/or non-operating credit items or incomes which have increased the net profits, but do not increase the fund from operations (All the items given on the credit side of the adjusted profit and loss account)	xxx
Less	opening credit balance of profit and loss appropriation account.	xxx
	Trading profit or funds from operations	xxx

4.6 Preparation of funds flow statement

In the funds flow statement, those transactions which will result in an increase in the amount of funds (sources of funds) and those which will result in a decrease in the amount of funds (uses of funds) will appear. Funds from operations or the operating losses would appear in the funds flow statement. Above all, the increase or decrease in working capital as indicated by the schedule of changes in working capital, also should appear in the funds flow statement. Chart 4.3 exhibits the different items that will appear in funds flow statement.

Items like funds from operations, issue of shares and debentures, long-term and medium-term borrowings, long-term and medium-term deposits, sale of fixed assets, etc. will appear on the side of sources of funds. Uses of funds include funds from operations, redemption of shares and debentures, repayment of long-term and medium term loans and deposits, purchase of fixed assets, etc.

Chart 4.3. Funds flow statement

Sources of funds	Rs.	Uses of Funds	Rs.
1. Funds from operations	e_1	1. Funds lost in operations	f_1
2. Non-operating or non-trading income	e_2	2. Non-operating or non-trading expenses	f_2
3. Issue of shares	e_3	3. Redemption of redemable preference shares	f_3
4. Issue of debentures	e_4	4. Redemption of debentures	f_4
5. Borrowingsof long-term and medium-term loans	e_5	5. Repayment of long-term and medium-term loans	f_5
6. Acceptance of long-term and medium-term deposits	e_6	6. Repayment of long-term and medium-term deposits	f_6
7. Sale of long-term investments	e_7	7. Purchase of long-term investments	f_7
8. Sale of fixed assets	e_8	8. A equisition or purchase of fixed assets	f_8
9. Decrease in working capital as per statement of changes in working capital	$\Sigma e_i - \Sigma f_i$	9. Increase in working capital as per statement of changes in working capital	$\Sigma f_i - \Sigma e_i$
	Σe_i		Σf_i

4.7 Funds Management in Commercial Banks

Funds management in commercial banks is more complex task due to the day to day fluctuations and frequent flow of funds. It is not possible for the banks to deploy all the funds they mobilise because of the statutory obligations. So, their net disposable resources will equal the funds they have mobilised minus statutory reserves. Earning a satisfactory return on capital and meeting the demands for money when they occur are the dual tasks of funds management in banks. In other words, the sources and uses of funds need to be arranged in such a way as to keep the bank funds as liquid as possible.

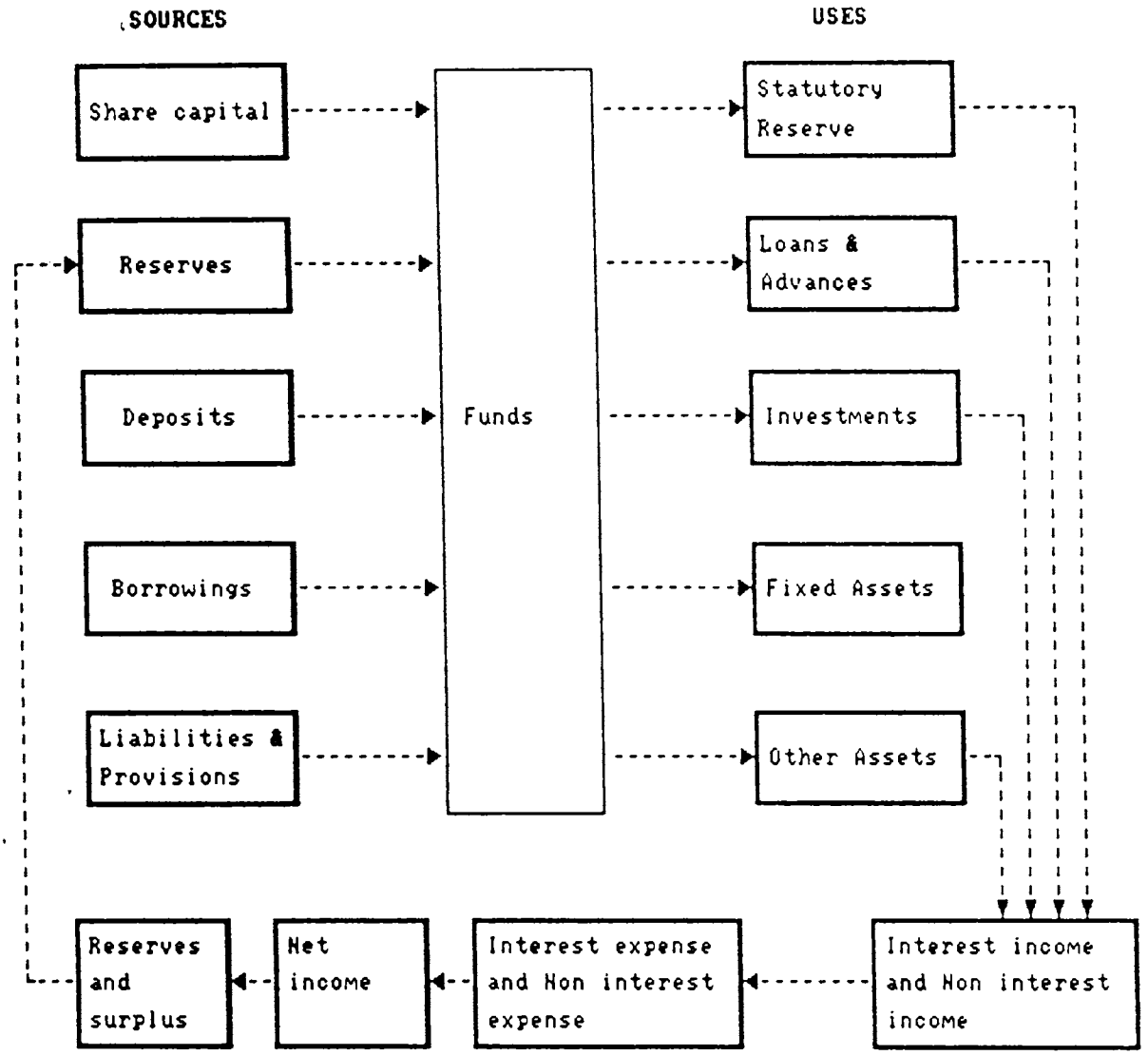
4.8 Flow of Funds in Commercial Banks

A commercial bank, like any other business enterprise, aims at earning sufficient margin of profit out of the borrowing, lending and investment operations. Commercial banks raise funds with a view to employ them profitably. The working of these funds is reflected in the pattern of assets acquired by mobilising these funds.

The sources of funds in terms of the new balance sheet format introduced by the Reserve Bank of India with effect from March 1992, are share capital, reserves, deposits, borrowings and refinance liabilities and provisions (Toor, N.S., 1994, pp.265-269).

The flow of funds in commercial banks is exhibited in Chart 4.4.

Chart 4.4 Flow chart of funds in commercial banks



The share capital (paid-up capital) is contributed by members or share holders of the bank in cash. This capital is a permanent part of the bank's resources in the sense that it has no maturity.

To ensure safety, a commercial bank maintains reserves like statutory reserve, capital reserve, revaluation reserve, revenue and other reserve, which are created out of undistributed profits. Actually, reserves are a part of paid up capital which is earmarked for contingencies. According to Section 17 of the Banking Companies Act, 1949, every banking company is required to transfer every year to the reserve fund a sum equivalent to 20 per cent of its annual profits.

Another important source of funds of commercial banks is deposits, like demand deposits from banks and others, savings deposits and term deposits from banks and others.

Commercial banks also raise funds through borrowings. They borrow funds mainly from the central bank. They also borrow funds from banks and financial institutions like Life Insurance Corporation, Industrial Development Bank of India, Unit Trust of India, etc.

The last source of funds is liabilities and provisions. Bills payable, interest accrued and others constitute this item.

Funds raised by commercial banks create a corresponding liability on the banks except share capital and reserves. As per the new balance sheet format introduced by Reserve Bank of India (RBI), banks utilise the amount raised for creating different assets. These include cash in hand and balance with RBI in current account and other accounts, balance with banks/money at call and short notice and balance with banks in current accounts, other deposit accounts and money at call and short notice with banks; investments in Government securities, other approved securities, shares, debentures and bonds in subsidiaries and/or joint ventures and others; advances including bills purchased, cash credit and overdraft and loans payable on demand and term loans; fixed assets like premises, other fixed assets (including fixture and furniture) and other assets like inter office adjustments, interest on investments not collected, tax paid in advance, stationery and stamps, non-banking assets acquired by others, etc.

4.9 Funds Management in DCBs

As per the "statistical statements relating to co-operative movement in India" (Government of India, 1942, p.15), working capital was considered as the total of paid-up share capital, reserve fund and other reserves, debentures, deposits and other borrowings. It includes all the major items on the liabilities side of the balance sheet. But it does not include other sundry liabilities and current year's

profit. The Kerala State Co-operative Societies Rules, 1969, Section 2 (k) defined working capital as follows:

"Working Capital" means such portion of the reserve fund, other funds, paid-up share capital, loans and deposits received by a society and debentures issued by a society as have not been invested in buildings and other fixed assets (Government of Kerala, 1969).

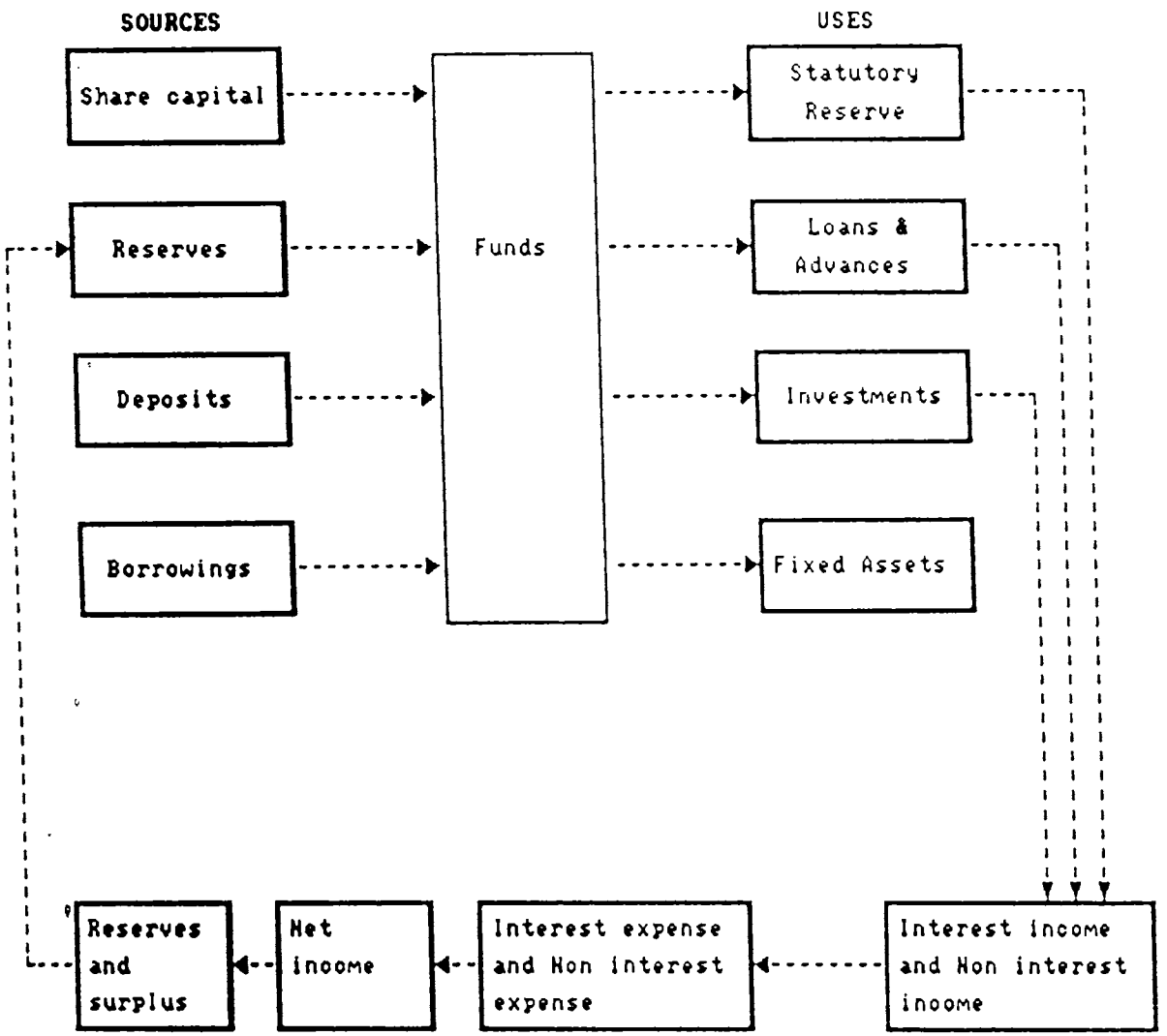
Both these definitions record the major components of funds. These definitions are more or less similar with the exception that the second one includes fixed assets as well. The quantity of working capital in accordance with the legal definition is the amount of working funds available for banking operations and for meeting the day-to-day requirements. The concept of working funds generally used in financial institutions is also akin to this.

Like other financial institutions, co-operative banks should also conduct their activities in such a manner as to conform to the efficient business norms for collecting funds from different sources and in the manner in which such funds are utilised. Due weightage should be given to the liquidity and safety of their funds along with profitability in the funds deployment. For ensuring liquidity, maintenance of maximum balance of cash and other liquid assets has been prescribed by the RBI.

4.10 Flow of Funds of DCBs

The inflow and outflow of funds in DCBs is exhibited in Chart 4.5.

Chart 4.5 Flow chart of funds in DCBs



Sources of Funds in DCBs

The sources of funds of a DCB consist of share capital, reserves and other funds, deposits from members and non-members and borrowings from state co-operative banks, RBI, and NABARD minus fixed assets.

The share capital of a DCB is subscribed by the affiliated societies and individual members. The face value of shares varies from Rs.50 to Rs.100. The affiliated societies are bound to subscribe to the shares in proportion to their borrowings.

DCBs maintain different types of reserves like statutory reserve fund, agricultural credit stabilisation fund, dividend equalisation fund, building fund, other reserves, etc. Since the reserve fund is indivisible, the members do not have a claim on it.

The third source of working capital of DCBs is deposits. The DCBs tap funds through different types of deposits like current, savings bank, fixed, money at call and short notice and recurring.

Another important source of working capital is borrowings from other agencies such as loans from state co-operative banks, Government, RBI/NABARD and commercial banks. The maximum limit of borrowings of DCBs is fixed in their bye-laws.

4.11 Uses of funds in DCBs

DCBs utilise the mobilised funds for keeping statutory reserves, for granting loans and advances, for purchase of fixed assets and for investing in different types of securities.

According to section 18 of the Banking Regulation Act (as applicable to co-operative societies) 1966, DCBs have to keep three per cent of their total demand and time liabilities as liquid cash. Again under Section 24 of the said Act, these banks are also required to maintain 25 per cent of total demand and time liabilities (DTL) in the form of liquid assets, in addition to the cash reserve of three per cent. Hence, the remaining 72 per cent of the bank's deposit resources is available to it for lending or investment, according to priorities.

The DCBs utilise a major part of their funds for granting short-term loans upto 12 months for financing seasonal agricultural operations and for medium term loans for a period ranging from one to three years for the purchase of bullocks, milch cattle, pump sets, digging or repairs of wells and improvement of land.

The DCBs invest their funds in premises and building, furniture and fixtures, vehicles, library and quarters

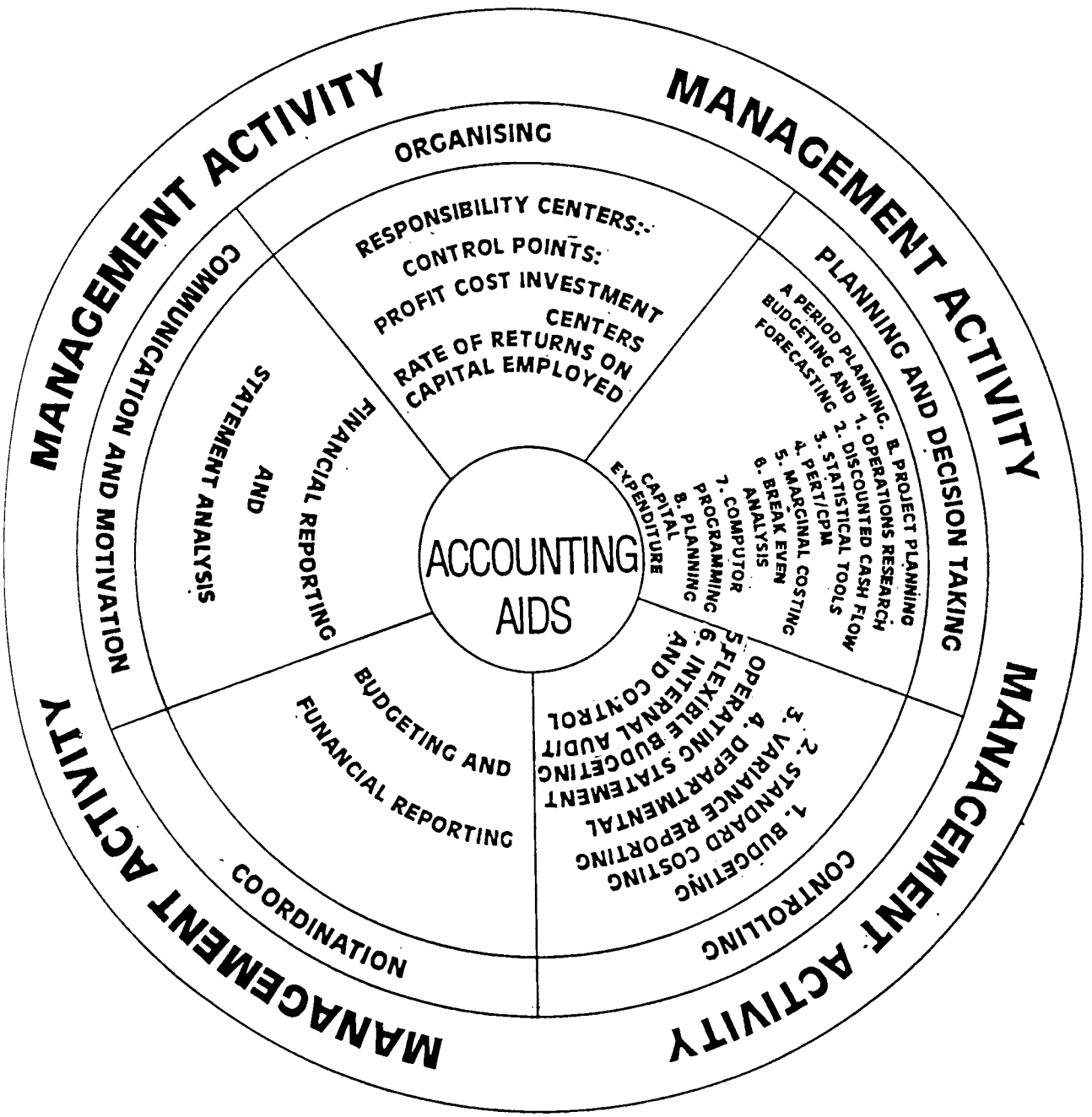
whenever there is a need. These banks also invest their funds in Government securities.

In the present scenario of Co-operative Banking in Kerala, there are two main problems - Primarily, the co-operative banks are not able to utilise the entire funds available for deployment and secondly the bottom line of net profit situation of many co-operative banks is not fully satisfactory. These two aspects are inter-dependent in the sense that if the deployment of funds is optimal, the profit situation also will be correspondingly better. The income earned would depend not only on the degree of utilisation of funds but also on the interest yield realised on the advances made. Hence, there is sufficient scope for further improvement or the fuller utilisation of funds available as well as the revenue surpluses generated by the co-operative banks. In the following chapters an attempt is made to explore this possibility.

4.12 Accounting techniques for funds management of DCBs

At present, there is no field of management where accounting tools/aids are not used. Figure 4.1 makes clear the significance of accounting techniques to the various management processes such as organising, planning, co-ordinating, controlling, etc. Among the many accounting techniques, the most frequently used one is ratio analysis.

Figure 4.1 Techniques of Accounting



Source:

Kulsrestha N.K., Theory and practice of Management Accounting, Aligarh, Navman Prakashan, 1989-90, P.8.

4.13 Ratio analysis

Ratio analysis involves an analysis of the inter-relationships between various items in the profit and loss account and balance sheet. It is a very useful tool in measuring the financial performance and financial strength of any business organisation. Comparison of financial ratios of a concern for a given period with that of the past or with that of the other firms, or with its own prescribed standards will not only measure its comparative financial position and financial strength, but will also pin-point areas which require corrective measures. The different ratios used by banks are:

1. Spread, burden and profitability ratios
2. Credit/deposit ratio
3. Borrowings/deposits ratio
4. Borrowed funds/owned funds ratio
5. Liquid assets/demand and time liabilities ratio
6. Demand deposits/term deposits ratio
7. Deposits/working capital ratio
8. Borrowings/working capital ratio
9. Liquid assets/working capital ratio
10. Loans and advances/working capital ratio
11. Investments/working capital ratio
12. Total overdue/total demand ratio
13. Manpower expenses per employee
14. Volume of working funds per employee

In this chapter, we made an attempt to review the theoretical framework behind funds management. In the succeeding chapters an effort is made to examine the funds management and the related issues of the selected DCBs.

Trends and pattern of sources and uses of funds in District Co-operative Banks

CHAPTER-V

TRENDS AND PATTERN OF SOURCES AND USES OF FUNDS IN DISTRICT CO-OPERATIVE BANKS

The theoretical framework behind funds management was examined in the earlier chapter. The analysis of sources and uses of funds is possible only if one knows the trend and pattern of components of sources and uses of funds. Hence, in this chapter an attempt is made to examine the trend in the components of sources and uses of funds in selected DCBs using the data for fifteen year period from 1979-80 to 1993-94 (see appendix-1). The data were further classified into two phases, triennium ended 1981-82 and 1993-94 respectively and average values for these phases for each variable were worked out and compared with overall average of the selected DCBs. For computing the overall growth, exponential model ($y=ab^x$) was found suitable (high R^2 value) and comparisons were made by estimating compound growth rates from the exponential model.

5.1 Sources of funds

The sources of funds consist of share capital, reserves and other funds, deposits and borrowings which are discussed in detail in the following paragraphs.

5.1.1 Share capital

Share capital, the first component of working capital has shown a rising trend in all DCBs. The position of share capital with break up is exhibited in Table 5.1.

Table 5.1 Share capital of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	A class		B class		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	8913	34996	1943	2943	10856	37939
Kottayam	11233	29002	2190	7643	13423	36645
Palakkad	8136	20140	3533	16981	11669	37121
Kozhikode	10221	10687	2694	11093	12915	21780
Kollam	9458	12413	5970	10998	15428	23411
Idukki	9727	20274	3942	12833	13669	33107
Average	9615	21252	3379	10415	12993	31667

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

Table 5.1 reveals that out of the six selected DCBs, total share capital of three DCBs were higher than the overall average in the first phase. Kollam DCB had the highest average (Rs.154.28 lakh) closely followed by Idukki DCB. Ernakulam DCB had the lowest average of Rs.108.56 lakh. The

averages of all DCBs except Kozhikode and Kollam were higher than the overall average in the second phase. It was the highest in Ernakulam DCB (Rs.379.39 lakh) and the lowest in Kozhikode DCB (Rs.217.30 lakh). It is also clear from the table that, Ernakulam DCB which is one of the most profitable sample banks had the maximum increase in share capital during this period which increased from Rs.108.56 lakh in the first phase to Rs.379.39 lakh in the second phase. Kollam DCB which topped the list in the first phase declined to fifth position in the second phase.

The compound growth rates worked out for comparing the overall growth in share capital of the selected DCBs' along with the parameters of exponential model are presented in Table 5.2.

Table 5.2 Exponential trend equations in share capital of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	3.95	0.04	0.97	11.06
Kottayam	4.12	0.03	0.91	8.63
Palakkad	4.02	0.04	0.98	9.99
Kozhikode	4.04	0.02	0.84	5.31
Kollam	4.14	0.01	0.74	3.81
Idukki	4.11	0.03	0.96	7.44

It is evident from Table 5.2 that Ernakulam DCB recorded the highest growth rate (11.06%) and Kollam DCB the lowest (3.81%). The high increase in share capital of Ernakulam DCB may probably be due to the agricultural and industrial development of Ernakulam district compared to other districts.

5.1.2 Reserves and other funds

Reserves and other funds constitute another component of working capital. Reserves take the form of statutory reserve fund, agricultural credit stabilisation fund, building fund, dividend equalisation fund and other funds. Table 5.3 presents the trend of reserves and other funds of selected DCBs for the period 1979-80 to 1993-94.

A close examination of Table 5.3 highlights an increasing trend during the period 1979-80 to 1993-94. The averages for Ernakulam, Palakkad and Kollam DCBs were above the overall average of Rs.97.30 lakh in the first phase. But in the second phase, it stood above average (Rs.350.94 lakh) only in Ernakulam and Palakkad DCBs. Ernakulam DCB exhibited the highest amount of reserves which increased from Rs.101.76 lakh in the first phase to Rs.526.42 lakh in the second phase. Palakkad DCB closely followed Ernakulam DCB in this respect. Idukki DCB's position was at the bottom during this period, which increased from Rs.36.68 lakh during the first phase to

Table 5.3 Reserves and other funds of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	Statutory		Agricultural		Building	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	1564	5179	1280	4460	506	7281
Kottayam	1139	5195	840	4505	182	229
Palakkad	1430	2222	901	1888	120	153
Kozhikode	948	1725	122	857	123	160
Kollam	2068	2891	1361	2465	1583	2632
Idukki	1027	2295	897	2142	497	1848
Average	1363	3251	900	2719	502	2384

Banks	Dividend equin		Others		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	62	127	6764	35594	10176	52642
Kottayam	43	276	4678	18725	6883	30940
Palakkad	143	77	14767	39381	17361	43720
Kozhikode	19	79	3456	23093	4667	25914
Kollam	88	71	10526	25333	15626	33392
Idukki	78	130	1169	17539	3668	23954
Average	72	127	6894	26613	9730	35094

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

Rs.239.54 lakh in the second phase. Hence, it is evident that Ernakulam DCB, the maximum profit earning bank is creating and utilising the reserves to the maximum possible extent during the period. It may, therefore be inferred that reserves and other funds are positively related to profit.

Table 5.3 reveals that statutory reserve fund of Kollam DCB was highest in the first phase (Rs.20.68 lakh) and that of Kozhikode DCB the lowest (Rs.9.48 lakh). In the second phase, Kottayam DCB occupied the first position with Rs.51.95 lakh and Kozhikode DCB ranked last with Rs.17.25 lakh.

Regarding agricultural credit stabilisation fund, Kollam DCB topped the list with Rs.45.05 lakh during the first phase, whereas in the second phase, Kottayam DCB with Rs.45.05 lakh and Kozhikode DCB with Rs.8.57 lakh occupied the first and least positions respectively.

In the case of building fund, Kollam DCB maintained the highest amount during the first phase and Palakkad DCB maintained the least. However, during the second phase, Ernakulam DCB came to the top of the list (Rs.72.81 lakh) with Palakkad DCB (Rs.1.53 lakh) stepping down to the bottom.

With respect to dividend equalisation fund, the highest amount of Rs.1.43 lakh was recorded at Palakkad DCB and the lowest at Kozhikode DCB (Rs.0.19 lakh) during the first phase.

Kottayam DCB had the highest amount of Rs.2.76 lakh and Kollam DCB had only Rs.0.71 lakh, the minimum, in the second phase.

For the other types of reserves, it was Palakkad DCB which kept the highest amount (Rs.147.67 lakh) and Idukki DCB maintained the lowest amount (Rs.11.69 lakh) in the first phase. But Palakkad DCB had the highest amount of Rs.393.81 lakh and Idukki DCB had the lowest with Rs.175.39 lakh in the second phase.

The trends of reserves and other funds of selected DCBs is exhibited in Table 5.4. It is observed from Table 5.4 that Ernakulam and Kottayam DCBs were keeping sufficient reserves. As referred earlier, it is a clear indication of positive correlation between the utilisation of reserves and the profitability.

Table 5.4 Exponential trend equations in reserves and other funds of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	3.89	0.05	0.80	12.88
Kottayam	3.83	0.05	0.94	12.31
Palakkad	4.33	0.02	0.40	6.34
Kozhikode	3.56	0.06	0.97	16.31
Kollam	4.13	0.01	0.37	4.69
Idukki	3.49	0.07	0.97	17.68

5.1.3 Deposits

Deposits form yet another source of funds including fixed deposits, savings bank deposits, current deposits and call deposits. Table 5.5 exhibits the growth of deposits of selected DCBs for both phases.

Table 5.5 suggests that in general, all these banks showed an increasing trend with regard to different types of deposits during the first and second phases. Total deposits mobilised during the two phases, with respect to Ernakulam, Kottayam and Kollam DCBs were higher than the overall averages. Ernakulam DCB mobilised the maximum during both the phases (Rs.1407.44 lakh and Rs.11862.08 lakh respectively) and Idukki DCB the least (Rs.514.37 lakh and Rs.3208.90 lakh respectively). It can therefore be inferred that the maximum profit making banks (Ernakulam DCB and Kottayam DCB) were mobilising more deposits which they utilise for their business operations for earning more profit.

In terms of fixed deposits, total amount collected by all these DCBs except Idukki DCB were higher than the overall average of Rs.387.71 lakh in the first phase. But in the second phase, Ernakulam, Kottayam and Kollam DCBs only had an average above the overall figure.

Table 5.5 Deposits of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	FD		SB		Current		Call		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	42668	610372	43156	215040	15326	54033	39594	306763	140744	1186208
Kottayam	43537	635082	40423	163139	26916	54585	25133	109155	136009	961961
Palakkad	45054	288745	18973	107994	7563	33589	36649	57653	108239	487881
Kozhikode	45914	248071	24226	107717	13653	47278	4384	30652	88177	433718
Kollam	41344	424272	57877	172896	11221	38214	14717	2945	125159	638327
Idukki	14106	154861	11461	56628	15060	36844	10810	72558	51437	320890
Average	38771	393567	32686	137236	14957	44074	21881	96621	108294	671498

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

With regard to savings bank deposits, Ernakulam, Kottayam and Kollam DCBs deposits were higher than the overall average of (Rs.326.86 lakh and Rs.1372.36 lakh respectively) the two phases.

Meanwhile, in current deposits, Ernakulam, Kottayam and Idukki DCBs crossed the overall average of Rs.149.57 lakh in the first phase. Kottayam DCB recorded the highest figure (Rs.269.16 lakh) with Palakkad DCB maintaining the lowest (Rs.75.63 lakh). In the second phase, the averages of Ernakulam, Kottayam and Kozhikode DCBs' were more than the overall average of Rs.440.74 lakh.

With respect to call deposits, Ernakulam, Kottayam and Palakkad DCBs' showed averages above the overall average of Rs.218.81 lakh in the first phase. The highest amount recorded was with respect to Ernakulam DCB (Rs.395.94 lakh) and the lowest in Kozhikode DCB (Rs.43.84 lakh). In the second phase, the averages of Ernakulam and Kottayam DCBs' alone represented more than the overall average of Rs.966.21 lakh.

The trends of different types of deposits is exhibited in Table 5.6.

Table 5.6 Exponential trend equations in deposits of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	5.03	0.07	0.98	19.84
Kottayam	5.07	0.07	0.98	17.96
Palakkad	4.99	0.05	0.97	13.01
Kozhikode	4.85	0.05	0.95	14.18
Kollam	4.99	0.05	0.93	14.34
Idukki	4.63	0.06	0.97	16.35

It is evident from Table 5.6 that maximum compound growth rate (CGR) recorded was 19.84 per cent for Ernakulam DCB and the minimum in Palakkad with 13.01 per cent. This may be attributed to the high industrial development of the district coupled with the joint efforts of employees with regard to deposit mobilisation.

5.1.4 Borrowings

Borrowings of varied types, constitute the last item of the working capital. DCB's borrowings are made from different sources like State Co-operative Bank, Government, NABARD, RBI, National Housing Bank, Housing Development Finance Corporation, Housing and Urban Development Corporation, Commercial Banks, etc. Different types of borrowings of selected DCBs is exhibited in Table 5.7.

Table 5.7 Borrowings of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	ST		MT		LT		Others		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	5967	21225	567	9681	7138	39991	1	35957	13673	106853
Kottayam	3438	68204	21464	38631	1191	28286	4898	63302	30991	198423
Palakkad	48863	34721	1364	15387	681	62586	0	474	50908	113168
Kozhikode	55172	194257	1026	10322	7163	73150	0	0	59965	277729
Kollam	23283	25950	8270	20243	12350	60668	0	0	43903	106860
Idukki	31045	200082	10579	9006	1865	32427	0	0	43488	241515
Average	27962	90740	7212	17212	5065	49518	817	16622	40488	174091

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

Table 5.7 depicts that there was no uniformity in the growth of borrowings. Regarding total borrowings, all DCBs except Ernakulam and Kottayam had borrowings above the overall average of Rs.404.88 lakh in the first phase. The lowest amount of borrowings in the first phase was recorded at Ernakulam DCB and the highest amount at Kozhikode DCB. The same pattern was seen in the second phase also. The borrowings in the second phase was Rs.10.68 crore at Ernakulam DCB and Rs.27.77 crore at Kozhikode DCB. Hence, it is inferred that the highest cost item of funds (borrowings) is the minimum in the case of maximum profit earning bank. In these two phases, short-term borrowings constituted the major part of total borrowings of the majority of banks.

The maximum amount of medium-term borrowings was recorded at Kottayam DCB (Rs.214.64 lakh) and minimum amount at Ernakulam DCB (Rs.5.67 lakh) in the first phase. In the second phase also, it was Kottayam DCB that borrowed the maximum amount (Rs.368.31 lakh) and Idukki DCB, the least (Rs.90.06 lakh).

Regarding long-term borrowings, Kollam DCB borrowed the maximum amount and Palakkad DCB the minimum amount in the first phase. But in the second phase, Kozhikode DCB recorded maximum borrowings (Rs.731.50 lakh) and Kottayam DCB, the minimum amount (Rs.282.86 lakh). Since the pattern is irregular, computation of growth rates is meaningless.

5.2 Uses of funds

Banks utilise the collected funds for meeting the various reserve requirements, granting loans and advances, purchase of fixed assets and investing in different types of securities. The trend and pattern of deployment of funds for different purposes are analysed in the succeeding paragraphs.

5.2.1 Cash in hand and at bank

DCBs are required to keep 3 per cent and 25 per cent of their demand and time liabilities as cash reserve ratio and statutory liquidity ratio respectively. Usually, banks as a practice, keep more than this statutorily required minimum. Hence, even though this amount was liable to frequent changes, it showed an increasing trend due to increase in demand and time liabilities. Cash in hand and at bank of selected DCBs for the period 1979-80 to 1993-94 is displayed in Table 5.8.

As exhibited in Table 5.8, cash in hand and at bank of three DCBs were higher than the overall average of Rs.303.32 lakh in the first phase. The maximum amount was maintained by Ernakulam DCB (Rs.426.81 lakh) and the minimum amount by the Idukki DCB (Rs.154.40 lakh). In the second phase also, these DCBs averages were higher than the overall average of Rs.27.34 crore. Ernakulam DCB had an average of Rs.54.04 crores, while Idukki DCB with Rs.6.01 crore stood last.

Table 5.8 Cash in hand and at Bank of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	Cash		Bank		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	8880	163846	33801	376631	42681	540477
Kottayam	11603	49180	8081	275908	19684	325088
Palakkad	5351	46476	25964	134895	31315	181371
Kozhikode	6144	135818	17984	112067	24128	247884
Kollam	11312	31201	37429	154366	48741	285567
Idukki	3263	21631	12177	38496	15440	60127
Average	7759	74692	22573	198727	30332	273419

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

With regard to cash balances, in the first phase, three DCBs kept amounts higher than the overall average of Rs.77.59 lakh. Of this, Kottayam DCB kept the maximum amount (Rs.116.03 lakh) followed by Kollam DCB. Idukki DCB kept the minimum amount in this phase. Only Ernakulam and Kozhikode DCBs' averages were higher than the overall average of cash position in the second phase. Ernakulam DCB kept the highest amount (Rs.16.38 crore) and Idukki DCB kept the lowest amount (Rs.2.16 crore) during this phase.

Meanwhile in bank balances, the averages for these DCBs were higher than the overall average of Rs.2.25 crore during the first phase. The average was the highest in the case of Ernakulam DCB (Rs.3.38 crore) and the lowest in Idukki DCB (Rs.1.21 crore). In the second phase, averages of Ernakulam, Kottayam and Kollam DCBs stood above the overall average (Rs.19.87 lakh).

Computed growth rates of cash in hand and at bank is displayed in Table 5.9.

Table 5.9 Exponential trend equations in cash in hand and at bank of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	4.47	0.09	0.96	23.77
Kottayam	4.22	0.09	0.89	25.69
Palakkad	4.42	0.06	0.97	14.81
Kozhikode	4.24	0.07	0.92	19.83
Kollam	4.55	0.05	0.87	14.67
Idukki	4.17	0.04	0.88	12.26

Table 5.9 points out that the maximum CGR (25.69%) was recorded at Kottayam DCB and minimum (12.26%) at Idukki DCB. Hence, it may be inferred that Idukki DCB is managing the liquidity with minimum amount of cash.

5.2.2 Money at call and short notice

In order to maintain liquidity, DCBs generally utilise a portion of their funds to invest in money at call and short notice. It is observed that (See appendix 1) in all banks the amount endowed in this type of investment has varied considerably during the period 1979-80 to 1993-94. The selected DCBs investment in this category for the two phases are given in Table 5.10.

Table 5.10 Money at call and short notice of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	1981-82	1993-94
Ernakulam	18600	63167
Kottayam	28000	89333
Palakkad	3800	5667
Kozhikode	3667	32000
Kollam	1333	8333
Idukki	2900	31000
Average	9717	38250

Source: Annual Reports of DCBs for the period 1979-80 to 1993-94

The amount endowed in this type of investment is clear from Table 5.10. In the first phase, only Ernakulam and Kottayam DCBs' averages were higher than the overall average of Rs.97.17 lakh. The highest average was recorded at Kottayam DCB (Rs.186 lakh) and the lowest average at Kollam DCB (Rs.13.33 lakh). In the second phase also, only Ernakulam and Kottayam DCBs' averages were above the overall average of Rs.382.5 lakh. Kottayam DCB had the highest average (Rs.893.33 lakh) and Palakkad DCB had the least average (Rs.56.67 lakh).

Investment in money at call and short notice was not following any specific pattern. Hence, growth curves cannot be fitted to these values and comparisons were made purely on the basis of absolute values.

5.2.3 Loans and advances

DCBs utilise a major portion of their funds for granting different types of loans and advances. On the basis of duration, loans are mainly classified into short, medium and long-term. Different types of loans granted by the selected DCBs are shown in Table 5.11.

Table 5.11 Loans and advances of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	ST		MT		LT		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	66976	486409	35462	252324	13252	112354	115690	851088
Kottayam	75869	390493	52846	177290	5894	164010	134609	731793
Palakkad	128459	390694	13969	50152	1747	98444	144175	539290
Kozhikode	123428	311932	15007	54883	9226	93699	147660	460514
Kollam	90735	384964	39098	89157	14561	57992	144393	532114
Idukki	93454	337465	13347	100990	3137	84527	109938	522981
Average	96487	383660	28288	120799	7970	101838	132744	606297

Source: Annual reports of selected DCBs for the period 1979-80 to 1993-94

It may be observed from Table 5.11 that the overall loan position has increased considerably from the first phase to the second phase. In the first phase, all DCBs except Ernakulam and Idukki had averages above the overall average of Rs.13.27 crore. Maximum amount of loans were granted by Kozhikode DCB and minimum amount by Idukki DCB. But in the second phase, Ernakulam DCB's average was Rs.85.10 crore followed by Kottayam DCB (Rs.73.17 crore). Kozhikode DCB had the lowest average of Rs.46.05 crore in this phase. It is inferred that the maximum loan granting banks were the ones earning maximum profit. In other words, profit is positively related to loans and advances.

In the case of short-term loans, two DCBs recorded averages above the overall average of Rs.9.64 crore in the first phase. Palakkad DCB scored the first position with Rs.12.84 crore and Kollam DCB with Rs.9.07 crore occupied the last position. But in the second phase, all DCBs except Kozhikode and Idukki had averages above the overall average of Rs.38.36 crore. The highest average was recorded at Ernakulam DCB (Rs.48.64 crore) in the second phase which upgraded to the first position from the 6th position and the lowest average by Kozhikode DCB (Rs.31.19 crore).

Considering medium-term loans, it may be seen that the DCBs of Ernakulam, Kottayam and Kollam had averages above the overall average of Rs.2.82 crore in the first phase. The

highest average was recorded at Kottayam DCB (Rs.5.28 crore) and the lowest at Idukki DCB (Rs.1.33 crore). But, with regard to the second phase, Ernakulam DCB improved from the third position to the first position and Palakkad DCB from the 5th position to the sixth position.

Banks' averages in terms of long-term loans were above the overall average, Rs.79.70 lakh in the first phase in three DCBs. Of this, Kollam DCB occupied the first position with Rs.1.45 crore and Palakkad DCB ranked last with Rs.17.47 lakh. But in the second phase, Kottayam DCB rose from the fourth to the first position. However, Kollam DCB's was dropped to the sixth position compared to the first place in the first phase.

The trends in loans and advances of selected DCBs for the period 1979-80 to 1993-94 is exhibited in Table 5.12.

Table 5.12 Exponential trend equations in loans and advances of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	4.96	0.07	0.99	18.55
Kottayam	5.09	0.06	0.96	15.60
Palakkad	5.12	0.04	0.96	11.44
Kozhikode	5.12	0.04	0.92	10.92
Kollam	5.06	0.04	0.96	11.90
Idukki	5.00	0.05	0.99	13.85

Table 5.12 reveals that the maximum CGR was recorded at Ernakulam DCB (18.55%) and the minimum at Kozhikode DCB (10.92%). The reason for the maximum CGR of Ernakulam DCB may be the efficient utilisation of funds mobilised.

5.2.4 Fixed assets

In the context of DCBs, fixed assets constitute a small portion of their total assets comprising premises, furniture and fixtures, vehicle and library, etc. The amount invested in fixed assets during two phases are highlighted in Table 5.13.

It may be observed from Table 5.13 that in the first phase, the average of Ernakulam, Kottayam and Kollam DCBs in terms of total fixed assets were higher than the overall average of Rs.18.78 lakh, with maximum investments being made by Kottayam DCB (Rs.35.22 lakh) and minimum by Palakkad DCB (Rs.7.64 lakh). Amount spent on fixed assets made significant increase in the second phase. Palakkad, Kollam and Kottayam DCBs had averages higher than the overall average of Rs.49.07 lakh in this phase. Palakkad DCB had the highest average of Rs.79.69 lakh which may probably be due to the construction of new building for its head office. The highest average for Kollam DCB (Rs.64.26 lakh) may however be due to the construction of a new auditorium, which the bank used to be given for rentals.

Table 5.13 Fixed assets of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	Premises		F and F		V+L		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	686	4	1154	3630	139	177	1979	3811
Kottayam	1169	2209	2157	2664	196	407	3522	5279
Palakkad	265	5377	464	2399	36	193	764	7969
Kozhikode	626	810	673	2304	95	119	1394	3233
Kollam	1279	4650	1367	1718	133	58	2780	6426
Idukki	110	915	571	1573	47	239	828	2726
Average	689	2328	1081	2381	108	199	1878	4907

Note : 1. F and F = Furniture and fixtures
2. V+L = Vehicle plus library

Source: Annual reports of selected DCBs for the period 1979-80 to 1993-94

With regard to premises, in the first phase, all DCBs except Kottayam and Kollam had averages below the overall average of Rs.6.89 lakh. But in the second phase, premises has increased considerably. The averages for Palakkad and Kollam DCBs were higher than the overall average of Rs.23.28 lakh.

Regarding furniture and fixtures, three DCBs showed averages above the overall average of Rs.10.81 lakh in the first phase. Kottayam DCB exhibited the highest average (Rs.21.57 lakh) and Palakkad DCB had the lowest average (Rs.4.64 lakh). There was significant increase in the second phase. Three DCBs, viz., Ernakulam, Kottayam and Palakkad had averages above the overall average of Rs.23.81 lakh. While Ernakulam DCB spent maximum amount for furniture and fixtures, Idukki DCB showed a reverse pattern during the second phase.

With respect to vehicle and library, only three DCBs' had averages above the overall average of Rs.1.08 lakh in the first place. Kottayam DCB spent the highest amount and Idukki spent the lowest amount in this phase. But in the second phase, only two DCBs had averages above the overall average of Rs.1.99 lakh. Kottayam DCB spent the maximum amount in this regard (Rs.4.07 lakh) followed by Idukki DCB (Rs.2.39 lakh). Minimum amount in this respect was spent by Kollam DCB.

The growth rate in fixed assets was not significant in the DCBs of Ernakulam, Kottayam, Kozhikode and Kollam. This is evident from Table 5.14.

Table 5.14 Exponential trend equations in fixed assets of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	3.32	0.01	0.40	4.59
Kottayam	3.57	0.01	0.53	3.09
Palakkad	2.78	0.08	0.85	21.67
Kozhikode	3.15	0.03	0.80	7.34
Kollam	3.44	0.02	0.70	6.77
Idukki	2.99	0.04	0.61	11.15

As given in Table 5.14, comparatively high CGR in Palakkad DCB (21.67%) and Idukki DCB (11.15%) may be due to the construction of new buildings for their head offices in 1984-85 and 1989-90 respectively.

5.2.5 Investments in securities

Banks utilise a portion of their funds mobilised for investment in Government securities, trustee securities, shares in co-operative societies and other types of securities which are considered as near cash items in terms of liquidity. The composition and growth of investments in securities of selected DCBs is presented in Table 5.15.

Table 5.15 Investments of selected DCBs for the triennia ended 1981-82 and 1993-94

(Rs. in thousands)

Banks	Government		Trustee		Shares		Others		Total	
	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94	1981-82	1993-94
Ernakulam	684	1347	93	9533	1288	5076	0	0	1915	15976
Kottayam	609	0	2771	58833	1920	7066	0	708	5300	69307
Palakkad	1920	8359	231	1232	3477	8884	0	0	5695	18475
Kozhikode	1480	6217	456	292	3669	9672	1	84	5606	16264
Kollam	3218	1333	188	0	3475	7481	0	2667	6882	11481
Idukki	441	567	0	6967	2281	12885	354	2699	3076	23118
Average	1392	2974	623	12810	2685	8511	59	1026	4746	25770

Source: Annual reports of DCBs for the period 1979-80 to 1993-94

A close examination of Table 5.15 shows that, out of the six selected banks, all except Ernakulam and Idukki had averages above the overall average of Rs.47.46 lakh in the first phase. The highest amount (Rs.68.82 lakh) was recorded at Kollam DCB and the lowest amount (Rs.19.15 lakh) at Ernakulam DCB. In the second phase, only Kottayam DCB had an average (Rs.6.93 crore) higher than the overall average of Rs.2.57 crore. Idukki DCB with Rs.2.31 crore secured the second position and Kollam DCB ranked the last with Rs.1.14 crore. Hence, it may be inferred that preference for investments was higher in Kottayam DCB.

Meanwhile in Government securities, Palakkad, Kozhikode and Kollam DCBs exhibited averages higher than the overall average of Rs.13.92 lakh in the first phase with Kollam DCB taking the lead (Rs.32.18 lakh) and Idukki DCB the lowest position. In the second phase, the overall average increased to Rs.29.74 lakh and it was only Palakkad and Kozhikode DCBs whose averages stood above the overall average. Kottayam DCB had no investments in this type of securities.

With regard to trustee securities, the overall average was Rs.6.23 lakh in the first phase. Only Kollam DCB had an average (Rs.27.71 lakh) higher than the overall average. In the second phase, however, the overall average increased to Rs.1.28 crore with only Kottayam DCB (Rs.5.88 crore) exhibiting an average higher than the overall average.

In the case of shares in co-operative societies, the overall average stood at Rs.26.85 lakh in the first phase. Kozhikode DCB and Ernakulam DCB respectively invested the maximum and the minimum amount. In the second phase, the overall average has increased to Rs.85.11 lakh. The averages of only three DCBs were higher than the overall average of 85.11 lakh. Idukki DCB made the highest investment (Rs.1.28 crore) and Ernakulam DCB the lowest (Rs.50.76 lakh).

Only Idukki DCB had invested (Rs.3.54 lakh) in `other types' of securities during the first phase. However, another three DCBs made investments in this type of securities during the second phase. The overall average of this type of securities was Rs.10.26 lakh. Idukki DCB invested the maximum amount of Rs.26.99 lakh.

The trends in investments in securities is exhibited in Table 5.16.

Table 5.16 Exponential trend equations in investments of selected DCBs for the period 1979-80 to 1993-94

Bank	A=log a	B=log b	R^2	CGR
Ernakulam	3.20	0.08	0.91	20.94
Kottayam	3.62	0.09	0.95	25.11
Palakkad	3.74	0.04	0.93	10.76
Kozhikode	3.67	0.04	0.93	10.39
Kollam	3.79	0.03	0.43	7.56
Idukki	3.51	0.06	0.98	15.90

Table 5.16 reveals that Kottayam DCB recorded the maximum CGR leading to the inference that preference for investments is increasing with Kottayam DCB.

In the above paragraphs, the trend and pattern in the growth of important funds management variables, viz., share capital, reserves and other funds, deposits, borrowings, cash in hand and at bank, money at call and short notice, loans and advances, fixed assets and investments in securities were analysed. The analysis revealed that in almost all cases, exponential functions could explain the growth pattern.

In the succeeding chapter, detailed analysis of sources and uses of funds is done with the support of detailed monthly figures.

Sources and uses of funds in District Co-operative Banks - A monthly analysis

CHAPTER-VI

SOURCES AND USES OF FUNDS IN DISTRICT CO-OPERATIVE BANKS - A MONTHLY ANALYSIS

In the earlier chapter, we have examined the trends in the sources and uses of funds in DCBs with the help of yearly data. But in order to have an amplified study of funds management of DCBs, a detailed examination of various sources of funds and its uses are a prerequisite which is attempted in this chapter.

6.1 Sources of funds

The sources of funds include share capital, reserves and other funds, deposits and borrowings. In the case of share capital, there was only marginal monthly increase. Reserves and other funds were also not accounted because they were transferred only once in a year. Further, the general policy is to transfer the minimum statutory requirements to the particular heads in every year. Hence, it is appriorily felt that, there may not be any significant variations in the composition of these items over the years and are not included in the detailed study. Hence, an attempt is made to classify the deposits on monthly basis and again on the basis of nature. Borrowings were classified on the basis of sources. All these were studied on the basis of monthly composition of

sources and uses of funds in selected DCBs for the period 1989-90 to 1993-94.

6.2 Deposits - Typewise classification

Deposits constitute the major portion of funds of DCBs. All the DCBs are accepting different types of deposits like current account, savings bank account, money at call and short notice and fixed deposits. For detailed monthly analysis also, deposits were classified on the same basis. Monthly average of the composition of deposits of all selected DCBs is exhibited in Table 6.1.

Table 6.1 Monthly average of the composition of deposits of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Banks	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
Ernakulam	62694 (6.86)	182413 (19.95)	218455 (23.89)	450770 (49.30)	914332 (100)
Kottayam	102229 (12.72)	165306 (20.57)	260936 (32.48)	275008 (34.23)	803479 (100)
Palakkad	27156 (6.24)	73035 (16.79)	123110 (28.30)	211767 (48.67)	435068 (100)
Kozhikode	42385 (12.27)	95987 (27.78)	49420 (14.30)	157720 (45.65)	345512 (100)
Kollam	26743 (5.43)	137824 (27.98)	13116 (2.66)	314818 (63.93)	492501 (100)
Idukki	27215 (12.35)	45066 (20.45)	51122 (23.20)	96953 (44.00)	220356 (100)
Average	48070 (9.31)	116605 (22.25)	119360 (20.80)	251173 (47.64)	535208 (100)

Note : Figures in brackets represent percentage to total
Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

It is made clear from Table 6.1 that Ernakulam DCB mobilised the highest amount of deposits closely followed by Kottayam DCB. The average of total deposits mobilised by Ernakulam DCB during the period 1989-90 to 93-94 was Rs.9143.32 lakh and that of Kottayam DCB Rs.8034.79 lakh. Idukki DCB collected only Rs.2203.56 lakh as deposits. Fixed deposits composed the major portion of deposits (about 48%) collected by all DCBs. With regard to call deposits, it constituted the second highest amount mobilised by all DCBs except Kozhikode and Kollam DCBs. The overall average of call deposits was 20.80 per cent.

Bank wise details of deposits are exhibited in Tables 6.2 to 6.8.

Ernakulam

It could be observed from Table 6.2 that monthly average of total deposits accepted by Ernakulam DCB has increased considerably during the study period 1989-90 to 1993-94. It has increased from Rs.5677 lakh (1989-90) to Rs.12874.80 lakh (1993-94). Of the total deposits accepted during this period, fixed deposits accounted a major portion (49.3%). Current account constituted the minimum portion of total deposits, ie., less than 6.86 per cent in all years under study.

Table 6.2 Monthly average of the composition of deposits of Ernakulam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	45936 (8.09)	147932 (26.06)	128177 (22.58)	245654 (43.27)	567699 (100)
1990-91	46923 (6.91)	165557 (24.37)	165876 (24.42)	300930 (44.30)	679286 (100)
1991-92	63059 (6.31)	185002 (18.53)	243219 (24.36)	507288 (50.80)	998568 (100)
1992-93	70682 (6.81)	192412 (18.53)	251305 (24.19)	524230 (50.47)	1038629 (100)
1993-94	86869 (6.75)	221161 (17.18)	303700 (23.58)	675750 (52.49)	1287480 (100)
Average	62694 (6.86)	182413 (19.95)	218455 (23.89)	450770 (49.30)	914332 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kottayam

As disclosed by Table 6.3, the average of total deposits of Kottayam DCB has increased from Rs.5745.56 lakh in 1989-90 to Rs.11189.57 lakh in 1993-94. Fixed deposits contributed the maximum to total deposits which increased from 34.47 per cent in 1989-90 to 38.15 per cent in 1993-94 which was closely followed by call deposits. Current deposits contributed the minimum percentage to total deposits which was 11.95 per cent in 1989-90 and 13.72 per cent in 1993-94.

Table 6.3 Monthly average of the composition of deposits of Kottayam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	68634 (11.95)	108765 (18.93)	199094 (34.65)	198063 (34.47)	574556 (100)
1990-91	87394 (13.62)	112888 (17.60)	233223 (36.35)	208085 (32.43)	641590 (100)
1991-92	91584 (11.62)	150415 (19.09)	304552 (38.64)	241562 (30.65)	788113 (100)
1992-93	110053 (12.31)	170731 (19.09)	313010 (35.01)	300380 (33.59)	894174 (100)
1993-94	153478 (13.72)	283729 (25.36)	254802 (22.77)	426948 (38.15)	1118957 (100)
Average	102229 (12.72)	165306 (20.57)	260936 (32.48)	275008 (34.23)	803479 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Palakkad

Table 6.4 exposed that monthly average of total deposits of Palakkad DCB has increased considerably during the study period. It has increased from Rs.3179.12 lakh in 1989-90 to Rs.5595.95 lakh in 1993-94. Fixed deposits have increased from Rs.1125.56 lakh (35.40% to total) in 1989-90 to Rs.3251.80 lakh (58.11% to total) in 1993-94. Of the total deposits, fixed deposits accounted the highest monthly average

(Rs.2117.67 lakh) followed by call deposit. Current account constituted only a small portion of the monthly average of total deposits.

Table 6.4 Monthly average of the composition of deposits of Palakkad DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	16732 (5.26)	49530 (15.58)	139094 (43.76)	112556 (35.40)	317912 (100)
1990-91	18231 (5.22)	65275 (18.67)	137647 (39.38)	128403 (36.73)	349556 (100)
1991-92	30719 (7.13)	75236 (17.47)	128479 (29.84)	196146 (45.56)	430580 (100)
1992-93	36460 (7.04)	83153 (16.06)	101534 (19.62)	296548 (57.28)	517695 (100)
1993-94	33637 (6.01)	91982 (16.44)	108796 (19.44)	325180 (58.11)	559595 (100)
Average	27156 (6.24)	73035 (16.79)	123110 (28.30)	211767 (48.67)	435068 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kozhikode

It came to light from Table 6.5 that monthly average of deposits mobilised by Kozhikode DCB has boosted from Rs.2404.49 lakh in 1989-90 to Rs.4606.06 lakh in 1993-94. This DCB has mobilised more amount as fixed deposits which was 46.66 per cent in 89-90 and 44.97 per cent in 93-94. Current account recorded only a small portion of total deposits which was always less than 13.02 per cent in all years under the study period.

Table 6.5 Monthly average of the composition of deposits of Kozhikode DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	31213 (12.98)	77506 (32.23)	19542 (8.13)	112188 (46.66)	240449 (100)
1990-91	33343 (12.07)	87982 (31.85)	29864 (10.82)	125023 (45.26)	276212 (100)
1991-92	44565 (13.01)	93605 (27.32)	46120 (13.46)	158346 (46.21)	342636 (100)
1992-93	46039 (11.29)	109438 (26.85)	66284 (16.26)	185892 (45.60)	407653 (100)
1993-94	56762 (12.32)	111406 (24.19)	85289 (18.52)	207149 (44.97)	460606 (100)
Average	42385 (12.27)	95987 (27.78)	49420 (14.30)	157720 (45.65)	345512 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kollam

Table 6.6 revealed that Kollam DCB's monthly average of total deposits increased from Rs.3281.11 lakh in 89-90 to Rs.6940.33 lakh in 93-94. Fixed deposits constitute the major portion of total deposits which was followed by savings bank accounts. Fixed deposits constitute about 58.26 per cent in 89-90 and 67.34 per cent in 93-94. Deposits mobilised by current account was very small during this period.

Table 6.6 Monthly average of the composition of deposits of Kollam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	20905 (6.37)	103928 (31.68)	12112 (3.69)	191166 (58.26)	328111 (100)
1990-91	21475 (5.78)	116557 (31.37)	11699 (3.15)	221788 (59.70)	371519 (100)
1991-92	28075 (5.87)	140000 (29.28)	11943 (2.50)	298102 (62.35)	478120 (100)
1992-93	27676 (4.69)	153862 (26.04)	13500 (2.29)	395682 (66.98)	590720 (100)
1993-94	35583 (5.13)	174774 (25.18)	16325 (2.35)	467351 (67.34)	694033 (100)
Average	26743 (5.43)	137824 (27.98)	13116 (2.66)	314818 (63.93)	492501 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Idukki

It was highlighted from Table 6.7 that in Idukki DCB also there was considerable increase in the monthly average of total deposits which increased from Rs.1460.77 lakh in 89-90 to Rs.3254.03 lakh in 93-94. Like other DCBs, in this DCB also fixed deposits recorded the major portion of total deposits which increased from 35.85 per cent in 89-90 to 50.15 per cent in 93-94. Call deposits came next only to fixed deposits.

Table 6.7 Monthly average of the composition of deposits of Idukki DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Current deposits	Savings Bank deposits	Call deposits	Fixed deposits	Total
1989-90	24603 (16.84)	36979 (25.31)	32133 (22.00)	52362 (35.85)	146077 (100)
1990-91	31034 (16.67)	43371 (23.29)	45976 (24.69)	65804 (35.34)	186185 (100)
1991-92	19843 (10.66)	44807 (24.06)	48004 (25.78)	90223 (48.46)	202877 (100)
1992-93	30101 (12.48)	47882 (19.85)	50063 (20.75)	113193 (46.92)	241239 (100)
1993-94	30497 (9.37)	52288 (16.07)	79433 (24.41)	163185 (50.15)	325403 (100)
Average	27215 (12.35)	45066 (20.45)	51122 (23.20)	96953 (44.00)	220356 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

6.3 Borrowings - Sourcewise classification

Another important constituent of working capital is borrowings. The DCBs borrow from State Co-operative Banks, Government, National Housing Bank, Housing Development Finance Corporation, Housing and Urban Development Corporation, Integrated Co-operative Development Project, National Bank for Agriculture and Rural Development, Reserve Bank of India and commercial banks. Borrowings are classified on the basis of the sources from which they borrowed, viz., `Kerala State Co-operative Bank', `other banks' (National Bank for Agriculture and Rural Development, RBI and Commercial Banks) and `Others' (Government, National Housing Bank, Housing Development Finance Corporation, Housing and Urban Development Corporation and Integrated Co-operative Development Project).

Total monthly average borrowings of all selected DCBs is exposed in Table 6.8.

Table 6.8 Monthly average of the composition of borrowings of selected DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Banks	KSCB	Other Banks	Others	Total
Ernakulam	88441 (90.72)	1371 (1.41)	7673 (7.87)	97485 (100)
Kottayam	168620 (97.03)	-	5157 (12.97)	173777 (100)
Palakkad	107269 (93.17)	801 (0.70)	7063 (6.13)	115133 (100)
Kozhikode	230993 (100)	-	-	230993 (100)
Kollam	99278 (100)	-	-	99278 (100)
Idukki	227621 (100)	-	-	227621 (100)
Average	153704 (96.82)	-	-	157381 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

It is made clear from Table 6.8 that only Ernakulam DCB and Palakkad DCB, had borrowings from KSCB, `other banks' and `others'. Kottayam DCB borrowed from KSCB and `others' and the rest i.e., Kozhikode, Kollam and Idukki DCBs borrowed from KSCB only. Borrowings of Kozhikode DCB was highest (Rs.2309.93 lakh) closely followed by Idukki DCB (Rs.2276.21 lakh). Ernakulam DCB recorded the lowest borrowings i.e. Rs.974.85 lakh. The lowest borrowings of Ernakulam DCB may be due to huge volume of deposits resulted from the deposit mobilisation campaigns of the bank. This has resulted in the reduction of interest cost on borrowings which has ultimately

resulted in the reduction of total cost. Borrowings from KSCB constituted the largest portion of total borrowings and the overall average of this was 96.82 per cent.

Bank wise details of borrowings are exhibited in Tables 6.9 to 6.14.

Ernakulam

According to Table 6.9 Ernakulam DCB borrowed from all sources like Kerala State Co-operative Bank (KSCB), other banks and others during the period 1989-90 to 93-94. Monthly average of borrowings of Ernakulam DCB was highest in the year 1991-92 (Rs.1086.98 lakh). This DCB borrowed the maximum from KSCB which was more than 93.67 per cent in all years except 93-94. In the year 93-94, the borrowings from KSCB was only 64.98 per cent, from other banks (State Bank of India, State Bank of Travancore) 0.04 per cent and from others, (Greater Cochin Development authority and Housing Development Finance Corporation) it was 34.98 per cent.

Table 6.9 Monthly average of the composition of borrowings of Ernakulam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	91018 (93.67)	5114 (5.26)	1040 (1.07)	97172 (100)
1990-91	106445 (98.57)	349 (0.32)	1202 (1.11)	107996 (100)
1991-92	106114 (97.62)	1353 (1.25)	1231 (1.13)	108698 (100)
1992-93	76487 (98.15)	1 (0.00)	1439 (1.85)	77927 (100)
1993-94	62143 (64.98)	36 (0.04)	33455 (34.98)	95634 (100)
Average	88441 (90.72)	1371 (1.41)	7673 (7.87)	97485 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kottayam

As exhibited in Table 6.10, Kottayam DCB has borrowed from KSCB and others. Of the two sources, this DCB made maximum borrowings from KSCB which was more than 95.75 per cent in all years. Monthly average borrowings of this DCB was highest in 1992-93 (Rs.1891.81 lakh) and lowest in 89-90 (Rs.1567.48 lakh) during the study period 1989-90 to 93-94.

Table 6.10 Monthly average of the composition of borrowings of Kottayam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	154224 (98.39)	-	2524 (1.61)	156748 (100)
1990-91	176902 (98.19)	-	3258 (1.81)	180160 (100)
1991-92	152220 (97.02)	-	4675 (2.98)	156895 (100)
1992-93	181744 (96.07)	-	7437 (3.93)	189181 (100)
1993-94	178011 (95.75)	-	7893 (4.25)	185904 (100)
Average	168620 (97.03)	-	5157 (12.97)	173777 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Palakkad

As disclosed in Table 6.11 Palakkad DCB borrowed from all the three sources during the period 1989-90 to 1993-94. The monthly average borrowings was maximum in 1993-94 (Rs.1335.96 lakhs) and minimum in 1990-91 (Rs.1014.04 lakh). In all the years under study, the highest amount of borrowings was from KSCB which was always more than 90 per cent of total borrowings. Next to KSCB, this DCB made borrowings mainly from other sources, viz., Integrated Co-operative Development Project and Provident Fund to be invested in KSCB. The lowest amount of borrowings was from other banks (State Bank of India and State Bank of Travancore).

Table 6.11 Monthly average of the composition of borrowings of Palakkad DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	100045 (97.62)	33 (0.03)	2404 (2.35)	102482 (100)
1990-91	97661 (96.31)	788 (0.78)	2955 (2.91)	101404 (100)
1991-92	99934 (90.95)	2823 (2.57)	7124 (6.48)	109881 (100)
1992-93	115865 (90.30)	252 (0.20)	12185 (9.50)	128302 (100)
1993-94	122841 (91.95)	108 (0.08)	10647 (7.97)	133596 (100)
Average	107269 (93.17)	801 (0.70)	7063 (6.13)	115133 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kozhikode

As per Table 6.12 the borrowings position of Kozhikode DCB has varied considerably during this five year period. This DCB made borrowings only from KSCB. The highest amount of borrowings was in 1992-93 (Rs.3320.21 lakh) closely followed by 1991-92 (Rs.2743.06 lakh) and lowest in 1993-94 (Rs.1388.20 lakh).

Table 6.12 Monthly average of the composition of borrowings of Kozhikode DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	217812 (100)	-	-	217812 (100)
1990-91	192006 (100)	-	-	192006 (100)
1991-92	274306 (100)	-	-	274306 (100)
1992-93	332021 (100)	-	-	332021 (100)
1993-94	138820 (100)	-	-	138820 (100)
Average	230993 (100)	-	-	230993 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kollam

The position of monthly average borrowings of Kollam DCB is exhibited in Table 6.13. Kollam DCB borrowed only from KSCB. The amount of borrowings varied during this five year period. Maximum amount of borrowings was recorded in 1989-90 (Rs.1390.74 lakh) followed by 1992-93 (Rs.984.23 lakh).

Table 6.13 Monthly average of the composition of borrowings of Kollam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	139074 (100)	-	-	139074 (100)
1990-91	87227 (100)	-	-	87227 (100)
1991-92	94653 (100)	-	-	94653 (100)
1992-93	98423 (100)	-	-	98423 (100)
1993-94	77011 (100)	-	-	77011 (100)
Average	99278 (100)	-	-	99278 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Idukki

As exposed in Table 6.14, Idukki DCB made borrowings from KSCB only during the period 1989-90 to 1993-94. It was also seen that there was no consistency in the quantum of borrowings. The highest monthly average borrowings of this DCB was in 1991-92 (Rs.2585.15 lakh) and lowest in 1989-90 (Rs.1985.41 lakh).

Table 6.14 Monthly average of the composition of borrowings of Idukki DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	KSCB	Other Banks	Others	Total
1989-90	198541 (100)	-	-	198541 (100)
1990-91	218475 (100)	-	-	218475 (100)
1991-92	258515 (100)	-	-	258515 (100)
1992-93	237631 (100)	-	-	237631 (100)
1993-94	224941 (100)	-	-	224941 (100)
Average	227621 (100)	-	-	227621 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

6.4 Uses of funds

The uses of funds include cash in hand and at bank, money at call and short notice, loans and advances, investments, in Government and other approved securities and investments in fixed assets. Monthly, detailed analysis of cash in hand and at bank including money at call and short notice were done for the period 1989-90 to 1993-94 and its opportunity cost is also worked out (Chapter 7). Loans and advances constitutes the next item under uses of funds. Monthly figures of loans and advances were analysed by classifying them into different groups on the basis of purpose. Investments in Government and other approved securities and in fixed assets were negligible

and were done once or twice in a year. Hence, these two items were not included in the detailed study.

6.5 Loans and advances - Purpose wise classification

Major portion of funds of a bank is utilised for giving loans and advances. Generally all these DCBs are granting different types of loans like overdraft facilities, cash credit, short, medium and long-term credit, schematic loans, agricultural loans, priority sector lending, industrial loans, housing loans, loan for consumer durables, gold loan to individuals, bills discounting facilities, assistance for integrated co-operative development project, loan for marketing societies, employees societies, etc.

For the purpose of detailed monthly analysis, loans and advances were classified into seasonal agricultural operations, marketing of crops, medium term agricultural purposes, weavers societies, other industrial purposes and `other purposes'. Monthly average of the composition of loans and advances of the selected DCBs for the period 1989-90 to 1993-94 were analysed for this study.

Total monthly average of loans and advances of all selected DCBs is exhibited in Table 6.15.

Table 6.15 Monthly average of the composition of loans and advances of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Banks	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
Ernakulam	180507 (27.11)	-	24413 (3.67)	26836 (4.03)	18574 (2.79)	415405 (62.40)	665735 (100)
Kottayam	190777 (30.16)	7880 (1.25)	17943 (2.84)	19838 (3.14)	28294 (4.47)	367733 (58.14)	632465 (100)
Palakkad	120442 (26.08)	4705 (1.03)	15203 (3.29)	16501 (3.57)	21005 (4.55)	284038 (61.48)	461894 (100)
Kozhikode	112192 (25.71)	6059 (1.39)	13598 (3.12)	13498 (3.09)	22557 (5.17)	268387 (61.52)	436291 (100)
Kollam	119879 (28.28)	-	14695 (3.46)	16548 (3.91)	13420 (3.16)	259372 (61.19)	423914 (100)
Idukki	108326 (29.16)	4740 (1.27)	8939 (2.40)	16002 (4.31)	17608 (4.74)	215920 (58.12)	371535 (100)
Average	138657 (27.75)	3897 (0.82)	15799 (3.13)	18204 (3.68)	20243 (4.15)	301809 (60.47)	498639 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Table 6.15 revealed that all these DCBs have granted maximum amount of loans and advances for `other purposes' closely followed by `seasonal agricultural operations'. These six DCBs have granted about 60 per cent of their total loans and advances for `other purposes'. Ernakulam DCB accounted the highest percentage ie. 62.40 per cent closely followed by Kozhikode DCB (61.52%). For `seasonal agricultural operations', the highest percentage (30.16) was recorded in Kottayam DCB and lowest (25.71) in Kozhikode DCB. The minimum amount of loans granted was for `marketing of crops'. Only four banks (except Ernakulam and Kollam DCB) have granted loans for this group and the amount granted by these banks was very nominal.

Bank wise details of borrowings are shown in Tables 6.16 to 6.21.

Ernakulam

Table 6.16 disclosed the average monthly composition of loans and advances granted by Ernakulam DCB. Loans for `other purposes' claimed the major portion of total loans granted which accounted to 57.48 percentage in 1989-90 and 66.56 percentage in 1993-94 and `seasonal agricultural operations' accounted the second position. This DCB has granted very small amount for other industrial purposes and has not granted any amount for marketing of crops.

Table 6.16 Monthly average of the composition of loans and advances of Ernakulam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	145786 (30.65)	-	19335 (4.06)	21559 (4.53)	15605 (3.28)	273411 (57.48)	475696 (100)
1990-91	185696 (32.13)	-	25824 (4.46)	25826 (4.47)	20906 (3.62)	319743 (55.32)	577995 (100)
1991-92	164220 (26.24)	-	25171 (4.02)	27615 (4.41)	17323 (2.77)	391474 (62.56)	625803 (100)
1992-93	187202 (23.87)	-	26672 (3.40)	29488 (3.76)	18871 (2.41)	521988 (66.56)	784221 (100)
1993-94	219630 (25.40)	-	25062 (2.90)	29692 (3.43)	20163 (2.33)	570409 (65.94)	864956 (100)
Average	180507 (27.11)	-	24413 (3.67)	26836 (4.03)	18574 (2.79)	415405 (62.40)	665735 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kottayam

The monthly average of the composition of loans and advances of Kottayam DCB is presented in Table 6.17. It was clear from this table that, of the total amount of loans granted, the maximum share was for `other purposes' which was 60.23 per cent in1992-93 and 56.13 per cent in 1993-94. `Seasonal agricultural operations' stood next to other purposes. Loans granted was minimum in `marketing of crops'.

Palakkad

As per Table 6.18 monthly average of loans granted by Palakkad DCB for `other purposes' recorded the maximum amount of total loans. Of the total loans granted, other purposes accounted more than 60 per cent in all the five years under the study period. Like other DCBs, second position went to `seasonal agricultural operations'. For `medium-term agricultural purposes', `weavers societies' and `other industrial purposes', this DCB has granted very small amount. For `marketing of crops' this bank has granted minimum amount of loans which accounted to only 0.28 per cent in 1989-90 and 1.43 per cent in 1993-94.

Table 6.17 Monthly average of the composition of loans and advances of Kottayam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	148396 (28.92)	2515 (0.49)	11318 (2.21)	15091 (2.94)	28925 (5.64)	306854 (59.80)	513099 (100)
1990-91	176461 (30.32)	4644 (0.80)	20123 (2.46)	21671 (3.72)	30958 (5.32)	328156 (56.38)	582013 (100)
1991-92	171181 (28.77)	8419 (1.42)	19644 (3.30)	18241 (3.06)	25256 (4.25)	352184 (59.20)	594925 (100)
1992-93	179831 (29.45)	9342 (1.53)	14013 (2.29)	21019 (3.44)	18684 (3.06)	367836 (60.23)	610725 (100)
1993-94	278018 (32.27)	14480 (1.68)	24616 (2.86)	23168 (2.69)	37648 (4.37)	483637 (56.13)	861567 (100)
Average	190777 (30.16)	7880 (1.25)	17943 (2.84)	19838 (3.14)	28294 (4.47)	367733 (58.14)	632465 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Table 6.18 Monthly average of the composition of loans and advances of Palakkad DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	113186 (27.55)	1132 (0.28)	11319 (2.75)	13582 (3.31)	23769 (5.78)	247878 (60.33)	410866 (100)
1990-91	104782 (25.32)	4178 (1.01)	12033 (2.91)	13587 (3.28)	21944 (5.31)	257239 (62.17)	413763 (100)
1991-92	111783 (26.21)	4510 (1.06)	15279 (3.58)	15802 (3.71)	20663 (4.85)	258389 (60.59)	426426 (100)
1992-93	119462 (24.41)	5567 (1.14)	18274 (3.73)	17532 (3.58)	18793 (3.84)	309764 (63.30)	489392 (100)
1993-94	152997 (26.89)	8137 (1.43)	19110 (3.36)	22004 (3.87)	19858 (3.49)	346918 (60.96)	569024 (100)
Average	120442 (26.08)	4705 (1.03)	15203 (3.29)	16501 (3.57)	21005 (4.55)	284038 (61.48)	461894 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Kozhikode

Monthly average of the composition of loans and advances of Kozhikode DCB is exhibited in Table 6.19. Maximum amount of loans granted for the study period was for `other purposes' which was 62.99 per cent in 89-90 and 60.16 per cent in 93-94. Next to `other purposes', this DCB has granted highest amount of loan to `seasonal agricultural operations' which was above 25.25 per cent in all years. Minimum amount of loans granted by this DCB was for `marketing of crops' which formed only below 1.47 per cent in all years.

Kollam

As per Table 6.20, the highest monthly average of loans granted by Kollam DCB was for `other purposes' which recorded the highest amount. This figure was more than 57 per cent in all years during the period 89-90 to 93-94. The second highest amount went to `seasonal agricultural operations' which accounted to 30.85 per cent in 89-90 and 27.16 per cent in 93-94. For other three types of loans, this DCB has granted on an average less than 4 per cent. This DCB has not granted loans for `marketing of crops'.

Table 6.19 Monthly average of the composition of loans and advances of Kozhikode DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	101808 (25.25)	5930 (1.47)	13838 (3.43)	9884 (2.45)	17792 (4.41)	254026 (62.99	403278 (100)
1990-91	104874 (25.64)	5702 (1.39)	10877 (2.66)	12315 (3.01)	19192 (4.69)	256012 (62.61)	408972 (100)
1991-92	106704 (25.82)	5848 (1.41)	11696 (2.83)	12569 (3.04)	20315 (4.92)	256118 (61.98)	413250 (100)
1992-93	123030 (25.94)	6335 (1.34)	15385 (3.24)	16289 (3.44)	27149 (5.73)	286015 (60.31)	474203 (100)
1993-94	124546 (25.85)	6478 (1.34)	16193 (3.36)	16432 (3.41)	28338 (5.88)	289764 (60.16)	481751 (100)
Average	112192 (25.71)	6059 (1.39)	13598 (3.12)	13498 (3.09)	22557 (5.17)	268387 (61.52)	436291 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Table 6.20 Monthly average of the composition of loans and advances of Kollam DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	111659 (30.85)	-	13861 (3.83)	16941 (4.68)	12321 (3.40)	207147 (57.24)	361929 (100)
1990-91	112820 (29.17)	-	14103 (3.65)	17071 (4.41)	11876 (3.08)	230835 (59.69)	386705 (100)
1991-92	108407 (27.43)	-	14487 (3.67)	14887 (3.77)	13289 (3.36)	244090 (61.77)	395160 (100)
1992-93	124983 (27.48)	-	15534 (3.42)	16241 (3.57)	14122 (3.11)	283859 (62.42)	454739 (100)
1993-94	141526 (27.16)	-	15490 (2.97)	17602 (3.38)	15491 (2.98)	330930 (63.51)	521039 (100)
Average	119879 (28.28)	-	14695 (3.46)	16548 (3.91)	13420 (3.16)	259372 (61.19)	423914 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Idukki

Monthly average of the composition of loans and advances of Idukki DCB is exposed in Table 6.21 and is clear from this table that like other DCBs, the maximum amount of loans granted was for `other purposes' which was 55.05 per cent in 90-91 and 61.90 per cent in 92-93. `Seasonal agricultural operations' loan closely follow `other purposes loan'. This DCB has granted minimum amount of loan for marketing of crops which was 1.42 per cent in 1991-92 and 1.18 per cent in 1993-94.

In this chapter we made an attempt to examine the sources and uses of funds on monthly average basis and also to study the composition of sources and uses of funds. The analysis revealed that deposits constitute the most important source of funds, which is quite natural in a banking institution. Ernakulam DCB had the highest deposits followed by Kottayam. Deposit mobilisation is found to be low in Idukki compared to other banks. The analysis also revealed that in all the banks, fixed deposits constituted the largest share. This imposes a heavy burden on the banks and this can be nullified only if spread is improved equiproportionately, or even to a considerable extent. The monthly average borrowings of the sample DCBs ranged between Rs.9.74 crore to Rs.23.09 crore. The extent of borrowings is found to be low in Ernakulam and

Table 6.21 Monthly average of the composition of loans and advances of Idukki DCB for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Seasonal agricultural operations	Marketing of crops	Medium term agricultural purposes	Weavers societies	Other industrial purposes	Other purposes	Total
1989-90	99733 (32.60)	3749 (1.22)	5249 (1.72)	13298 (4.35)	13698 (4.47)	170221 (55.64)	305948 (100)
1990-91	104905 (31.91)	4622 (1.41)	6994 (2.13)	15736 (4.79)	15484 (4.71)	180960 (55.05)	328701 (100)
1991-92	107427 (30.19)	5036 (1.42)	9232 (2.59)	17625 (4.95)	19303 (5.42)	197229 (55.43)	355852 (100)
1992-93	107154 (26.00)	4939 (1.20)	9454 (2.29)	15758 (3.82)	19696 (4.79)	255068 (61.90)	412069 (100)
1993-94	122412 (26.90)	5354 (1.18)	13768 (3.02)	17592 (3.87)	19858 (4.36)	276124 (60.67)	455108 (100)
Average	108326 (29.16)	4740 (1.27)	8939 (2.40)	16002 (4.31)	17608 (4.74)	215920 (58.12)	371535 (100)

Note : Figures in brackets represent percentage to total

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

highest in Kozhikode. From this, it may be inferred that the deposits and borrowings are negatively correlated.

Among the uses of funds, the major portion is utilised for giving loans and advances. Among the sample banks, the maximum amount of loans are extended by Ernakulam followed by Kottayam. But the major question is whether the changes in the composition and growth of volume of loans and advances is in proportion to the change in the composition and growth of deposits. The issue is explored in chapter seven.

Efficiency in funds management in District Co-operative Banks

CHAPTER-VII

EFFICIENCY IN FUNDS MANAGEMENT IN DISTRICT CO-OPERATIVE BANKS

The major objective of this chapter is to examine the efficiency in mobilisation and deployment of funds in selected DCBs. "Efficiency" is a problem discussed widely in management theories and practice. All organisations, both public and private are now struggling to achieve and maintain efficiency. There is however disagreement in the meaning, methods and measurement of efficiency. The problem is further complicated in a co-operative enterprise because a co-operative institution has to meet dual objectives, viz., financial objectives as a financial enterprise and social objectives as a co-operative enterprise. The social objectives have been kept out of the ambit of this study as they require measurement of non-economic parameters and involve a distinct different mode of analysis.

Efficiency of co-operatives

Efficiency of co-operatives have been analysed from different angles. Eberhard Dulfer viewed the concept of efficiency with respect to social and economic development targets and individual and organisational aspects (Eberhard

Dulfer, 1974, pp.13-40). Sibnath Bhattacharya and Biswambhar Sohu treated "growth" as a proxy for efficiency and developed growth oriented model to explain the level of efficiency (Sibnath Bhattacharya and Biswambhar Sohu, 1988, pp.201-203). Desai and Namboodiri took a broader outlook with multivariates such as area of coverage, type of beneficiaries, nature of credit business, nature of non-credit business, etc. (Desai, B.M. and Namboodiri, N.V., 1991, pp.23-30). Madane attempted an integrated approach and correlated it to the concept of viability defined as a sum total of the analysis of all the economic, social, ethical and human related factors geared to enrich the lives of its members and their families (Madane, M.V., 1994, pp.81-94). Thus it is evident that the concept of efficiency is slightly ambiguous and an integrated approach is rather difficult.

Efficiency of DCBs

The efficiency of a DCB is generally assessed on the basis of five major norms namely, performance in mobilising adequate internal resources, performance in meeting the credit needs of the area, performance in ensuring the recovery of loans, ability in regard to efficient management of funds and role played as a federal body of primary credit societies (Government of Kerala, 1980, p.74).

For the purpose of the study, efficiency is measured primarily from the financial angle. For financial analysis the researcher computed credit/deposit ratio, borrowings/ deposits ratio, borrowed funds/owned funds ratio, liquid assets/demand and time liabilities ratio, demand deposits/term deposits ratio, deposits/working capital ratio, borrowings/ working capital ratio, liquid assets/working capital ratio, loans and advances/working capital ratio, investments/working capital ratio and total overdue/total demand ratio. Estimation of `x' efficiency, manpower expenses per employee, volume of working funds per employee, opportunity cost estimates were also attempted.

7.1 Profitability Analysis in Banks

Profitability is a major criterion for evaluating the performance of banks. A detailed, scientific and systematic analysis is needed if profitability has to be planned and improved. The factors determining profitability are analysed by using financial data. With the help of profit and loss account and balance sheet of a bank, an analytical framework for profitability management has been designed. As absolute figures may not be adequate for meaningful analysis, ratios have been computed. The profitability is analysed by `spread' and `burden' approach developed by Varsha S. Vardha and Sampat P. Singh (1983) of National Institute of Bank Management, Pune. They have designed a framework for the profit

management in banks with the help of two instruments of logical reasoning, viz., the periodic income and expenditure flows and the balance sheet. For the purpose of the present analysis, income and expenditure flows are divided into three parts as given in Table 7.1.

Table 7.1 Key entries of income and expenditure statement and their relationship

Part	Expenditure	Income	Difference
I	K = Interest paid	R = Interest earned	S = Spread S = (R-K)
II	M = Manpower expense O = Other expenses N = Non-interest expenses (M+O)	C = Non-interest income	B = Burden B = (M+O-C)
III	E = Total expenses (M+O+K)	I = Total income (R+C)	P = Profit P = (I-E) or P = (S-B)

Source: Varsha S. Varde and Sampat P. Singh, *Profitability of Commercial Banks;* Pune, National Institute of Bank Management, 1983, p.2.

Non-interest income means income other than interest income (earned through discount, commission, service charges, etc.) and other expenses represent expenditure other than interest paid (cost of audit, security services, special arbitrators cost, etc.) and manpower expenses.

7.2 Spread, Burden and Profit

`Spread' is the difference between interest earned and interest paid. The difference between non-interest expenses (manpower and other expenses) and non-interest income (discount, commission, service charges, etc.) constitutes `burden'. The difference between `spread' and `burden' is termed as profit (or loss) of a bank. Interest paid and interest earned are the cost of the funds mobilised and revenue earned on funds utilised by the bank. Manpower and other expenses are incurred by the bank for providing related and other services to its customers and public.

Normally, the balance sheet of a bank contains some contra items on both assets and liabilities side in respect of bills, apex bank industrial credit account, etc. These are non-fund items and can be excluded from both the sides. The volume of working fund (V) of the banks can be calculated after deducting the above said contra entries from the balance sheet total.

When each of the factors in the above table is related to the common base V, then

$$P = s-b$$

where,

s = Total spread related to V = S/V

b = Total burden related to V = B/V and

P = Total profit related to V = P/V

Thus, the first two broad indicators of the profitability of a bank are s and b. When this equals to `0', it would indicate a break-even situation. When its value is more than zero, it indicates profit and when its value is less than zero, it indicates loss.

7.3 Spread, Burden and Profitability of DCBs

DCBs need profit for several reasons - Firstly, confidence of the investing public in co-operative banks depends on profitability. Secondly, expanding scale of activities of these banks demand additional funds. Profit can be ploughed back to meet the additional requirements of funds. Thirdly, the pace of direction of the progress of co-operative bank is influenced by the process of development. Fourthly, profit is required to create necessary infrastructural facilities which would help on increasing the volume of business. Fifthly, it would lead to effective customer services and thereby help to build up good will. Sixthly, it would create an image among the lending authorities which in turn would help in solving financial set back if any.

Finally, it would also help in building up strong reserves to absorb the shock of unforeseen losses. Therefore, profitability of DCBs occupies a supreme place and lack of it would jeopardize the very existence of co-operative banking system (Narayanaswamy, N., 1987, pp.210-215). In order to analyse the profitability of six DCBs, data for the period 1989-90 to 1993-94 were collected from financial statements. The averages of spread, burden and profit of selected DCBs are exhibited in Table 7.2 (Bank wise details are presented in Appendix 2).

Table 7.2 Averages of spread, burden and profit of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Banks	Interest earned R	Interest paid K	Spread S(R-K)	Manpower expense M	Other expense O	Non-interest expense N(M+O)	Non-interest income C	Burden B B=N-C	Total expense E(M+O+K)	Total income I(R+C)	Profit I-E	Profit S-B	Volume of working fund (Total of B/S-Contra V
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Ernakulam	113845	81943	31903	14011	30649	44260	14310	29955	126203	128151	1948	1948	1375589
Kottayam	103568	76256	27312	14199	48160	62359	36657	25702	138615	140225	1610	1610	1221894
Palakad	56871	50035	6836	12670	26711	39382	32938	6444	89417	89809	392	392	743004
Kozhikode	66516	43322	23196	14078	21525	35603	12711	22892	78925	79229	303	303	750099
Kollam	74016	47467	26549	17233	19867	37100	11877	25223	84567	85893	1326	1326	785366
Idukki	53302	35812	17490	8938	29525	38463	21781	16682	74275	75083	808	808	626346
Average	78020	55806	22214	13522	29406	42861	21712	21150	98667	99732	1065	1065	917383

It is clear from Table 7.2 that with regard to interest earned, the overall average of selected DCBs for the period 1989-90 to 1993-94 was Rs.780.20 lakh. Only Ernakulam DCB (Rs.1138.45 lakh) and Kottayam DCB (Rs.1035.68 lakh) had averages above the overall average. Idukki DCB had the lowest average of Rs.533.02 lakh during this period. The table clearly depicts that there is positive relationship between interest earned and profit.

The overall average of interest paid was Rs.558.06 lakh during the period 1989-90 to 1993-94. The averages of Ernakulam and Kottayam DCBs' were more than the overall average which were Rs.819.43 lakh and Rs.762.56 lakh respectively. Even with interest paid, Idukki DCB had the lowest average (Rs.358.12 lakh).

In terms of spread, averages of all DCBs except Palakkad and Idukki were more than the overall average. Ernakulam DCB stood first with Rs.319.03 lakh closely followed by Kottayam DCB with Rs.273.12 lakh and Palakkad DCB with Rs.68.36 lakh. It is therefore inferred that spread is positively related to profit.

In the case of manpower expenses, the overall average for selected banks stood at Rs.135.22 lakh. The average of all DCBs other than that of Palakkad and Kozhikode were above the

overall average during the study period. Idukki DCB had manpower expenses to the tune of Rs.89.38 lakh. With an increase in the volume of business, manpower expenses will also increase.

The overall average with respect to `other expenses' was Rs.294.06 lakh. Of the six selected DCBs', Ernakulam, Kottayam and Idukki DCB stood above the overall average with regard to other expenses. Kottayam DCB registered the highest average of Rs.481.60 lakh and Kottayam DCB had the lowest with Rs.198.67 lakh. Hence it may be stated that, like manpower expenses, other expenses also increase with the increase in the volume of business.

`Non-interest income' which is another component of spread-burden approach was also analysed. Average of three banks, viz., Kottayam, Palakkad and Idukki were below the overall average of selected DCBs amounting to Rs.217.12 lakh during the five year period from 1989-90 to 1993-94. Kottayam DCB earned the highest non-interest income of Rs.366.57 lakh and Kollam DCB earned the lowest amount of Rs.118.77 lakh. Even though this type of income constitutes a small portion of total income, it is positively related to profit.

All DCBs except Palakkad and Idukki had `burden' higher than the overall average of Rs.211.50 lakh during the study

period. The highest burden was recorded at Ernakulam DCB which was Rs.299.55 lakh closely followed by Kottayam DCB with Rs.257.02 lakh. Palakkad DCB occupied the least position with Rs.64.44 lakh.

Regarding `total expenses', it was only Ernakulam and Kottayam DCBs which had averages above the overall average (Rs.1262.03 lakh and Rs.1386.15 lakh respectively) during the period 1989-90 to 1993-94. Idukki DCB had the lowest average with Rs.742.75 lakh. It is a clear indication that Ernakulam and Kottayam DCBs have mobilised more funds for their business.

Regarding `total income' also, all banks except Ernakulam and Kottayam had averages below the overall average of Rs.997.32 lakh and it stood at Rs.1281.51 lakh and Rs.1402.25 respectively. Idukki DCB registered the lowest total income, Rs.750.85 lakh which is the lowest profit making bank. It is therefore clear that DCBs with highest total income are earning highest profit.

Profit earned by a bank which is an indicator of financial efficiency is given in Table 7.2. Only three DCBs earned profit higher than the overall average of Rs.10.65 lakh during the five year period form 1989-90 to 1993-94. Profit was highest in Ernakulam DCB with Rs.19.48 lakh closely

followed by Kottayam DCB with Rs.16.10 lakh. Kozhikode DCB occupied the least position with the lowest average of Rs.3.03 lakh during this period.

With regard to `volume of working fund', the overall average of the selected DCBs was Rs.9173.83 lakh. Only Ernakulam and Kottayam DCBs had averages above the overall average. Their volume of working fund were Rs.137.55 crore and Rs.122.18 crore respectively. Idukki DCB had the lowest average of Rs.636.34 crore. Table 7.2 closely depicts that higher the volume of business, higher will be the profit. The efficiency revealed is further examined in the section below with the help of profitability ratios.

7.4 Profitability ratios of selected DCBs

For the purpose of checking the results of the spread, burden and profitability analysis of the bank, the following key ratios have been studied.

1. Interest earned ratio (r) $= \frac{\text{Total interest earned}}{\text{Volume of working fund}} \times 100$

2. Interest paid ratio (k) $= \frac{\text{Total interest paid}}{\text{Volume of working fund}} \times 100$

3. Spread ratio (s) $= \frac{\text{Total spread}}{\text{Volume of working fund}} \times 100$

4. Manpower expenses ratio (m) = $\frac{\text{Total manpower expense}}{\text{Volume of working fund}} \times 100$

5. Other expenses ratio (o) = $\frac{\text{Other expense}}{\text{Volume of working fund}} \times 100$

6. Non-interest expense ratio (n) = $\frac{\text{Non-interest expense}}{\text{Volume of working fund}} \times 100$

7. Non-interest income ratio (c) = $\frac{\text{Non-interest income}}{\text{Volume of working fund}} \times 100$

8. Burden ratio (b) = $\frac{\text{Total burden}}{\text{Volume of working fund}} \times 100$

9. Total expense ratio (e) = $\frac{\text{Total expense}}{\text{Volume of working fund}} \times 100$

10. Total income ratio (i) = $\frac{\text{Total income}}{\text{Volume of working fund}} \times 100$

11. Profitability ratio (p) = $\frac{\text{Total profit}}{\text{Volume of working fund}} \times 100$

Profitability ratios of selected DCBs are exhibited in Table 7.3.

Table 7.3 Ratios of various components of P&L account to volume of working fund of selected DCBs for the period 1989-90 to 1993-94

Year	Interest earned ratio (Interest earned/ V.W.F.) r	Interest paid ratio (Interest paid/ V.W.F.) k	Spread ratio (Spread V.W.F.) s	Manpower expense ratio (Manpower expense/ V.W.F.) m	Other expense ratio (Other expense/ V.W.F.) o	Non-interest expense ratio (Non-interest expense/ V.W.F.) n	Non-interest income ratio (Non-interest income/ V.W.F.) c	Burden ratio (Burden/ V.W.F.) b	Total expense ratio (Total expense/ V.W.F.) e	Total income ratio (Total income/ V.W.F.) i	Profitability ratio (Profit/ V.W.F.) p	Profitability ratio (Profit/ V.W.F.) p
1	2	3	4	5	6	7	8	9	10	11	12	13
						Ernakulam						
1989-90	7.35	4.93	2.42	1.16	1.68	2.84	0.62	2.22	7.78	7.98	0.20	0.197
1990-91	8.08	5.91	2.17	1.10	1.77	2.87	0.85	2.02	8.77	8.92	0.15	0.145
1991-92	7.71	5.22	2.49	0.88	2.72	3.60	1.24	2.36	8.82	8.95	0.13	0.127
1992-93	10.39	7.29	3.10	1.16	2.98	4.14	1.18	2.96	11.43	11.57	0.14	0.134
1993-94	7.68	5.98	1.70	0.91	1.81	2.72	1.15	1.57	8.71	8.83	0.13	0.124
						Kottayam						
1989-90	8.05	5.51	2.54	1.09	3.22	4.31	1.87	2.44	9.81	9.91	0.10	0.099
1990-91	8.28	6.02	2.26	1.13	3.70	4.83	2.64	2.19	10.85	10.92	0.07	0.074
1991-92	6.81	4.62	2.19	1.10	4.46	5.56	3.52	2.03	10.18	10.34	0.16	0.161
1992-93	9.21	7.35	1.86	1.19	3.96	5.15	3.44	1.71	12.49	12.64	0.15	0.149
1993-94	9.39	7.02	2.37	1.24	4.19	5.43	3.21	2.22	12.45	12.60	0.15	0.153
						Palakkad						
1989-90	7.51	6.34	1.17	1.97	3.13	5.10	3.95	1.15	11.44	11.46	0.02	0.013
1990-91	7.89	6.75	1.14	2.01	3.16	5.17	4.18	0.99	11.91	12.06	0.15	0.154
1991-92	5.97	5.33	0.64	1.37	3.00	4.37	3.75	0.62	9.70	9.72	0.02	0.017
1992-93	8.84	7.70	1.14	1.75	3.98	5.73	4.61	1.12	13.42	13.44	0.02	0.023
1993-94	7.82	7.16	0.66	1.57	4.25	5.82	5.22	0.60	12.98	13.04	0.06	0.061

Contd.

Table 7.3 (Contd.)

						Kozhikode						
1989-90	9.53	6.74	2.79	1.78	2.87	4.65	1.87	2.78	11.39	11.40	0.01	0.009
1990-91	6.38	6.37	3.54	1.98	2.47	4.45	0.92	3.53	10.82	10.83	0.01	0.008
1991-92	4.00	4.01	2.47	1.62	2.29	3.91	1.46	2.45	7.92	7.93	0.02	0.014
1992-93	8.40	5.38	3.02	1.67	2.86	4.53	1.57	2.96	9.91	9.97	0.06	0.060
1993-94	10.33	6.71	3.62	2.33	3.71	6.04	2.51	3.53	12.75	12.84	0.09	0.087
						Kollam						
1989-90	8.30	5.11	3.19	2.21	2.12	4.33	1.17	3.16	9.44	9.47	0.03	0.028
1990-91	9.15	5.92	3.23	2.20	2.58	4.78	1.63	3.15	10.70	10.78	0.08	0.080
1991-92	7.65	4.64	3.01	2.00	2.37	4.37	1.53	2.84	9.01	9.17	0.17	0.165
1992-93	10.59	7.14	3.45	2.32	2.37	4.69	1.41	3.28	11.82	11.99	0.17	0.170
1993-94	10.48	6.70	3.78	2.21	2.98	5.19	1.71	3.48	11.90	12.20	0.30	0.304
						Idukki						
1989-90	8.09	5.16	2.93	1.46	4.58	6.04	3.11	2.93	11.19	11.19	0.00	0.002
1990-91	9.01	6.85	2.16	1.42	3.79	5.21	3.49	1.72	12.06	12.50	0.44	0.440
1991-92	7.00	4.22	2.78	1.47	4.42	5.89	3.18	2.71	11.51	11.58	0.07	0.066
1992-93	9.39	6.54	2.85	1.44	5.10	6.54	3.77	2.77	13.09	13.17	0.08	0.078
1993-94	8.84	5.75	3.09	1.37	5.32	6.69	3.68	3.01	12.44	12.52	0.08	0.086

Note :(1) The last column and last but one column are profitability ratios. The last column figures are obtained by dividing profit by volume of working fund. But the value of the previous column is arrived at by deducdting `b' from `s'.

(2) V.W.F. = Volume of working fund

Source: Compiled from the annual reports of selected DCBs for the period 1989-90 to 1993-94

It is clear from Table 7.3 that interest earned and paid ratio of Ernakulam DCB was highest in 1992-93 and lowest in 1989-90 during the period 1989-90 to 1993-94. But the spread ratio was the highest in 1992-93 (3.10%) and lowest in 1993-94 (1.70%). Burden ratio was the highest in 1992-93 (2.96%) which happened due to increase in other expenses ratio. The profitability ratio was the highest in 1989-90 (0.197%) and the lowest in 1993-94 (0.124%).

In the case of Kottayam DCB, interest earned ratio was the highest in 1993-94 (9.39%) and the lowest in 1991-92 (6.81%). Interest paid ratio was the highest in 1992-93 and the lowest in 1991-92. The spread ratio was the highest in 1989-90 and the lowest in 1992-93. The profitability ratio was the highest in 1991-92 (0.161%) which is the consequence of a reduction in burden ratio which was the lowest in 1990-91 (0.074%).

The ratio of interest earned and paid of Palakkad DCB was the highest in 1992-93 and the lowest in 1991-92. The spread ratio was the highest in 1989-90 (1.17%) and the lowest in 1991-92 (0.64%). Burden ratio was the highest in 1989-90 and the lowest in 1993-94. The fall in burden ratio of 1993-94 was due to the decrease in manpower expenses and increase in non-interest income. The profitability ratio was the highest in 1990-91 (0.154%) which was due to the reduction in burden ratio.

In Kozhikode DCB, interest earned ratio and spread ratio were the highest in 1993-94 and the lowest in 1991-92. The burden ratio was the highest in two years (i.e., in 1990-91 and 1993-94) and the lowest in 1991-92. The ratio of profitability was the highest in the 1993-94 (0.087%) which may be due to increase in spread ratio.

With regard to Kollam DCB, interest earned and paid ratio were the highest in 1992-93 and the lowest in 1991-92. But the spread and burden ratios were the highest in 1993-94 and the lowest in 1991-92. The highest profitability ratio was in 1993-94, (0.304%) which was due to the increase in spread ratio. The increase in spread ratio was the result of reduction in interest paid ratio.

Interest earned ratio of Idukki DCB was the highest in 1992-93 and the lowest in 1991-92. But interest paid ratio was the highest in 1990-91 and the lowest in 1991-92. The spread ratio and burden ratio were the highest in 1993-94 and the lowest in 1990-91. The highest profitability ratio was in 1990-91 (0.44%) which was mainly due to the reduction in other expenses like auditor cost, special arbitrators' cost, security service, cost of calendar, diary, etc. and increase in other incomes like commission, dividend on shares and interest on investments.

In the first year, the spread burden ratio was more in Kollam DCB (3.19%-3.16%) and the lowest in Palakkad

(1.17%-1.15%). But the profitability ratio was the highest (0.2%) in Ernakulam DCB because of the relatively low burden ratio (2.22%) compared to spread ratio (2.42%). This low burden ratio was the result of low manpower and other expenses.

In the year 1990-91, Kozhikode DCB had the highest spread-burden ratio (3.54%-3.53%) and the lowest profitability ratio (0.01%). But Palakkad DCB had the lowest spread-burden ratio (1.14%-0.99%). The profitability ratio was the highest in Idukki (0.44%) because of sharp decrease in the burden ratio (1.72%) which was mainly the result of the reduction in other expenses like auditor cost, special arbitrators cost, security service, cost of calendar, diary etc. and increase in other income like commission, dividend on shares and interest on investments.

For the last three years (1991-92 to 1993-94) Kollam DCB had the highest spread-burden ratio, viz., 3.01%-2.84%, 3.45%-3.28% and 3.78%-3.48% and Palakkad the lowest one (0.64%-0.62%, 1.14%-1.12% and 0.66%-0.60%). This increase in spread of Kollam DCB was mainly due to the increase in interest earned by that DCB. The interest earned by Kollam DCB has increased from Rs.559 lakh in 1991-92 to Rs.1101 lakh in 1993-94. Palakkad showed the lowest profitability ratio of 0.02 per cent and 0.06 per cent for the last two years i.e., in 1992-93 and 1993-94. Hence the spread-burden analysis

demonstrates the scope for improving `r' (interest earned to volume of working funds) and `c' (non-interest income to volume of working funds) ratios to widen the spread and narrow down burden respectively.

7.5 Other Ratios

In addition to the spread, burden and profitability ratios, the profitability is further analysed by using ratios like credit/deposit ratio, borrowings/deposit ratio, borrowed funds/owned funds ratio, liquid assets/demand and time liabilities ratio, demand deposits/term deposits ratio, deposits/working capital ratio, borrowings/working capital ratio, liquid assets/working capital ratio, loans and advances/working capital ratio and investments/working capital ratio. These ratios are selected because they can better explain the changes in the behaviour of working capital which is the focus of the study.

7.5.1 Credit/deposit ratio

It is the ratio of credit to deposits. In the case of commercial banks, this ratio expresses the relationship between credit and deposits. But in the case of co-operatives, the denominator, namely deposits include borrowings also for the reason that borrowings constitute a major portion of the capital structure of the co-operatives with a cost. The status of this ratio is presented in Table 7.4.

Table 7.4 Credit/Deposit Ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	563126/869338 (64.78)	579818/848156 (68.36)	373608/451818 (82.69)	407697/484156 (84.21)	368176/516242 (71.32)	355275/364031 (97.59)
1990-91	641670/979073 (65.54)	590098/895546 (65.89)	401077/486729 (82.40)	407296/511278 (79.66)	379966/541127 (70.22)	419340/468522 (89.50)
1991-92	718094/1003570 (71.55)	650134/945996 (68.72)	458155/577836 (79.29)	425478/664745 (64.01)	444189/616244 (72.08)	462796/510141 (90.72)
1992-93	873481/1156769 (75.51)	765473/1161300 (65.92)	533507/643628 (82.89)	454576/807894 (56.27)	535482/751203 (71.28)	519630/542286 (95.82)
1993-94	961688/1718844 (55.95)	779773/1418834 (54.96)	626209/764915 (81.87)	501489/661702 (75.79)	616671/868146 (71.03)	586519/664750 (88.23)
Average	751611/1145518 (65.61)	673059/1053966 (63.85)	403789/584985 (69.02)	439307/625955 (70.18)	468896/658592 (71.19)	468712/509946 (91.91)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

Table 7.4 depicts that the average ratio of credit to deposit was the highest in Idukki DCB (91.91%) and the lowest in Kottayam DCB (63.85%). During the reference period, there was a general decline in this ratio in all DCBs. Idukki DCB which showed the highest ratio of 97.59 per cent in 1989-90 showed a decrease to 88.23 per cent in 1993-94. The second position went to Palakkad DCB, where it decreased from 82.69 per cent (1989-90) to 81.87 per cent (1993-94). Kottayam DCB had the lowest credit/deposit ratio. The better performance of Idukki DCB may probably be due to its earnest effort to make use of the available deposits and borrowings to the maximum possible extent.

7.5.2 Borrowings/deposits ratio

Another ratio used for analysing profitability is borrowings to deposits ratio which is exhibited in Table 7.5.

It is observed from Table 7.5 that regarding borrowings to deposits ratio, Idukki DCB showed the highest percentage and Ernakulam DCB showed the lowest percentage throughout the study period. Recently there was a decline in this ratio for all banks especially Idukki DCB. The decline in this ratio in Idukki DCB may be attributed to the increase in volume of deposits of that bank.

7.5.3 Borrowed funds/owned funds ratio

DCBs mainly depend on external funds for their operation and its relation with owned funds is exhibited in Table 7.6.

Table 7.5 Borrowings/Deposits Ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	125725/743613 (16.91)	163734/684422 (23.92)	96826/354992 (27.28)	202135/282021 (71.67)	142508/373734 (38.13)	204879/159152 (128.73)
1990-91	144833/834240 (17.36)	143268/752278 (19.04)	93209/393520 (23.69)	194766/316512 (61.54)	105634/435493 (24.26)	241102/227420 (106.02)
1991-92	145158/858412 (16.91)	187236/758760 (24.68)	96719/481117 (20.10)	311720/353025 (88.30)	110863/505381 (21.94)	271182/238959 (113.48)
1992-93	65880/1090889 (6.04)	215564/945736 (22.79)	111521/532107 (20.96)	378828/429066 (88.29)	113571/637632 (17.81)	247234/295052 (83.79)
1993-94	109521/1609323 (6.81)	192468/1226366 (15.69)	127265/637650 (19.96)	142639/519063 (27.48)	96177/771969 (12.46)	236128/428622 (55.09)
Average	118223/1027295 (11.50)	180454/873512 (20.65)	105108/479877 (21.90)	246017/379937 (64.75)	113750/544841 (20.87)	240105/269841 (88.98)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

Table 7.6 Borrowed funds/Owned funds ratio in selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	869338/46879 (1854.42)	848156/50568 (1677.25)	451818/56509 (800.00)	484156/39170 (1236.03)	516242/36828 (1402.76)	364031/45936 (792.47)
1990-91	979073/55109 (1777.61)	895546/55385 (1616.94)	486729/60664 (802.33)	511278/39977 (1278.93)	541127/41254 (1311.69)	468522/45716 (1024.85)
1991-92	1003570/69913 (1435.45)	945996/63119 (1498.74)	577836/69946 (826.11)	664745/42835 (1551.87)	616244/49423 (1246.87)	510141/50620 (1007.78)
1992-93	1156769/94725 (1221.98)	1161300/65927 (1761.49)	643628/79227 (812.38)	807894/47689 (1694.08)	751203/54128 (1387.82)	542286/57563 (942.07)
1993-94	1718844/107105 (1604.82)	1418834/73709 (1925.00)	764915/93468 (818.37)	661702/52557 (1259.01)	868146/66859 (1298.47)	664750/63000 (1055.15)
Average	1145518/74746 (1778.86)	1053966/61741 (1695.88)	584985/71962 (811.83)	625955/44445 (1403.98)	658592/49698 (1329.32)	509946/52567 (964.46)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

It is observed from Table 7.6 that the ratio of borrowed funds (deposits and borrowings) to owned funds (share capital and reserves) of all the DCBs were within their specified limits. Throughout the period, Ernakulam DCB showed the highest ratio and Palakkad DCB showed the lowest ratio.

7.5.4 Liquid assets/demand and time liabilities ratio

Liquid assets (cash in hand, cash at bank and money at call and short notice) to demand and time liabilities (fixed deposit account, savings bank account, current account and money at call and short notice account) ratio shows the liquidity position of the bank.

As per statutory provisions, DCBs are expected to maintain 25 per cent of demand and time liabilities (DTL) as statutory liquidity ratio (SLR) and 3 per cent of DTL as cash reserve ratio (CRR). In addition to this, 3-4 per cent of DTL may be required for meeting contingencies and expenses. Therefore, liquid assets/DTL ratio of around 30-32 per cent may be sufficient. The liquidity position of the selected DCBs is exhibited in Table 7.7.

Table 7.7 Liquid Assets/DTL Ratio in selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	430057/743613 (57.83)	267106/684422 (39.03)	119014/354992 (33.53)	93139/282021 (33.03)	166428/373734 (44.53)	69564/159152 (43.71)
1990-91	602157/834240 (72.18)	301512/752278 (40.08)	133697/393520 (33.97)	121569/316512 (38.41)	198758/435493 (45.64)	72275/227420 (31.78)
1991-92	388716/858412 (45.28)	277665/758760 (36.59)	147618/481117 (30.68)	256383/353025 (72.62)	231789/505381 (45.87)	75972/238959 (31.79)
1992-93	363179/1090889 (33.29)	374095/945736 (39.56)	183657/532107 (34.52)	381373/429066 (88.88)	291845/637632 (45.77)	74156/295052 (25.13)
1993-94	959037/1609323 (59.59)	591504/1226306 (48.23)	229839/637650 (36.04)	201896/519063 (38.90)	358068/771969 (46.38)	123251/428622 (28.76)
Average	548629/1027296 (53.40)	362376/873500 (41.48)	162765/479877 (33.91)	210872/379937 (55.50)	249377/544841 (45.77	83043/269841 (30.77)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

Table 7.7 points out that during the study period all the DCBs had maintained excess liquid assets which adversely affect the profitability. It indicates that these banks have to take steps to reduce the quantum of liquid assets maintained. This can be achieved by increasing the volume of loans and advances.

7.5.5 Demand deposits/term deposits ratio

The relationship between demand deposits and term deposits is displayed in Table 7.8.

As exhibited in Table 7.8, the ratio of demand deposits to term deposits of all banks showed a general decline during this period. Average of this ratio was the highest in Idukki DCB (116.95%) and the lowest in Kollam DCB (58.27%). The general decline of this ratio in all DCBs was due to the introduction of `46 days fixed deposit account' and the higher rate of interest for this short period deposit.

Table 7.8 Demand Deposit/Term Deposit Ratio in selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	420553/314060 (133.91)	438629/245793 (178.45)	205631/149361 (137.67)	149364/132657 (112.59)	168998/204736 (82.54)	85458/73694 (115.96)
1990-91	490795/343445 (142.90)	456574/295704 (154.40)	225531/170989 (131.90)	169798/146714 (115.73)	191807/243686 (78.71)	143344/84076 (170.49)
1991-92	448020/410392 (109.17)	384116/374644 (102.53)	259985/221132 (117.57)	171211/181814 (94.17)	194866/310515 (62.76)	138590/100369 (138.08)
1992-93	455920/634969 (71.80)	296154/649582 (45.59)	186471/345628 (53.95)	175412/253654 (69.15)	197604/440028 (44.91)	134206/160846 (83.44)
1993-94	823569/785754 (104.81)	345347/881019 (39.20)	248175/389475 (63.72)	210318/308745 (68.12)	249696/522273 (47.81)	225254/203368 (110.76)
Average	527771/497724 (106.03)	384164/489348 (78.50)	225158/255317 (88.18)	175220/204716 (85.59)	200594/344427 (58.27)	145570/124470 (116.95)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

7.5.6 Deposits/working capital ratio

The relationship between deposits and working capital is presented in Table 7.9.

Table 7.9 showed that during the period 1989-90 to 1993-94, this ratio has increased considerably in all the selected banks. Average of this ratio was the highest in Ernakulam DCB (84.43%) and the lowest in Idukki DCB (48.23%). In Ernakulam DCB, it has increased from 81.45 per cent in 1989-90 to 88.34 per cent in 1993-94 and was closely followed by Kottayam DCB. Kollam DCB also showed reasonable increase in this ratio during the said period. The ratio was the lowest in Idukki DCB. Even though the ratio of Idukki had increased during the five year period, from 39.26 per cent to 59.22 per cent, this was the lowest compared to other banks. The general increase in this ratio in the sample banks may be attributed to their success in deposit mobilisation policy.

Table 7.9 Deposit/working capital ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	743613/913007 (81.45)	684422/892843 (76.66)	354992/498142 (71.26)	282021/520408 (54.19)	373734/548725 (68.11)	159152/405403 (39.26)
1990-91	834240/1030591 (80.95)	752278/945161 (79.59)	393520/537289 (73.24)	316512/547961 (57.76)	435493/575870 (75.62)	227420/511357 (44.47)
1991-92	858412/1069772 (80.24)	758760/1003668 (75.60)	481117/637397 (75.48)	353025/704153 (50.13)	505381/659069 (76.68)	238959/558514 (42.78)
1992-93	1090889/1248063 (87.41)	945736/1221870 (77.40)	532107/676612 (78.64)	429066/852397 (50.34)	637632/798922 (79.81)	295052/597953 (49.34)
1993-94	1609323/1821658 (88.34)	1226366/1487509 (82.44)	637650/854751 (74.60)	519063/711172 (72.99)	771969/928704 (83.12)	428622/723714 (59.22)
Average	1027295/1216618 (84.43)	873512/1110210 (78.67)	479877/640838 (74.88)	379937/667218 (56.94)	544841/702258 (77.58)	269841/559388 (48.23)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

7.5.7 Borrowings/working capital ratio

Borrowings are one of the highest cost items of sources of funds. The ratio of borrowings to working capital is exhibited in Table 7.10.

It is clear from Table 7.10 that this ratio was decreasing in all banks. Compared to other DCBs, Idukki DCB had the highest ratio in all years followed by Kozhikode DCB. The ratio of Idukki DCB had decreased from 50.54 per cent in 1989-90 to 32.63 per cent in 1993-94 and that of Kozhikode DCB from 38.84 per cent to 20.06 per cent during the same period. The ratio was the lowest in Ernakulam DCB where it decreased from 13.77 per cent in 1989-90 to 6.01 per cent in 1993-94. The reduction in borrowings is a positive sign for banks as it is one of the highest cost items of funds. This trend might have resulted from the proportionately reduced dependence of banks on borrowings due to increased deposit mobilisation.

Table 7.10 Borrowings/working capital ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	125725/913007 (13.77)	163734/892843 (18.34)	96826/498142 (19.44)	202135/520408 (38.84)	142508/548725 (25.97)	204879/405403 (50.54)
1990-91	144833/1030591 (14.05)	143268/945161 (15.16)	93209/537289 (17.35)	194766/547961 (35.54)	105634/575870 (18.34)	241102/511357 (47.15)
1991-92	145158/1069772 (13.57)	187236/1003668 (18.66)	96719/637397 (15.17)	311720/704153 (44.27)	110863/659069 (16.82)	271182/558514 (48.55)
1992-93	65880/1248063 (5.27)	215564/1221870 (17.64)	111521/676612 (16.48)	378828/852397 (44.44)	113571/798922 (14.22)	247234/597953 (41.35)
1993-94	109521/1821658 (6.01)	192468/1487509 (12.94)	127265/854751 (14.89)	142639/711172 (20.06)	96177/928704 (10.36)	236128/723714 (32.63)
Average	118223/1216618 (9.71)	180454/1110210 (16.25)	105108/640838 (16.40)	246017/667218 (36.87)	113750/702258 (16.19)	240105/702258 (42.92)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

7.5.8 Liquid assets/working capital ratio

Liquid assets to working capital ratio is exhibited in Table 7.11.

It is seen that this ratio was increasing in all DCBs except Idukki during the period from 1989-90 to 1993-94. Ernakulam DCB had the highest liquidity ratio and Idukki DCB had the lowest. It appears that Ernakulam DCB's liquidity position was good compared to other DCBs.

7.5.9 Loans and advances/working capital ratio

This ratio shows the relationship between loans and advances to working capital. The position of this ratio is exhibited in Table 7.12.

The ratio fluctuated during the five year period 1989-90 to 1993-94. The magnitude of this ratio was the highest in Idukki DCB closely followed by Palakkad DCB. The average of this ratio was the highest in Idukki DCB (81.04%) and the lowest in Kottayam DCB (60.62%). The ratio of Idukki DCB which was 87.64 per cent in 1989-90 was reduced to 82.01 per cent in 1990-91 which again increased to 82.86 per cent in 1991-92. Next year it increased to 86.90 per cent and in the last year i.e. in 1993-94, it was further reduced to 81.04 per cent. The ratio of loans and advances to working capital

Table 7.11 Liquid assets/working capital ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	430057/913007 (47.10)	267106/892843 (29.92)	119014/498142 (23.89)	93139/520408 (17.90)	166428/548725 (30.33)	69564/405403 (17.16)
1990-91	602157/1030591 (58.43)	301512/945161 (31.90)	133697/537289 (24.88)	121569/547961 (22.19)	198758/575870 (34.51)	72275/511357 (14.13)
1991-92	388716/1069772 (36.34)	277665/1003668 (27.67)	147618/637397 (23.16)	256383/704153 (36.41)	231789/659069 (35.17)	75972/558514 (13.60)
1992-93	363179/1248063 (29.10)	374095/1221870 (30.62)	183657/676612 (27.14)	381373/852397 (44.74)	291845/798922 (36.53)	74156/597953 (12.40)
1993-94	959037/1821658 (52.65)	591504/1487509 (39.76)	229839/854751 (26.89)	201896/711172 (28.39)	358068/928704 (38.56)	123251/723714 (17.03)
Average	471218/1216618 (38.73)	362376/1110210 (32.64)	162765/640838 (25.39)	210872/667218 (31.60)	249377/702258 (35.51)	83043/559388 (14.84)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

Table 7.12 Loans and advnaces/working capital ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	563126/913007 (61.68)	579818/892843 (64.94)	373608/498142 (75.00)	407697/520408 (78.34)	368176/548725 (67.10)	355275/405403 (87.64)
1990-91	641670/1030591 (62.26)	590098/945161 (62.43)	401077/537289 (74.65)	407296/547961 (74.33)	379966/575870 (65.98)	419340/511357 (82.01)
1991-92	718094/1069772 (67.12)	650134/1003668 (64.78)	458155/637397 (71.88)	425478/704153 (60.42)	444159/659069 (67.40)	462796/558514 (82.86)
1992-93	873481/1248063 (69.99)	765473/1221870 (62.65)	533507/676612 (78.85)	454576/852397 (53.33)	535482/798922 (67.03)	519630/597953 (86.90)
1993-94	961688/1821658 (52.79)	779773/1487509 (52.42)	626209/854751 (73.26)	501489/711172 (70.52)	616671/928704 (66.40)	586519/723714 (81.04)
Average	751611/1216618 (61.77)	673059/1110210 (60.62)	478511/640838 (74.67)	439307/667218 (65.84)	468890/702258 (66.77)	468712/559388 (83.79)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

in Palakkad DCB declined in all years except 1992-93. This ratio was the lowest in Kottayam DCB, where it varied from 64.94 per cent in 1989-90 to 52.42 per cent in 1993-94. Eventhough idukki DCB's position was satisfactory, its borrowings constituted the major part of its working capital.

7.5.10 Investments/working capital ratio

The relative position of investments and working capital in the DCBs is displayed in (Table 7.13).

It is observed from Table 7.13 that there was no uniformity in the trends in this ratio of all sample DCBs. It slightly fluctuated during the five year period. Kottayam DCB showed the peak ratio which varied from 5.12 per cent in 1989-90 to 5.76 per cent in 1993-94. This ratio was lowest in Ernakulam DCB where it was 1.34 per cent in 1989-90 and 1.02 per cent in 1993-94. This suggests a very small proportion of the funds utilisation, and low amount of interest.

Table 7.13 Investments/working capital ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1989-90	12270/913007 (1.34)	45727/892843 (5.12)	16900/498142 (3.39)	13344/520408 (2.56)	28081/548725 (5.12)	12476/405403 (3.08)
1990-91	13976/1030591 (1.36)	55727/945161 (5.90)	17485/537289 (3.25)	14356/547961 (2.62)	18836/575870 (3.27)	15389/511357 (3.01)
1991-92	14176/1069772 (1.33)	55717/1003668 (5.55)	17991/637397 (2.82)	14975/704153 (2.13)	11481/659069 (1.74)	20761/558514 (3.72)
1992-93	15176/1248063 (1.22)	66566/1221870 (5.45)	19080/676612 (2.82)	16056/852397 (1.88)	11481/798922 (1.44)	23618/597953 (3.95)
1993-94	18576/1821658 (1.02)	85639/1487509 (5.76)	18355/854751 (2.15)	17761/711172 (2.50)	11481/928704 (1.24)	24972/723714 (3.45)
Average	14834/1216618 (1.21)	61875/931641 (6.64)	17962/640838 (2.80)	15298/667218 (2.29)	16272/702258 (2.31)	19443/559388 (3.47)

Note : Figures in brackets represent ratios expressed in percentage

Source: Annual Reports of DCBs for the years 1989-90 to 1993-94

We have examined the profitability using spread - burden approach and also computing financial ratios. This analysis re-assured the apriori belief that the profitability of the majority of the sample DCBs were declining over the years. However, the profitability status of Ernakulam and Kottayam DCBs is much better in relation to other sample banks. Various reasons can be attributed for this trend. The major among them are decrease in manpower expenses ratio, other expenses ratio, interest paid ratio, etc. Thus for the efficient management of funds, DCBs have to work out the above ratios for the latest period and compare them with its past ratios and also with the same set of ratios of other DCBs. This would help the bank to locate its position vis-a-vis its past and other banks. This analysis together with an examination of the other backward linkage factors like composition of earning assets, yield on each type of asset, composition of interest paying liabilities, interest rate on each component, nature and volume of business and systems of procedures. DCBs should also analyse Government and RBI policies, quality asset/liability management decisions, competition and co-operation among banks, discretionary powers of managers, quality of expenditure decisions, budgeting and budgetary control.

7.6 Status of overdues of DCBs in Kerala

From the above discussion, it is well established that the profitability of DCBs declined over the years and various reasons can be attributed for this phenomenon. Some of them are the problem of mounting overdues, low credit/deposit ratio, high liquid assets/working capital ratio, etc. The problem of overdues is most important because this reduces the capability of DCBs in expanding their lending operations. Similarly, the problem of overdues restricts the borrowers from further borrowings, limiting the operations of the banks and thus creating a vicious trap.

Table 7.14 gives the consolidated picture of overdues of DCBs in Kerala during the decade from 1982-83 to 1993-94.

It is clear from Table 7.14 that in 1982-83, the loan overdues amounted to Rs.3026 lakh which increased to Rs.4488 lakh in 1986-87 and Rs.11282 lakh by the end of 1991-92. When compared with the total demand it seems that in 1986-87, there was 22.52 per cent of overdue to demand, in 1991-92, it increased to 35 per cent and in 1993-94 it reduced to 23.69 per cent. These estimates established that the problem of overdues was significant in the funds management practices of DCBs. Hence, an attempt is made to assess the overdue position of the selected DCBs from 1989-90 to 1993-94. Table 7.15 gives details of the major items of overdues of

Table 7.14 Position of overdues of all DCBs in Kerala for the period from 1982-83 to 1993-94

(Rs. in lakhs)

Year	Loans overdue	Percentage of overdue to demand
1982-83	3026	NA
1983-84	2339	17.66
1984-85	2775	NA
1985-86	3007	16.83
1986-87	4488	22.52
1987-88	4755	20.30
1988-89	5837	19.13
1989-90	12848	41.73
1990-91	12658	32.00
1991-92	11282	35.00
1992-93	12781	24.00
1993-94	11062	23.69

Source: Government of Kerala, *Handbook on Co-operative Movement in Kerala*, Department of Co-operation, Trivandrum (1982-83 to 1993-94)

Table 7.15 Average of major items of overdues to total overdues of selected DCBs for the period 1989-90 to 1993-94

(in percentages)

	Erna-kulam	Kotta-yam	Pala-kkad	Kozhi-kode	Kollam	Idukki
Short-term loan	7.34	3.76	21.90	36.54	43.16	26.63
Short-term non-agrl. loan	-	-	-	15.23	5.16	-
Ordinary loan	2.85	2.63	-	-	-	9.92
Ordinary loan others	-	-	-	-	-	0.73
Overdraft-societies	1.97	-	-	-	-	7.65
IRDP	0.48	-	-	5.56	-	1.39
Consumer loan-individual	1.57	0.50	0.74	-	-	-
Long-term loan	1.44	-	-	2.45	1.30	-
Working capital-O.D.	0.57	-	-	-	-	-
Overdraft - individuals	5.63	-	-	-	-	-
Long-term non-agrl. loan	2.28	-	-	-	-	-
Decree	2.17	-	-	-	-	-
Loan to individuals	2.90	-	2.54	-	-	-
Suit	3.35	-	-	-	-	-
Other loan	-	-	-	8.05	-	-
Other loan - societies	-	1.37	-	-	-	-

Contd.

(Table 7.15 Contd.)

Gold loan	-	2.27	-	-	-	3.16
Composit	-	1.81	-	-	-	-
Medium-term conversion	-	1.31	0.91	-	-	11.89
Industrial loan-Above Rs.5 lakh	-	-	-	-	-	1.86
Award	-	1.12	-	-	-	-
Medium-term 3 years - agrl.	-	-	1.53	5.17	0.88	-
Medium-term non-agrl.	-	-	-	6.47	10.41	-
General loan to socs.& urban banks	-	-	1.44	-	-	-
Unrecovered cash credit	-	-	4.84	-	-	-
Unencumered overdraft	-	-	2.95	-	-	-
House loan	-	-	1.01	-	1.66	0.49
Rehabilitation	-	-	-	-	1.20	0.57
Deposit loan	-	-	-	-	0.78	-
Special term loan	-	-	-	-	-	7.19
Loan to weaker section	-	-	-	-	-	13.40
Others	67.45	85.23	62.14	20.53	35.45	53.68
Total	100.00	100.00	100.00	100.00	100.00	100.00

Note : Only major items of overdues have been included in the table

Source: Books and Accounts of DCBs for the period 1989-90 to 1993-94

selected DCBs. Since there were nearly 100 items constituting over-dues, only the major items are listed in this table.

From table 7.15, it is clear that during the five year period, short-term loans constituted the major portion of overdues of all the selected banks. The percentage of short-term loan overdues to total overdues was the highest in Kollam DCB (43.16%) and the lowest in Kottayam DCB (3.76%). Other major items were ordinary loans, medium-term (3 years-agricultural) loans, medium-term conversion loans, medium-term non-agricultural loans, short-term non-agricultural loans, over draft (individuals), house loans, integrated rural development programme loans, loan to weaker sections and other loans.

Thus the analysis of overdues confirms the belief that still the problem of overdues adversely affects the financial strength of DCBs. However, before pronouncing on the magnitude of this problem an attempt is made in the following section to ascertain the extent of this problem in the selected DCBs.

7.7 Total overdues to total demand ratio of selected DCBs

Table 7.16 exhibits the ratio of total overdues to total demand.

Table 7.16 Total overdue to total demand ratio of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Name of bank	1989-90		1990-91		1991-92		1992-93		1993-94	
	Overdue	Demand	Overdue	Demand	Overdue	Demand	Overdue	Demand	Overdue	Demand
Ernakulam	47305	187186 (25.27)	85858	215976 (39.75)	86487	334787 (25.83)	92519	276635 (33.44)	147470	324640 (45.43)
Kottayam	77416	315806 (24.51)	110445	417668 (26.44)	104571	445362 (23.48)	115364	497473 (23.19)	84089	596799 (14.09)
Palakkad	56075	237695 (23.59)	74759	178006 (42.00)	56239	166526 (33.77)	73128	190429 (38.40)	60809	209246 (29.06)
Kozhikode	211678	443583 (47.72)	163044	406391 (40.12)	136627	364047 (37.53)	115368	505114 (22.84)	105061	495104 (21.22)
Kollam	89037	235548 (37.80)	88263	210150 (42.00)	72091	240303 (30.00)	88690	385609 (23.00)	84960	386181 (22.00)
Idukki	144947	235418 (61.57)	122577	238662 (51.36)	104063	184378 (56.44)	146925	342642 (42.88)	136570	336960 (40.53)
Average	104409	275872 (37.84)	107491	277808 (38.69)	93346	289233 (32.27)	105332	366317 (28.75)	103163	391488 (26.35)
State ratio	(41.73)		(32)		(35)		(24)		(23.69)	
All India ratio	(53.00)		(36)		(42)		(37)		(34)	

Note : Figures in brackets represent ratios expressed in percentage

Source: 1. Overdue and demand register of DCBs from 1989-90 to 1993-94
2. Handbook on Co-operative Movement in Kerala 1989-90 to 1993-94
3. National Federation of State Co-operative Banks - Basic data on performance of DCBs - 1989-90 to 1993-94

It is clear from Table 7.16 that during the five year period, Kottayam DCB showed the lowest percentage and Idukki DCB showed the highest percentage of overdues to demand. In Kottayam DCB, the ratio was decreasing in all years except 1990-91. It has come down from 24.51 per cent in 1989-90 to 14.09 per cent in 1993-94. In the case of Idukki DCB also there was a reduction in this ratio from 61.57 per cent in 1989-90 to 40.53 per cent in 1993-94. The table further reveals that there was a general decline in this ratio in the majority of selected banks in all years except 1990-91. The main reason for this seems to be the passing of Kerala Co-operative Agricultural and Rural Debt Relief Scheme on 21.10.90 (Government of Kerala, 1995, p.10). The general reduction in overdues may probably be due to the efficient and effective recovery measures taken by these banks.

Comparison of the overall ratio of these six DCBs with the State ratio reveals that, in both cases, there was a general decline. Moreover, the ratios of the selected DCBs were low compared with state averages during 1989-90 and 1991-92. However, in other three years ie. in 1990-91, 1992-93 and 1993-94 this ratio was more in the selected DCBs than for the state as a whole.

The table further revealed that compared to the All India ratio the position in selected DCBs were better in all years except 1990-91 and there is a continued trend for improvement.

7.8 Efficiency in funds management

One of the objectives of the present study is to assess the efficiency in funds management relating to mobilisation and deployment of funds. This aspect was earlier examined with the help of spread - burden approach and traditional ratios. Now-a-days the financial analysists are trying to develop and re-design newer methodologies. Among the recently developed methodologies for evaluating financial efficiency, the three most popular methods are Data Envelopment Approach (DEA), the Stochastic Econometric Frontier Approach (SEFA) and the Thick Frontier Approach (TFA) (Robert Tannenwald, 1995, pp.41-52). Under the DEA approach, a sample of banks is in effect divided into sub samples that produce the same level and mix of outputs and face similar input prices. In each sub sample, the bank that incurs the lowest total cost is deemed to provide best practice for that sub sample. The best practice, banks form an efficiency frontier that envelops other banks in the sample and can be used to evaluate a bank's `X efficiency'. In SEFA approach, regression techniques are used to estimate a model in which total cost is assumed to be a function of several variables, including inputs and outputs. A bank's relative `X efficiency' could be measured by the degree to which its actual cost exceeded its predicted value. The TFA approach pioneered by Berger and Humphrey borrows elements from both DEA and SEFA. Like SEFA, TFA adopts the

assumption that deviations of actual from predicted total cost are attributable to random error as well as `X efficiency'. Like DEA, TFA assumes that best practice is exhibited by a subset of banks. Specifically TFA assumes that on an average, banks with relatively low average cost (total cost/total assets) set the standard for operational efficiency against which other banks should be measured. Practitioners of TFA have usually identified low average cost banks as those in the lowest average cost quartile within their size group. TFA defines best practice by estimating a total cost function from a sub sample limited to these banks. Disperson in `x' efficiency is exhibited in Table 7.17.

Table 7.17 shows that the revealed inter-quartile differences are large especially in Palakkad (421.25) and Idukki (103.30) DCBs. The wide dispersion between the average total cost (ATC) in the first quartile and fourth quartile is due to inefficiencies in funds management.

7.9 Manpower expenses per employee

In addition to the above, for calculating efficiency, manpower expenses per employee and volume of working fund per employee has also been calculated. Manpower expenses include salaries and allowances of employees. Manpower expenses per employee of selected DCBs is exhibited in Table 7.18.

Table 7.17 Disperson in "X efficiency" among selected DCBs measured in terms of interquartile differences in average total cost (ATC)[1] for the period 1989-90 to 1993-94

	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
First ATC quartile	28.21	19.94	6.73	20.37	10.51	22.74
Fourth ATC quartile	48.49	39.78	35.08	33.80	19.84	46.23
Percentage difference[2] between mean ATC of first and fourth ATC quartiles	71.89	39.50	421.25	65.93	88.77	103.30

1. Average total cost (ATC) = Ratio of total cost to total assets. Total cost includes interest cost and non-interest cost

2. (Mean ATC, fourth quartile - Mean ATC, first quartile)/mean ATC first quartile) x 100

Table 7.18 Manpower expenses of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam		Kottayam		Palakkad		Kozhikode		Kollam		Idukki	
	Manpower expense	No. of staff	Manpower expense	No. of staff	Manpower expense	No. of staff	Manpower expense	No. of staff	Manpower expense	No. of staff	Manpower expense	No. of staff
1989-90	12024 (38.17)	315	10738 (33.66)	319	11028 (38.83)	284	10530 (37.74)	249	13391 (42.24)	317	7206 (32.90)	219
1990-91	12701 (40.45)	314	12028 (38.06)	316	12399 (44.60)	278	12277 (45.14)	272	14061 (44.78)	314	7691 (35.94)	214
1991-92	10609 (34.11)	311	12157 (39.47)	308	9877 (36.45)	271	12750 (47.40)	269	14657 (47.33)	309	9071 (45.81)	198
1992-93	16938 (55.53)	305	16062 (52.84)	304	14607 (54.71)	267	15754 (59.90)	263	20841 (68.33)	305	9674 (49.61)	195
1993-94	18482 (61.81)	299	20012 (66.93)	299	15441 (58.94)	262	19078 (73.95)	258	23217 (77.13)	301	11047 (57.54)	192
Average	14150 (45.94)	308	14199 (45.95)	309	12670 (46.58)	272	14077 (53.72)	262	17233 (55.77)	309	8937 (43.59)	205

Note : Figures in brackets represent manpower expenses per employee

Source: Annual reports of DCBs for the period 1989-90 to 1993-94

From Tables 7.17 and 7.18 it is observed that Kollam DCB had the highest manpower expenses per employee per year which has increased from Rs.42.24 thousand (89-90) to Rs.77.13 thousand in 1993-94. Kozhikode DCB had the second position in this respect. The lowest manpower expenses per employee was in Idukki DCB which varied from Rs.32.90 thousand in 89-90 to 57.54 thousand in 1993-94. Average of this ratio was highest in Kollam DCB and lowest in Idukki DCB.

7.10 Volume of working fund per employee

Another method of measuring efficiency is to calculate the volume of working fund per employee. Higher volume of working fund per employee is a sign of efficiency. Table 7.19 presents the volume of working fund per employee of selected DCBs.

Table 7.19 reveals that during the five year period (1989-90 to 93-94), the volume of working fund per employee of all these DCBs had increased considerably. This amount was highest in all years in Ernakulam DCB, where this figure had increased from Rs.32.93 lakh in 89-90 to Rs.67.78 lakh in 93-94. The volume of working fund per employee was the lowest in Kozhikode DCB which varied from Rs.21.18 lakh in 89-90 to Rs.31.72 lakh in 93-94. It is clear from Table 7.19 that working fund per employee was the highest in Ernakulam DCB

Table 7.19 Volume of working fund of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

Year	Ernakulam		Kottayam		Palakkad		Kozhikode		Kollam		Idukki	
	Volume of working fund	No. of staff	Volume of working fund	No. of staff	Volume of working fund	No. of staff	Volume of working fund	No. of staff	Volume of working fund	No. of staff	Volume of working fund	No. of staff
1989-90	1037163 (3292.58)	315	988803 (3099.70)	319	561195 (1976.04)	284	590889 (2117.88)	279	605778 (1910.97)	317	492289 (2247.89)	219
1990-91	1154428 (3676.52)	314	1060831 (3357.06)	316	616962 (2219.29)	278	620030 (2279.52)	272	639844 (2037.72)	314	543160 (2538.13)	214
1991-92	1204829 (3874.05)	311	1100656 (3573.56)	308	720188 (2657.51)	271	787359 (2926.99)	269	731857 (2368.47)	309	617542 (3118.90)	198
1992-93	1455119 (4770.88)	305	1350371 (4442.01)	304	835706 (3129.99)	267	943826 (3588.69)	263	898499 (2945.90)	305	669656 (3434.13)	195
1993-94	2026484 (6777.54)	299	1608809 (5380.63)	299	980969 (3744.16)	262	818391 (3172.06)	258	1050851 (3491.20)	301	809083 (4213.97)	192
Average	1375604 (4454.68)	308	1221894 (3951.79)	309	743004 (2727.62)	272	752099 (2804.25)	268	785365 (2539.99)	309	626346 (3076.36)	203

Note : Figures in brackets represent volume of working fund per employee

Source: Annual reports of DCBs for the period 1989-90 to 1993-94

which had ultimately reflected in the higher efficiency and higher profits.

The analysis reveals that for efficient management of funds, DCBs have to consider the number, seniority, composition and salary structure of employees. In addition to these, recruitment, promotion, placement policies of employees and wage agreements should also be considered.

7.11 Efficiency in the management of reserve ratios in District Co-operative Banks

One of the determinants of profitability and efficiency in the management of funds is the efficiency maintained in the management of reserves of DCBs. It depends on the practices relating to the maintenance and management of cash reserve ratio and statutory liquidity ratio. Hence, an attempt is made to estimate the excess reserves and the extent of probable loss by calculating the opportunity cost of idle funds by using weighted average interest rates (see appendix 3) of different categories of loan for different banks for the respective years. Weighted average interest rates are varied for different banks and for different years.

7.11.1 Cash in Hand and at Bank and Money at Call and Short notice

Cash in hand and at bank and money at call and short notice are assets kept for maintaining banks liquidity. Money

at call and short notice is a liquid asset equal to cash. Hence, for analysis it is included along with cash. These are kept as part of reserve requirements in banks. Reserves are maintained by all banks in order to meet the depositors demand. To provide more security for the deposits of the public, the Reserve Bank of India itself had initiated statutory provisions for the maintenance of reserves. Section 42(1) of Reserve Bank of India Act 1934 and also Section 24 of the Banking Regulation Act 1949 contain the necessary provisions with respect to the commercial banks. In 1966, the Banking Regulation Act was made applicable to the co-operative banks also. Accordingly, the co-operative banks are required to keep 3 per cent and 25 per cent of their demand and time liabilities (DTL) as cash reserve ratio (CRR) and statutory liquidity ratio (SLR) respectively.

However, a co-operative bank should keep 3 per cent of its DTL as cash reserves and is to be maintained in the form of liquid cash. In practice, as liquidity is related to customer satisfaction, banks used to keep 1.5 per cent more than the required minimum. For meeting unforeseen circumstances banks keep around 6 per cent as maximum.

In the present study, CRR is analysed at three levels i.e., 3 per cent, 4.5 per cent and 6 per cent. CRR above 3 per cent is treated as excess reserves as per statutory regulations. To provide liquidity and safety for conducting

day to day operations of the banks, an allowance of 1.5 per cent is made over and above the statutory requirements of 3 per cent which makes it as 4.5 per cent and is considered as reserves under ideal conditions. Reserves above this 4.5 per cent is considered as excess reserve in the second level. Cash reserve above 6 per cent is considered as excess reserves above the maximum limit.

7.11.2 CRR - Opportunity cost of DCBs

Opportunity cost is the amount foregone by not utilising an alternative under consideration. Generally all these DCBs were, found keeping more CRR than the required minimum. It is observed that if these banks were following an efficient cash reserve management policy, they could have considerably reduced the extent of loss due to keeping excess CRR. Assuming that these banks are following efficient cash management and utilising the excess CRR for lending purposes, they could have earned interest on this amount at weighted average lending rate. This interest amount which is already foregone by not utilising the excess CRR for lending purposes is known as opportunity cost. The opportunity cost on average of excess CRR kept by the DCBs is given in Table 7.20 (Bank wise details are presented in appendix-4).

Table 7.20 Average of CRR and opportunity cost of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki	Total	Average of six DCBs
Total DTL	886558.5	806801.3	443466.9	350637.5	499488.3	218340.7	3205293.2	529215.5
3% of DTL	26596.8	24204.0	13303.8	10519.1	14984.6	6550.2	96158.5	16026.4
CRR Actual	134915.5	44770.5	28019.0	25844.3	31361.7	15270.5	280181.5	46696.9
Difference	108318.7	20566.5	14715.0	15325.2	16377.1	8720.3	184022.8	30670.5
4.5% of DTL	39895.1	36306.0	19956.0	15778.7	22477.0	9825.3	144238.1	24039.7
6% of DTL	53193.5	48408.1	26608.0	21040.1	29969.3	13100.4	192319.4	32053.2
Excess CRR above 3% of DTL	108318.7	20566.5	14715.0	15325.2	16377.1	8720.3	184022.8	30670.5
Excess CRR above 4.5% of DTL	95020.4	8464.4	8063.0	10065.6	8884.7	5445.2	135943.3	22657.2
Excess CRR above 6% of DTL	81722.1	-3637.6	1411.0	4804.2	1392.4	2170.1	87862.2	14643.7
Interest on CRR above 3% DTL	14940.8	2602.7	1972.2	1860.0	1834.0	986.5	24196.2	4032.7
Interest on CRR above 4.5% DTL	13100.6	1072.8	1099.1	1218.8	986.7	611.8	18089.8	3015.0
Interest on CRR above 6% DTL	11247.3	279.3	1064.7	577.3	395.6	459.9	14024.1	2337.4

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Table 7.20, made clear the amount of excess CRR kept and the extent of loss incurred by all these banks for keeping excess reserves under CRR for five years. If these banks had utilised the excess reserves of Rs.1840.22 lakh at 3 per cent for granting loans and advances at weighted average lending rate, they would have earned an excess revenue of Rs.241.96 lakh. Again, if these banks had made use of the excess reserves of Rs.1359.43 lakh at 4.5 per cent for lending purposes, these banks would have generated excess revenue of Rs.180.89 lakh as interest. Further, interest of Rs.140.24 lakh could have been earned by these banks if they had made worthwhile use of excess reserves of Rs.878.62 lakh at 6 per cent for granting loans and advances.

Table 7.20 reveals that all banks except Kottayam (at 6 per cent level) were keeping excess CRR than the required minimum in all years of the study period. The CRR amount varied in different banks and in different years. Kottayam DCB was keeping the lowest total CRR i.e., 5.55 per cent of DTL. The overall average of CRR of these banks is 8.82 per cent, which is about three times higher than the required minimum.

Out of six DCBs, the amount of excess CRR kept at all levels were higher in Ernakulam DCB, i.e., at 3 per cent level - Rs.1083.18 lakh, at 4.5 per cent level - Rs.950.20 lakh and at 6 per cent level - Rs.817.22 lakh. If this DCB had

utilised these excess reserves for granting loans and advances at weighted average lending rate, it would have earned an excess revenue of Rs.149.40 lakh, Rs.131 lakh and Rs.112.47 lakh respectively as interest. The reserve was lowest in Idukki DCB at first two levels, i.e., at 3 per cent level - Rs.87.20 lakh and at 4.5 per cent level - Rs.54.45 lakh. As in the earlier case, Idukki DCB would have generated an excess revenue of Rs.9.86 lakh and Rs.6.11 lakh as interest. At 6 per cent level, this reserve was lowest in Kottayam DCB which was Rs.-36.37 lakh. Keeping of excess reserves by these banks may be probably due to the delay in getting information from branches.

7.11.3 SLR - opportunity cost of DCBs

DCBs generally invest their SLR in state co-operative banks, government securities, post office national savings certificates and other notified banks. Excess SLR for the present study is taken as any investment made over and above the statutory requirement of 25 per cent of DTL. DCBs follow the practice of transferring excess reserves under CRR to SLR. Hence, non-cash component under SLR will be slightly lower than 25 per cent. Even though SLR earns some interest, the income earned from lending would have been higher if it were utilised for that purpose. Therefore, it would be appropriate to estimate the opportunity cost of excess reserves under SLR

by using weighted average interest of different categories of loan.

For the purpose of estimating opportunity cost, SLR is also analysed at three levels, viz., 25 per cent, 27.5 per cent and 30 per cent of DTL. SLR above 25 per cent is treated as excess reserves as per statute. But, it is customary for the banks to maintain liquid assets which may be higher than the statutory minimum to meet their day-to-day requirements. An allowance of 2.5 per cent over and above the statutory minimum of 25 per cent is allowed to provide liquidity and safety for conducting day-to-day operations of the bank and is considered as reserves under ideal conditions. Hence, reserves above 27.5 per cent is considered as excess in the second level. The level of higher or optimum liquidity and the periods during which they are maintained may vary from bank to bank depending on factors such as composition of deposits, number of branches, conditions of the area in which they operate, availability of remittance facilities, avenues for quick borrowing arrangements, etc. In view of these factors, it has been recognised that the optimum liquidity of a DCB may generally be 30 per cent of DTL or 1 per cent of the working capital, whichever is higher (John Winfred, A., 1994, p.57). SLR above 30 per cent is considered as excess reserves above the maximum limit. The opportunity cost on average of excess SLR kept by the DCBs is given in Table 7.21 (Bank wise details are presented in appendix-4).

Table 7.21 Average of SLR and opportunity cost of selected DCBs for the period 1989-90 to 1993-94

(Rs. in thousands)

	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki	Total	Average of six DCBs
Total DTL	886558.5	806801.3	443466.9	350637.5	499488.3	218340.7	3205293.2	529215.5
25% of DTL	221639.6	201700.4	110866.7	87659.4	124872.0	54585.1	801323.2	133553.9
Assets								
a. Excess CRR	108318.7	20566.5	14715.0	15325.2	16377.1	8720.3	184022.8	30670.5
b. Balance with KSC Bank	262553.4	199148.0	71146.0	83538.6	177090.8	48055.8	841532.6	140255.4
c. Securities	7574.6	86605.6	8153.6	4861.5	4002.4	5150.1	116347.7	19391.3
Total SLR	378446.7	306320.1	94104.6	103725.3	197470.3	61926.1	1141993.1	190332.2
Difference (Total SLR-25% of DTL)	156807.1	104619.7	-16762.1	16066.0	72598.1	7341.0	340669.8	56778.3
27.5% of DTL	243803.6	221870.4	121953.4	96425.3	137359.3	60043.7	881455.7	146909.3
30% of DTL	265967.5	242040.4	133040.1	105191.2	149846.5	65502.2	961587.9	160264.7
Excess SLR above 25% of DTL	156807.1	104619.7	-16762.1	16066.0	72598.1	7341.0	340669.8	56778.3
Excess SLR above 27.5% of DTL	134643.1	84449.7	-27848.8	7300.0	60111.1	1882.5	260537.6	43422.9
Excess SLR above 30% of DTL	108879.2	64279.6	-38935.5	-1465.9	47623.9	-3576.1	176805.2	29467.5
SLR-cash component of SLR	108318.7	20566.5	14715.0	15325.2	16377.1	8720.3	184022.7	30670.5
Non cash component of SLR above 25% DTL	48488.4	84053.2	-31477.1	740.8	56221.0	-590.0	157436.3	26239.4
Non cash component of SLR above 27.5% DTL	26324.4	63283.2	-42563.8	-8025.1	43734.1	-6837.8	75915.0	12652.5

Contd.

Table 7.21 (Contd.)

	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki	Total	Average of six DCBs
Non cash component of SLR above 30% DTL	560.5	43713.2	-53650.5	-16791.1	31246.8	-11304.2	75520.5	25173.5
Interest on cash component of SLR	14953.8	2602.7	1972.2	1860.1	1834.0	986.5	24209.3	4034.9
Interest on non cash component of SLR above 25%	2243.1	2660.5	126.8	199.6	1256.6	41.5	6528.1	1088.0
Interest on non cash component of SLR above 27.5%	1199.2	1967.9	3.9	67.1	998.8	Nil	4236.9	706.2
Interest on non cash component of SLR above 30%	238.5	1337.4	Nil	Nil	750.0	Nil	2325.9	387.7
Interest on SLR above 25%	17196.9	5263.2	2099.0	2059.7	3090.6	1028.0	30737.4	5122.9
Interest on SLR above 27.5%	16153.0	4570.6	1976.1	1927.2	2832.8	986.5	28446.2	4741.0
Interest on SLR above 30%	15192.3	3940.1	1972.2	1860.1	2584.0	986.5	26535.2	4422.5

Source: Books and accounts of DCBs for the period 1989-90 to 1993-94

Table 7.21 throws light on the volume of loss incurred by the six banks by keeping excess SLR for five year period from 1989-90 to 93-94. These banks had an excess reserve of Rs.3406.7 lakh at 25 per cent SLR during this period. If these banks had made use of this amount for granting loans and advances at weighted average lending rate, it would have earned an additional revenue of Rs.307.37 lakh. At the second level (27.5 per cent), there was an excess reserve of Rs.2605.37 lakh which could have been utilised for lending purposes at weighted average lending rate. This might have resulted in an additional income of Rs.284.46 lakh. Again, interest of Rs.265.35 lakh could have been obtained if these banks had made an efficient use of the excess reserves of Rs.1768.05 lakh (at 30 per cent of DTL) by granting loans and advances at weighted average lending rate.

Out of six DCBs, SLR amount kept at all levels were high in Ernakulam DCB, i.e., Rs.1568.07 lakh at 25 per cent level, Rs.1346.43 lakh at 27.5 per cent level and Rs.1088.79 lakh at 30 per cent level. If this bank had utilised this amount for granting loans and advances, it would have earned an excess amount of Rs.171.96 lakh, Rs.161.53 lakh and Rs.151.92 lakh as interest respectively. Lower reserves were recorded at Palakkad and Idukki DCBs. Keeping excess reserves by these banks may probably be due to the delay in getting the information from branches and lack of demand for loans.

The enquiry into profitability with the help of spread burden approach revealed that the banks with better resource base revealed high profitability. It also suggested that, there is further scope for reducing burden and improving spread and consequently increasing profit margin. The other accounting ratios also reassured this possibility. Estimates of opportunity cost revealed that all the banks suffer from the problem of excess reserves under CRR and SLR. It however, showed an improvement over the years and the profitability of the DCBs can be sufficiently improved if better reserve management strategies are launched.

The efficiency in funds management is closely associated with the management practices followed by the bank and also to the extent of professionalisation. Hence, in the succeeding chapter an attempt is made to examine the management practices followed by the selected DCBs along with the socio-economic profile of General Managers, Accounts Superintendents and Branch Managers.

Management practices in District Co-operative Banks

CHAPTER-VIII

MANAGEMENT PRACTICES IN DISTRICT CO-OPERATIVE BANKS

Funds management efficiency, discussed in the previous chapter is naturally related to the efficiency in management practices followed. Thus, in this chapter an attempt is made to evaluate the management practices followed in sample DCBs and also to arrive at appropriate and relevant inferences. A banker is expected to utilise resources in the most effective manner under the most trying circumstances in order to attain optimum results. Various resources are at his command which can be broadly classified under two groups viz., physical resources and human resources. The success or failure of a bank manager depends largely on his ability to handle these resources.

In banking operations, a manager has to deal with human resources on a large scale. Being in a service industry, a bank manager gets innumerable opportunities to interact with the public and staff members. Unless a bank manager is able to motivate and develop the staff into a team, he would find it difficult to meet the different challenges faced by the bank. During the last two decades, therefore, the banks have shown great concern in harnessing the human resources in order to improve their services and efficiency. The concept of

managing people can be summed up as "Managing people means getting the best out of them, developing their talents, creating opportunities for their growth, promoting their positive contribution to the success of their bank" (Ghoshroy, D., 1992, p.2).

Bank managers are not only to cater to the requirements of their customers, both depositors and borrowers, but also to study the attributes of their own staff members and the policies of the top managements. For managing this efficiently, they have to be professionally competent and have to involve themselves in understanding the total financial system of the country and the planning procedure of banking activities. Therefore, a wise banker should know the total banking and be able to motivate, guide and control his staff. He has to be a good planner, decision maker and trouble shooter with in his areas of operations.

One of the major reasons for increasing alienation, apathy and adverse work culture in banking industry especially in DCB is the absence of any planned effort towards development of their people by the banks at the branch levels. In DCBs, the only field which has gained some momentum and continuity, is in the training of staff. Therefore, a DCB manager should plan and formulate a budget with targets in

respect of his bank's business which can be summarily discussed as under.

The important sources of funds of a DCB is the deposits mobilised from the public and borrowings from other institutions. With regard to deposits, an annual target for every branch has to be prepared keeping in view the overall budgeted target of a bank. For this difficult task, the manager requires to have brain power, training, aptitude and high responsibilities and understanding of his duties as a corner stone. For attaining the targets of deposit mobilisation, bank manager requires to have the assistance and co-operation of his top officials and subordinates. Knowledge or an estimation of the possible amount of deposits that can be collected is very essential to a successful manager. The manager should also have to strike the annual deposit target distributed over every month or quarter.

The important objective of granting loans and advances should be by strictly observing the stipulated norms for attaining the lending targets set out in the annual budget. While granting loans and advances, the end use of funds lent out is more important to a manager. Emphasis may be given for the priorities specified in the credit policies. Identification of borrowers, processing and scrutinising of loan applications, etc. are important aspects to be dealt with

care. Pre-inspection and post-sanction inspection job, its conduct and follow up are other important steps in financing of the units.

The recent trends in the Banking industry centred towards effective customer service rather than bringing in the deposits and lending its funds to earn higher profits. The more the services that the banker renders, the more the inflow of funds. The banks design various schemes to suit the various requirements of agriculturists, small borrowers and professionals. A manager has to set aside a fixed period of time at regular intervals to meet the customers by interface and have the material to be discussed prepared in advance.

Discipline means obeying by the personnel to the stipulated norms and rules of an organisation in the normal and routine functioning to attain its objectives. Banking, being the service industry, requires its personnel to maintain absolute discipline. Therefore, primarily every bank manager, must set himself as an example of disciplined person. There are a number of weapons to root out the indiscipline and eradicate dissatisfaction among workmen like reinforcement, feedback, motivation and strokes to streamline the disciplined area.

A bank manager has to organise training programmes to develop the skills and abilities of his subordinates by

imparting them practical training and guidance. In addition to the above, a bank manager has a number of other basic tasks like planning, organising, directing and controlling. Over and above this, a manager should motivate to explore the best results of working from employees.

8.1 Management and administration of DCBs

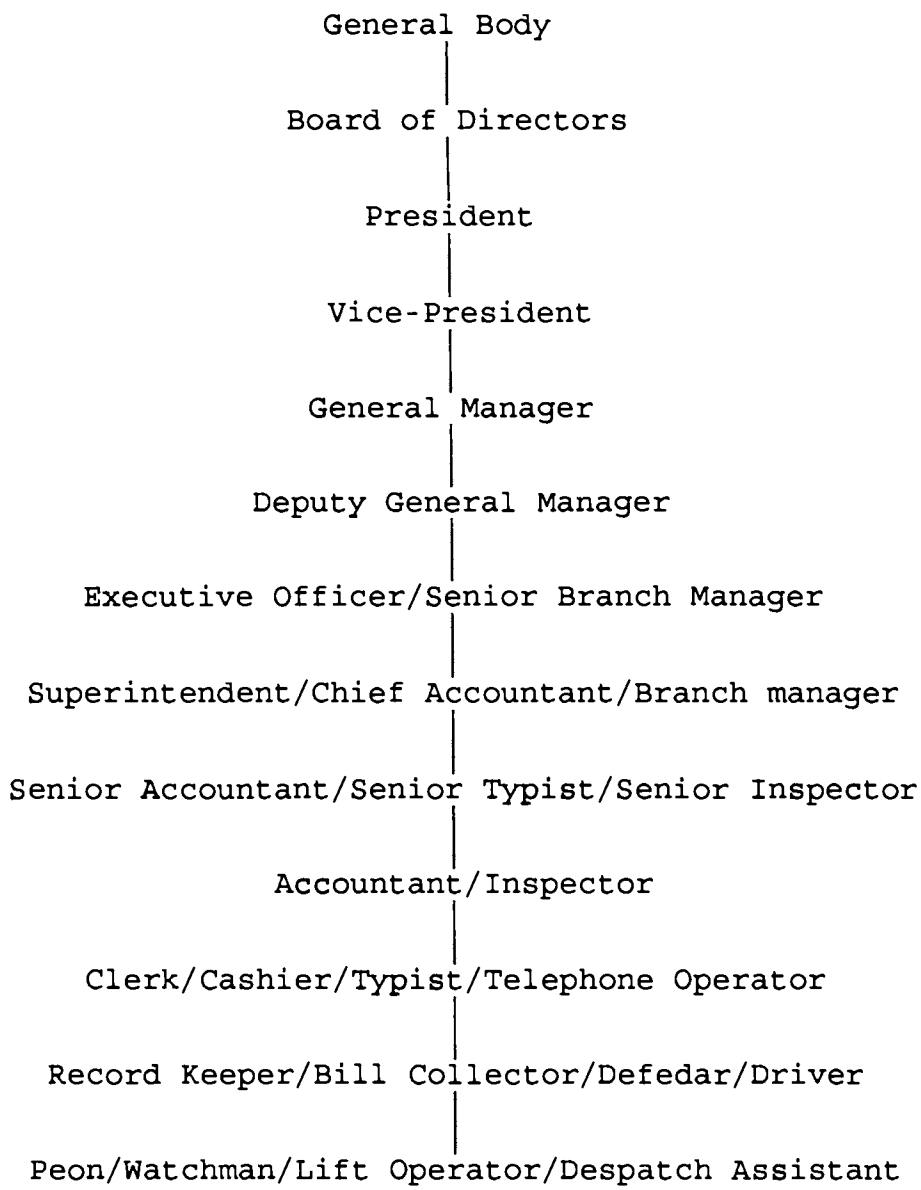
A DCB is managed by a Board of Directors elected by The General Body. For conducting the affairs of the DCB, the Board of Directors shall meet once in three months or often, if necessary. The President and the Vice-President are elected from the Board of Directors by themselves. The General Body meeting is presided over by the President and in his absence by the Vice-president.

8.2 Organisational structure

The General Manager is the Chief Executive Officer of the bank. He is responsible for the general administration, and is subject to the control of the President and the Board of Directors of the bank. The General Manager (G.M.) convenes the General Body, Board of Directors and Executive Committee meetings.

To assist the General Manager there are other staff members as illustrated in organisation chart given in figure 8.1.

Figure 8.1 Organisational Structure of District Co-operative Banks



The activities of the various governing bodies are as stated below:

8.2.1 The General Body

The General Body of the Bank is constituted by the representatives of the affiliated societies and nominees of the Kerala State Co-operative Bank and the Registrar of Co-operatives. The representative of the member society should be a member of the executive committee of that society. The General Body meeting is called by the General Manager.

8.2.2 The Board of Directors

The members of the Board of Directors (ie., directors) are elected by the General Body from among themselves. The Board of Directors appoints the General Manager who is the head of the paid staff of the bank. The Board of Directors takes decision on matters such as admission and registration of members, advancing of loans, appointment and control of paid employees, preparation of annual budget and activity report of the bank.

8.2.3 Executive committee

The Executive Committee takes decisions regarding routine management and administration (which are subject to the ratification by the Board of Directors) for facilitating the smooth conduct of the Bank's business.

8.3 Administrative control and inspection

In general, the Department of Co-operation controls the DCBs in matters like admission of members, constitution of Board of Directors, elections to the various positions, audit of the bank, Amendment of the byelaws, etc. The Reserve Bank of India, The National Bank for Agriculture and Rural Development (NABARD) and the Registrar of Co-operative Societies conduct periodic inspection on the working of the bank. The RBI inspection is based on the returns submitted by the DCBs to the RBI. The RBI verifies whether the directives issued are being followed by the DCB, especially with regard to the statutory reserves. The NABARD inspects the performance of the DCBs in respect of NABARD schemes based on the returns submitted by the DCBs. The actual performance is compared with the target. Registrar of co-operatives verifies whether the DCB is complying with the rules and regulations of the Kerala Co-operative Societies Act, 1969. When the inspection is over, its findings are to be sent to the DCB with a copy to the Registrar and the State Co-operative Bank, and the rectifications are based on the suggestions made therein. The Executive Officers of the DCBs inspect the branches and inspectors of respective circles inspect the primaries.

8.4 System of Audit

DCBs follow concurrent audit system. Concurrent auditor is of the rank of Deputy Registrar appointed on deputation from the Co-operative Department. DCB staff members will assist him in performing his duties. DCBs have to prepare Profit and Loss Account, Balance Sheet and Audit Reports in the prescribed format. The auditor checks and verifies the respective audit schedules. The audit report is to be approved by the President, General Manager and the Board of Directors. Finally, the audit report is submitted to the Registrar of Co-operative Societies. The Registrar issues the audit certificate of the Banks.

8.5 Loans-Issue and recovery

Borrowers submit applications for loan to the primary societies. The Secretary of the respective primaries consolidates the entire applications and submits them to the branch in the respective areas. The branch manager enters the details of the applications in the respective books and forwards them to the head office. The inspector of the bank verifies the applications. In the case of industrial loans, the industrial sub-committee of the bank, branch manager of the particular area and the superintendent of the industrial

section verifies the applications. Executive committee of the DCB is the final authority to sanction the loan.

When a member fails to repay the loan, a notice is served on him/her. If he or she fails to respond, the bank files a suit. Suits for amounts upto Rs.5 lakhs are filed with the Joint Registrar and those above Rs.5 lakh are filed with the Registrar of Co-operative Societies. The appropriate action/ directives issued by the Registrar/Joint Registrar shall be implemented.

8.6 Management practices in DCBs

An attempt is made in this section to examine the management practices followed for harnessing the sources and uses of funds. In order to study this, data and details for three years from 1991-92 to 1993-94 were collected at three levels, viz., general managers, head office superintendents and branch managers with the help of structured schedules (See appendix-5). The socio-economic background of these personnel were also examined.

8.6.1 General Manager

General managers of these selected DCBs were co-ordinating all the activities of their banks. They motivate and initiate the employees of the bank more efficiently. They

used to appreciate the staff members who have worked efficiently. General managers conduct supervision of the work of the branches which are helpful for improving the working of the bank as a whole.

Of the six banks selected for the study, all general managers were males and they fall in the age group of 50 plus with more than 25 years of experience. The educational qualifications of three general managers were limited to Secondary School Leaving Certificate (S.S.L.C.) examination with basic training in Co-operation and three were graduates. These trends indicate that higher cadres were given on the basis of length of service, a practice followed throughout. Even though, three of the six were only S.S.L.C. holders, they were frequently deputed for training programmes in co-operation in pioneering institutes. From this, it is felt that the sample banks were very careful to cope with the changing banking structure and co-operative organisations.

8.6.2 Head office superintendents

All superintendents of the selected banks were males. Their age varied from 43 to 53 years and their total service in the bank ranged from 16 to 27 years. With regard to educational qualifications, two of these six superintendents were S.S.L.C. with Junior Diploma in Co-operation, two were

B.A. with Junior Diploma in Co-operation and one was B.Com. with specialisation in Co-operation and the last M.Com. with Junior Diploma in Co-operation. All of them except one had less than four years experience in the present post and all have attended training programmes in co-operation in pioneering institutes.

8.6.3 Branch Managers

For collecting information from branch managers of DCBs, ten per cent of the branches were selected on random basis. Out of 179 branches of six banks[1], 18 branch managers were selected. Of these, there were only two lady managers and the rest were males. Managers' average age was 50.6 years. Only four managers were below 50 years and all others were above 50 years. With regard to their educational qualifications, it is found that one person was a post-graduate in Commerce. Seven managers were degree holders and the remaining ten were S.S.L.C. The average length of service of these managers in bank was 26 years and the average years of service in the present post is five years. About 66.67 per cent of the managers attended one or two training programmes during their whole service.

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1. As on 31.3.94, the branch position was - Ernakulam DCB-31, Kottayam DCB-39, Palakkad DCB-23, Kozhikode DCB-34, Kollam DCB-29 and Idukki DCB-23.

8.7 Perceptions of the respondents

Below an attempt is made to examine the opinions and attitudes of the general managers, head office superintendents and branch managers based on the field study. The management practices followed by them with respect to mobilisation and deployment of funds are also discussed.

8.7.1 Membership and share capital

Opinions of head office superintendents and branch managers about growth in number of members and amount of share capital were surveyed. With regard to the increase in number of members during the three year period 1991-92 to 1993-94, Idukki stands first with an increase of 248 (92.88%) from 267 to 515, while only six members' (1.11%) increase was there in Kollam. Share capital increase was the highest in Ernakulam DCB with an increase of Rs.130.96 lakh and the lowest in Kollam DCB with Rs.20.68 lakh during the period from 1991-92 to 1993-94. It was observed that the highest increase of share capital in Ernakulam DCB was due to the efficient practices followed by that bank.

8.7.2 Reserves and other funds

Details relating to the maintenance and management of such reserves were collected from the head office

superintendents. Based on their responses, it was found that all these DCBs keep different types of reserves (set apart from profit) like statutory reserve, agricultural credit stabilisation fund, building fund, dividend equalisation fund, co-operative education fund, common good fund for giving donation for flood, earthquake etc. Kottayam, Palakkad, and Kozhikode DCBs were keeping these reserves in State Co-operative Bank. But Ernakulam, Kottayam and Idukki DCBS were keeping these reserves internally and in State Co-operative Bank. The selected DCBs were following their respective bye-laws for transfer of funds to reserves and other funds.

8.7.3 Deposits

Questions relating to the preparation of deposit targets were administered to branch managers and head office superintendents. They depicted that all these selected branches accept deposits in the form of current account, savings bank account, fixed deposit account and recurring deposit account. Only Kottayam DCB's branches fix yearly targets for different types of deposits. Other banks' branches prepare only yearly targets for all types of deposits as a whole. At head office level, three banks prepare their deposit targets on the basis of past performance before three months of the start of the accounting year and the other three do it in between March and May.

8.7.4 Deposit mobilisation campaign

Details of deposit mobilisation campaign like periods of campaign, attainment of targets, withdrawal of deposits mobilised during deposit mobilisation campaign were also enquired from head office superintendents and branch managers. Based on their opinions, it came to the conclusion that all these banks conduct deposit mobilisation campaign (DMC) for collecting more deposits. For popularising deposit schemes, all these banks give advertisement in news papers. Other methods for popularising deposit mobilisation are personal canvassing, giving advertisement in magazines, souvenirs, cinema slides, banners, wall posters, loudspeaker announcement, etc. Registrar of co-operatives fixes the target of DMC for all DCBs.

For three years starting from 1991-92 the DMC period was 30 days (16.9.1991 to 15.10.1991) in 1991-92, 40 days (1.12.92 to 10.1.93) in 1992-93 and 45 days (20.1.94 to 5.3.94) in 1993-94. All banks achieved their DMC targets in all years except two banks in 1991-92, when their employees were on strike and they boycotted the DMC. According to the head office superintendents, fixed deposits were mobilised more during DMC and a major portion of the deposits mobilised were remaining there without immediate withdrawal except in the

Ernakulam DCB where all types of deposits were increasing during DMC.

Out of 18 branch managers, fourteen branch managers opined that fixed deposits were mobilised more during DMC, while two managers are of the opinion that savings bank accounts were more and the remaining two found that all types of deposits were increasing. With regard to the question of immediate withdrawal of major portion of deposits mobilised during DMC, fourteen managers expressed their opinion that these deposits are not withdrawn immediately, while the remaining four managers opined that these deposits are withdrawn immediately. Out of these four managers, two managers pointed out that major part of '46 days' fixed deposits are withdrawn immediately and the remaining two opined that major part of savings bank deposits are withdrawn immediately. Personal requirements are the main reason for this withdrawal. It was also found that the banks are not giving any incentives to staff members for conducting DMCs.

8.7.5 Determinants of Deposits

Perceptions of head office superintendents on customers preferences for depositing money in DCBs were investigated and exhibited in Table 8.1.

It is observed from Table 8.1 that among the motives for depositing money by the public in DCBs, five superintendents

Table 8.1 Determinants of Deposits in order of preference of the selected DCBs

Head office superintendents

	Determinants	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1.	High interest rate	1	1	1	1	2	1
2.	Better service	2	2	2	2	1	2
3.	Security	-	-	-	-	-	-
4.	Others (specify)	-	-	-	3 personal contact	-	-

Source: Field data

cited high interest rate and better services in descending order of importance. Only one superintendent felt it to be due to better services and high interest rate. Personal contact with people is the third reason in the opinion of one superintendent.

Perceptions of branch managers on customers preference for depositing money were also investigated. Table 8.2 exhibits their perceptions.

According to Table 8.2, at branch level out of 18 branch managers, eleven managers gave first preference to high rate of interest, six managers to better services and one manager to personal contact.

8.7.6 Loans and advances

For obtaining information about preparation of loan mix, targets for loans and types of loans granted by these banks, opinions of head office superintendents and branch managers were collected. They commented that at head office level DCBs are not planning their loan mix (combination of loan). However, three banks were found preparing targets for total loan at the beginning of the year.

In addition to short term, medium term and long term loans and housing loan, all DCBs advance schematic loans for different purposes like betelvine cultivation, pineapple

Table 8.2 Determinants of Deposits in order of preference of the selected DCBs

Branch Managers

Determinants	Ernakulam			Kottayam				Palakkad			Kozhikode			Kollam			Idukki	
	Aluva	Palari-vattam	Palace Road	Main Branch	Kanji-kuzhy	Puthu-ppally	Thiru-vathu-kkal	Chit-ttoor	Ala-thur	Koyal-mannam	Main Branch	Kalpa-tta	Balu-ssery	Kun-dara	Palli-mukku	Kiliko-lloor	Munnar	Adi-mali
1. High interest rate	2	1	1	1	2	2	2	1	2	1	1	2	1	1	1	1	2	1
2. Better service	1	2	2	2	1	1	1	2	1	2	2	3	2	2	2	2	1	2
3. Security	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others (specify)	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-

Source: Field data

cultivation, jasmine cultivation, pepper cultivation coconut development schemes, dairy development schemes, sericulture, minor irrigation, goat rearing, beekeeping, prawn farming, rabbit rearing, bio/gobar gas production, pig rearing, sprayer, cow and cattleshed, rubber roller, soil conservation, nursery, pisciculture, smoke house, IRDP, cardamom plantation, coffee plantation, tea plantation, rubber plantation etc. At branch level also there was no planning for loan mix.

All these banks give emphasis for priority lending. Out of the six banks, three banks also introduced innovative schemes like integrated credit to poor families including all types of loans, such as loans to mushroom cultivation, fresh water fish farming, bush jasmine cultivation, prawn farming, brackish water fish farming, overdraft schemes to individuals which are linked with deposits, etc.

8.7.7 Supervision of loan

Management practices followed by DCBs regarding supervision of loans utilisation were also collected from to head office superintendents and branch managers. They stated that they supervise the utilisation of loans through their inspectors, agricultural officers and field staff. These banks have arrangements to send sufficiently prior notice for prompt recovery of loan amount. All these banks charge penal rate of interest from defaulters, and do not give any rebate

for prompt repayment. Out of 18 branches, only in five branches diversion of loan from the purpose for which it was granted was noticed and the parties were repeatedly asked to close the accounts.

8.7.8 Investments

The determinants of investing money in securities by head office in order of preference was also scrutinised. The order of preference reported is exhibited in Table 8.3.

Table 8.3 reveals that four banks were found to give the first priority to liquidity, one bank gave second priority and another bank gave only third priority. Safety was the first priority for one bank, second priority for three banks and third priority for two banks. The third factor i.e. profitability, was the first preference for one bank, second preference for two banks and third preference for the remaining three. Only two banks follow government instructions as directed by the Registrar over the telephone or in person in the context of special savings drive of Government as the fourth preference. These banks invest their funds in fixed deposits, call deposits and trustee securities of state co-operative banks, post office savings bank accounts, NABARD bonds, IDBI bonds, Government of India and State Government bonds, shares in co-operative institutions, other trustee securities, etc. Five banks reported problems

Table 8.3 Determinants of investments in order of preference of the Selected DCBs

Determinants	Ernakulam	Kottayam	Palakkad	Kozhikode	Kollam	Idukki
1. Liquidity	1	1	3	2	1	1
2. Safety	2	3	1	3	2	2
3. Profitability	3	2	2	1	3	3
4. Government instructions	-	4	4	-	-	-
5. All of these	-	-	-	-	-	-
6. None of these	-	-	-	-	-	-

Source: Field data

like lack of liquidity, low rate of interest, long duration, delay in claiming periodical interest, lack of remittance facilities for cash and getting prior sanction from the Registrar.

8.8 Political interference in the management of District Co-operative Banks

From informal personal discussions and observations of the activities of the banks, it appeared that there was political interference in almost all activities of the banks. To examine this issue further, eleven questions were administered to the general managers, head office superintendents and branch managers. A brief outline of the findings is given in the following sections.

8.8.1 General managers

The general managers were asked to express their opinion regarding political interference in various activities of selected DCBs. Their opinion is summarised in Table 8.4.

Table 8.4 reveals that with regard to the first question, i.e., about political interference in the selection of employees, two managers disagreed to it. Only one manager strongly agreed that there is political interference, while three managers expressed no opinion. Three managers probably remained neutral because they are afraid of political

Table 8.4 Political interference in various activities of selected DCBs (General Managers)

Level of interference	Ernakulam					Kottayam					Palakkad					Kozhikode					Kollam					Idukki				
	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA
a. Selection of employee				x				x					x						x				x			x				
b. Promotion				x				x					x						x					x			x			
c. Transfer of employee				x				x					x						x				x			x				
d. Giving loans				x				x					x						x				x				x			
e. Writing off of loans				x				x					x						x				x				x			
f. Recovery of loans				x				x					x						x				x				x			
g. Establishing branches				x				x					x						x				x			x				
h. Policy formulation				x				x					x						x				x			x				
i. Controlling primary societies				x				x					x						x				x			x				
j. Giving membership to societies				x				x					x						x				x			x				
k. Other areas (specify)				x				x					x						x				x					x		

Note: (1) SA = Strongly agree, A = Agree, N = No opinion, DA = Disagree and SDA = Strongly Disagree
(2) 'x' denotes 'response'

Source: Field survey

interests which may act against them. This argument is further established in the informal discussions with these managers.

Similarly questions were raised regarding transfer of employees, sanctioning of loans and advances, writing off of loans, recovery of loans, establishing branches, policy formulations, control of primary societies, membership of societies, etc. In all these cases, based on the survey, three managers had no opinion while one manager strongly agreed and two managers disagreed. Thus the broad trends indicate that there was reasonably high level of political interference and the general managers are very much reluctant to record their opinions, fearing the consequences. Among the six banks, general manager of only one bank openly stated the element of political interference.

8.8.2 Head Office Superintendents

The responses of the six head office superintendents about political interference is given in Table 8.5.

As exhibited in Table 8.5, with regard to the first question on the political interference in the selection of employees, three of the superintendents did not express any view on this issue. One among them strongly agreed, while two superintendents strongly disagreed with the idea.

Table 8.5 Political interference in various activities of selected DCBs (Head office superintendents)

Level of interference	Ernakulam					Kottayam					Palakkad					Kozhikode					Kollam					Idukki				
	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA
a. Selection of employee					x			x				x							x				x			x				
b. Promotion					x					x			x						x				x			x				
c. Transfer of employeex					x					x		x							x				x			x				
d. Giving loans					x					x			x						x				x				x			
e. Writing off of loans					x				x				x						x					x			x			
f. Recovery of loans					x				x				x						x					x			x			
g. Establishing branches					x					x		x							x					x		x				
h. Policy formulation					x		x						x						x					x		x				
i. Controlling primary societies					x		x						x						x					x		x				
j. Giving membership to societies					x			x							x				x					x					x	
k. Other areas (specify)					x					x			x						x					x					x	

Note: (1) SA = Strongly agree, A = Agree, N = No opinion, DA = Disagree and SDA = Strongly Disagree
(2) `x' denotes `response'

Source: Field survey

In the case of promotion and transfer of employees, it was strongly disagreed by two superintendents while it was disagreed by only one and was strongly agreed by one among the six superintendents.

Regarding political interference in advancement of loans, two superintendents expressed their strong disagreement, one among them disagreed to it, yet another superintendent agreed to it, whereas two of them expressed no opinion.

With regard to the political interference in the writing off of loans and their recovery, the issue was strongly disagreed by one superintendent, three of them disagreed to it, whereas a single superintendent agreed. However, one superintendent remained passive to this facet of political interference.

8.8.3 Branch managers

For obtaining information about political interference from branch managers, details from 18 branch managers were collected. Their opinions are summarised in Table 8.6.

It is clear from Table 8.6 that branch managers expressed different opinions with regard to political interference at different levels. In the selection of employees, only one of the branch managers strongly agreed and three agreed to the prevalence of political interference. Ten managers did not

Table 8.6 Political interference in various activities of selected DCBs (Branch Managers)

Level of interference	Aluva					Palarivattom					Place road					Kottayam Main					Kanjikuzhi					Puthupally				
	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA
a. Selection of employee			x			x								x				x					x					x		
b. Promotion				x					x					x		x							x						x	
c. Transfer of employee			x				x					x				x							x					x		
d. Giving loans				x				x						x		x							x					x		
e. Writing off of loans				x				x						x						x			x					x		
f. Recovery of loans				x				x						x		x							x					x		
g. Establishing branches			x						x					x		x							x					x		
h. Policy formulation			x				x							x						x			x					x		
i. Controlling primary societies			x				x							x				x					x					x		
j. Giving membership to societies			x				x							x		x							x					x		
k. Other areas (specify)			x					x					x					x					x						x	

Contd.

Table 8.6 (Contd.)

Level of interference	Thiruvathukkal					Palakkad					Palakkad (M&E)					Koyalmannam					Kozhikode					Kozhikode (Evening)				
	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA
a. Selection of employee		x							x				x				x							x					x	
b. Promotion			x						x				x						x					x						x
c. Transfer of employee				x				x					x						x					x						x
d. Giving loans				x					x						x				x						x					x
e. Writing off of loans				x					x						x					x				x						x
f. Recovery of loans				x					x						x					x				x						x
g. Establishing branches			x						x				x			x								x						x
h. Policy formulation			x							x			x						x					x						x
i. Controlling primary societies				x						x			x						x					x						x
j. Giving membership to societies			x					x					x					x						x						x
k. Other areas (specify)			x					x					x					x					x					x			

Contd.

Table 8.6 (Contd.)

Level of interference	Balusserry					Quilon					Pallimukku					Kilikollur					Idukki					Thodupuzha				
	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA	SA	A	N	DA	SDA
a. Selection of employee				x				x					x					x					x					x		
b. Promotion				x				x					x					x						x				x		
c. Transfer of employee				x				x					x					x							x			x		
d. Giving loans				x				x					x					x				x						x		
e. Writing off of loans					x			x					x					x				x							x	
f. Recovery of loans	x							x					x					x							x				x	
g. Establishing branches		x						x					x					x				x						x		
h. Policy formulation			x					x					x					x					x						x	
i. Controlling primary societies			x					x					x					x							x			x		
j. Giving membership to societies			x					x					x					x							x			x		
k. Other areas (specify)			x					x					x					x					x						x	

Note: (1) SA = Strongly agree, A = Agree, N = No opinion, DA = Disagree and SDA = Strongly Disagree
(2) 'x' denotes 'response'

Source: Field survey

express their opinion and four managers disagreed to this point.

Regarding the question of promotion, nine respondents disagreed and one strongly disagreed with political interference. While six managers failed to give any opinion one manager strongly agreed and another agreed.

Political interference in terms of employees' transfer was also enquired. Eight managers had no opinion over the issue, whereas four managers expressed disagreement towards the same. Only one manager strongly agreed to this matter.

With regard to the question of having political interference in giving loans, six respondents disagreed, one manager strongly disagreed and another six gave no opinion regarding the issue.

In the case of writing off of loans, the issue was disagreed by five managers and strongly disagreed by another five managers, whereas seven managers failed to opine. Only one manager agreed to this issue.

Regarding recovery of loans, five managers expressed disagreement and seven managers had no opinion about prevalence of political interference. While four managers expressed strong disagreement only two managers strongly agreed.

Eight managers expressed no opinion with regard to political interference in establishment of branches and controlling primary societies. Four managers disagreed while one among them strongly disagreed.

Towards the issue of policy formulation and giving membership to societies, eleven managers had no opinion. Three managers disagreed about its existence while three strongly disagreed. Only one manager strongly agreed about the prevalence of political interference in giving membership to societies.

The evaluation of management practices followed by the sample DCBs revealed that majority of the banks in majority of instances follow rule of thumb and their practical experience as the criteria instead of scientific banking theory or practices. Hence, it may be inferred that professionalisation in management is not upto the required level in DCBs. Regarding the political interference in the day-to-day working of the bank, the sample respondents were generally reluctant to reveal their perceptions except one respondent. But during the interview, the researcher got the impression that there is allround political interference in the normal working of the DCBs. It is high time to de-link political affiliations from the co-operative sector.

Summary of findings, Conclusion and suggestions

CHAPTER-IX

SUMMARY OF FINDINGS, CONCLUSION AND SUGGESTIONS

In this chapter, an attempt is made to highlight the major inferences with a view of provide guidelines that may be adopted for policy formulations relevant to improve the efficiency in the funds management of DCBs and to the co-operative banking sector.

9.1 Summary of Findings

This study was carried out with the following objectives:

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

2. To analyse the efficiency in funds management by DCBs with respect to resource mobilisation and utilisation.

3. To evaluate the management practices adopted for harnessing the mobilisation and deployment of funds by DCBs.

The hypotheses tested were:

1. The major parameters of funds management in the DCBs like share capital, reserves and other funds, deposits,

borrowings, reserve requirements, loans and advances and investments are presumed to be an increasing function over time and the magnitude in their change over time is proportional

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

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

4. Efficiency in reserve management and profitability of DCBs are directly related.

5. Management practices followed by DCBs contribute to the efficiency in funds management.

The literature relating to funds management of commercial banks and co-operative banks were reviewed in the second chapter. The review made in this chapter brought out that there were a number of general studies relating to funds management of DCBs in India. But very few studies have attempted a detailed analysis of mobilisation, deployment and other aspects of funds management. Even such studies were limited in their scope.

Third chapter made an attempt to review the developments in co-operative banking in India in general and that of Kerala

in particular. The study made in this chapter showed a decreasing trend in the number of PACS in India which decreased from 1,34,838 (1975-76) to 88,921 (1990-91) due to reorganisation and amalgamation of societies after 1975-76. But membership, share capital, borrowings and loans and advances increased significantly.

PACS in Kerala were found to enjoy the top rank (1987-88) with respect to membership, population coverage, borrowing members, loans and advances, deposit mobilisation and share capital contribution. The notable feature however was the decline in the number of profit making societies, which decreased from 55.72 per cent in 1970-71 to 48.26 per cent in 1993-94.

The Co-operative Societies Act of 1912 permitted the registration of DCBs in India. The DCBs were formed mainly with the objective of meeting the credit requirements of member societies. There has been considerable decrease in the number of DCBs in India which came down from 509 in 1970-71 to 357 in 1991-92 due to reorganisation of the operational area. But the membership improved from 2,31,318 during 1970-71 to 3,69,434 in 1991-92 and the number of members per DCB increased from 454 to 1035 during this time span. Paid-up share capital also boosted from Rs.49.08 crore in 1970-71 to Rs.829.73 crore in 1991-92 and reserves from Rs.43.51 crore to

Rs.716.37 crore. Deposits increased from Rs.38.23 crore to Rs.933.84 crore and deposit per DCB shot up from Rs.7.51 lakh to Rs.26.51 crore during this time span. There were considerable increase in borrowings and working capital also. Working capital increased from Rs.11.81 lakh in 1970-71 to Rs.46.95 crore in 1991-92. In short, there were tremendous growth in all components of funds.

The study revealed that at present, there are 14 DCBs in Kerala. It was found that the number of branches increased from just 82 in 1970-71 to 418 by the end of 1993-94. The membership also increased from 3771 to 7903 during the same period. The deposits and loans and advances also multiplied considerably during this period. However, there was only marginal improvement in profit, which increased from Rs.1.49 lakh in 1970-71 to Rs.26.78 lakh in 1993-94.

The analysis made in this chapter revealed that there were considerable improvement in deposits and loans and advances of State Co-operative Banks in the country during the period 1975-76 to 1990-91. Deposits increased from Rs.723.68 crore to Rs.6727.88 crore and loans and advances from Rs.893.60 crore to Rs.5378.97 crore during this period. The percentage of overdue to demand which remained at seven per cent in 1975-76 increased to eighteen per cent in 1990-91.

In the case of Kerala State Co-operative Bank, the number of members, paid-up share capital and reserves also increased tremendously during the period 1970-71 to 1993-94. Compared to growth in deposits, increase in borrowings was insignificant. Loans outstanding increased from Rs.19.66 crore in 1970-71 to Rs.411.32 crore in 1993-94. But average annual increase of profit was only 2.24 per cent.

The theoretical perspective of funds management is described in chapter four and the chapter explained the different concepts of funds, preparation of funds flow statement, funds management in commercial banks and co-operative banks, accounting techniques for funds management and different types of ratios used by banks.

The study of trend and pattern of sources and uses of funds in DCBs attempted in chapter five revealed that in the case of share capital, the averages of all DCBs except Kozhikode and Kollam were higher than the overall average in the second phase. Ernakulam DCB which is one of the most profitable sample banks had the maximum increase in share capital, which increased from Rs.108.56 lakh in the first phase to Rs.379.39 lakh in the second phase. On the other hand, Kollam DCB which topped the list in the first phase, stepped down to fifth position in the second phase. It is also evident from the analysis made in this chapter that Ernakulam DCB recorded the highest growth rate (11.06%) and

Kollam DCB the lowest (3.81%). The highest increase in share capital of Ernakulam DCB may probably be due to the better management practices and the relatively better agricultural and industrial activity of Ernakulam District compared to other Districts.

The overall average of reserves and other funds increased from Rs.97.30 lakh from the first phase to Rs.350.94 lakh in the second phase. Only Ernakulam and Palakkad DCBs' averages were above the overall average in the second phase. Ernakulam DCB exhibited the highest amount of reserves which increased from Rs.101.76 lakh in the first phase to Rs.526.42 lakh in the second phase. Idukki DCB stood at the bottom during the second phase. These inferences were establishing a positive association between the utilisation of reserves and profitability.

District Co-operative Banks have succeeded in mobilising deposits which is evident from the study. Total deposits mobilised by Ernakulam, Kottayam and Kollam DCBs were higher than the overall averages during both the phases. Ernakulam DCB mobilised the maximum while Idukki DCB the least. In the second phase, deposits mobilised by Ernakulam DCB was Rs.118.62 crore and Idukki DCB Rs.32.08 crore. It can be inferred that the maximum profit making banks (Ernakulam DCB and Kottayam DCB) were mobilising more deposits which they utilised for their business operations for achieving higher

profits. These favourable trends may be attributed to the relatively better industrial activities of the district coupled with the joint efforts of employees and management.

Regarding borrowings, all DCBs except Ernakulam and Kottayam had total borrowings above the overall average of Rs.404.88 lakh in the first phase. The lowest amount of borrowings in the first phase was recorded at Ernakulam DCB and highest amount at Kozhikode DCB. The same pattern continued in the second phase also. The borrowings in the second phase recorded was Rs.10.68 crore at Ernakulam DCB and Rs.27.77 crore at Kozhikode DCB. Hence, it is inferred that the highest cost item of funds (borrowings) is the minimum in the case of maximum profit earning bank. In these two phases, short-term borrowings constituted the major portion of total borrowings of the majority of banks.

The analysis showed that cash in hand and at bank of three DCBs were higher than the overall average of Rs.303.32 lakh in the first phase. In the second phase also, three DCB's averages were higher than the overall average of Rs.27.24 crore. Ernakulam had an average of Rs.54.04 crore, while Idukki DCB stood last with an amount of Rs.6.01 crore. The maximum CGR was recorded at Kottayam DCB and minimum CGR at Idukki DCB.

Regarding money at call and short notice, Ernakulam and Kottayam DCBs' averages were higher than the overall averages of the two phases. Kottayam DCB had the highest average (Rs.893.33 lakh) and Palakkad DCB had the least average (Rs.56.67 lakh). It was also observed that investments in money at call and short notice do not follow any specific pattern.

There has been considerable increase in the overall loan position from the first phase to the second phase. In the second phase, Ernakulam DCBs' average was Rs.85.10 crore followed by Kottayam DCB (Rs.73.17 crore). Kozhikode DCB had the lowest average of Rs.46.05 crore in this phase. It is inferred that the maximum loan granting banks were the ones earning maximum profit. The maximum CGR was recorded at Ernakulam DCB (18.55%) and the minimum at Kozhikode DCB (10.92%).

The analysis also revealed that the overall average of fixed assets in the first phase was Rs.18.78 lakh and in the second phase, Rs.49.07 lakh. Palakkad DCB had the highest average (Rs.79.69 lakh) followed by Kollam DCB (Rs.64.26 lakh). Comparatively high CGR at Palakkad DCB (21.67%) and Idukki DCB (11.15%) may be due to the construction of new buildings for their head offices in 1984-85 and 1989-90 respectively. The highest average for Kollam DCB may be due

to the construction of a new auditorium, which is given for rentals.

The analysis made in this chapter also showed that investments position had significantly increased from the first phase to the second phase. In the second phase, Kottayam DCB had an average of Rs.6.93 crore which is much higher than the overall average of Rs.2.57 crore. Idukki DCB secured the second position and Kollam DCB ranked the last.

The above analysis made clear that the majority of the parameters were showing a consistant and proportional increase over time. Hence, the first hypothesis that the major parameters of funds management are presumed to be an increasing function over time and their change is proportional is substantiated.

The analysis of investment portfolio of selected DCBs established that there were significant variations in the asset composition and investment pattern during the reference period. Hence the second hypothesis that the composition of investment portfolio of DCBs varied significantly over the period is validated to a reasonable extent.

Monthly analysis of sources and uses of funds in selected DCBs was attempted in the sixth chapter. It was made clear that Ernakulam DCB had mobilised the highest amount of total deposits closely followed by Kottayam DCB. The average of

total deposits mobilised by Ernakulam DCB during the period 1989-90 to 1993-94 was Rs.9143.32 lakh and that of Kottayam DCB Rs.8034.79 lakh. Idukki DCB collected only Rs.2203.56 lakh as average total deposits. Fixed deposits composed the major portion of deposits (about 48%) mobilised by all DCBs. Call deposits constituted the second highest amount except Kozhikode and Kollam DCBs.

Detailed study of borrowings for the period 1989-90 to 1993-94 revealed that only Ernakulam DCB and Palakkad DCB had borrowings from all the three sources namely, `Kerala State Co-operative Bank', `other banks' (National Bank for Agriculture and Rural Development, RBI and Commercial Banks) and `others' (Government, National Housing Bank, Housing Development Finance Corporation, Housing and Urban Development Corporation and Integrated Co-operative Development Project). Kottayam DCB borrowed from KSCB and `others' and the rest, i.e., Kozhikode, Kollam and Idukki DCBs borrowed from KSCB only and the borrowings from KSCB constituted the largest portion of total borrowings of Kozhikode DCB and Idukki DCB. Ernakulam DCB recorded the lowest borrowings during the study period. This has considerably reduced the interest cost of the bank which has ultimately resulted in the reduction of total cost and highest profit. We may conclude that, during the study period, the highest profit earning banks' borrowings were less compared to the lowest profit earning banks'. Thus, the third hypothesis that there is an inverse relationship

between cost of funds and funds management efficiency may be accepted.

The analysis of loans and advances revealed that all the selected DCBs had sanctioned maximum amount (about 60% of total loans) for `other purposes', closely followed by `seasonal agricultural operations'.

The detailed examination of efficiency in funds management in DCBs made in chapter seven revealed the profitability of DCBS as an indicator of financial efficiency. The profitability of DCBs analysed by applying the spread-burden approach found that only three DCBs earned profit higher than the overall average of Rs.10.65 lakh during the five year period from 1989-90 to 1993-94. Profit earned was highest in Ernakulam DCB, closely followed by Kottayam DCB. Kozhikode DCB occupied the least position during this period. The spread-burden analysis highlighted the scope for improving `r' (interest earned to volume of working funds) and `c' (non-interest income to volume of working funds).

The study established the general decline in the credit/ deposit ratio and borrowings/deposit ratio of all DCBs during the period 1989-90 to 1993-94, which has been a common problem to all banks in Kerala. The borrowed funds (deposits and borrowings)/owned funds (share capital and reserves) ratio of all the DCBs were within the permitted limit specified in

their respective bye-laws. It was also found that the ratio of liquid assets/demand and time liabilities ratio of all DCBs were high as these banks were maintaining excess liquid assets. While the demand deposits/term deposits ratio of all DCBs showed a general decline, the deposits/working capital ratio increased considerably during the study period. It was also evident from the study that when the ratio of borrowings to working capital in all banks was decreasing, the liquid assets/working capital ratio was increasing. Another observation made was the irregular pattern between loans and advances to working capital. Lack of uniformity in the trends in the ratio of investments/working capital ratio of these DCBs was also observed. The analysis of profitability using spread-burden approach and also computing financial ratios proved the apriori belief that the profitability of the majority of the sample DCBs are declining over the years.

The analysis made in this chapter showed that short-term loans constituted the major portion of overdues of all selected DCBs during the period 1989-90 to 1993-94. It was further revealed that there was a general decline in the ratio of overdue to demand in majority of the selected banks in all years except 1990-91. The main reason for this might be the passing of Kerala Co-operative Agricultural and Debt Relief Scheme of 1990 directed by the Government of India.

The `X efficiency' analysis revealed that inter-quartile differences were large especially in Palakkad (421.25) and Idukki (103.30) DCBs. This wide disperson between the average total cost (ATC) in the first quartile and fourth quartile was felt to be due to inefficiencies in the funds management.

Further, computations of efficiency measures such as manpower expenses per employee and volume of working fund per employee showed that Kollam DCB had the highest manpower expenses per employee and Idukki DCB had the lowest. Comparing the volume of business and manpower expenses, Ernakulam and Kottayam DCBs had the highest volume of business and comparatively lower manpower expenses which resulted in more profit for these banks.

Enquiries into the volume of reserves kept showed that all these DCBs were keeping more CRR at all levels than the required minimum during the period 1989-90 to 1993-94. It also made clear that the CRR amount varied in different banks and in different years.

The analysis of SLR revealed that almost all banks were keeping excess SLR at all levels during the period 1989-90 to 1993-94. Keeping excess SLR by these banks may be due to the delay in getting information from branches and the lack of demand for loans. The analysis also revealed that all DCBs were keeping excess reserves. The analysis for the period

1979-80 to 1993-94 also had established this point. Hence, the fourth hypothesis that efficiency in reserve management and profitability of DCBs are directly related is established.

The evaluation of management practices made in chapter eight revealed that majority of the banks, in many instances follow only rule of thumb and their practical experience as the criteria instead of scientific principles. Professionalisation is almost absent in DCBs. This is partially due to inefficiencies in management and political interferences. A detailed examination of the observations in this chapter highlighted the necessity of professionalising the co-operative sector at the earliest. This assumes added significance in co-operative banking particularly in the current scenario of liberalised economic policies and the consequent competitive banking. Thus, the fifth hypothesis that management practices followed by DCBs contribute to the efficiency in funds management may be accepted.

9.2 Conclusion

The present study leads to the conclusion that though funds mobilisation is done reasonably well in most DCBs, sufficient attention is not given for efficient utilisation of these funds. Among the DCBs studied, a few DCBs like those of Ernakulam and Kottayam performed adequately well while the others lag behind. Lack of professionalisation and poor

management practices seems to be responsible for this situation.

9.3 Suggestions

Based on the above findings, the following suggestions are offered.

1. Minimise and simplify the formalities to be followed by customers for getting the loans sanctioned and for its disbursal.

2. For facilitating easy transfer of funds, improvement of remittance facilities by extending the working hours through an arrangement with nationalised banks is suggested.

3. Considering the peculiar economic features of Kerala, permission to open Non-Resident External (NRE) accounts may be given as majority of funds are remittances from abroad. Simultaneously, the staff of the DCBs should be trained to deal with foreign exchange business.

4. The services of the "Recovery Cell" of the Co-operative Department may be properly utilised for avoiding delay in recovery of overdues.

5. Necessary steps may be taken to improve the reporting system for easy transfer of funds. In this context, the need for introducing Management Information System (MIS) may be explored.

6. To overcome the delay in transfer of funds among DCBs, "chest" facility may be extended to co-operative banks also. Mutual Arrangement Scheme Kerala (MASK) accounts and timely reconciliation of MASK accounts with accounts of DCBs will also help the efficient management of funds.

7. For avoiding delay in the deployment of funds, the power of sanction of loans upto a certain limit (for instance, Rs.2 lakh for the time being) and the power to grant temporary overdraft which are repayable within a fortnight may be given to the branch managers.

8. Restriction imposed on non-priority lending may be relaxed for higher deployment of funds.

9. The authority of revenue recovery which is now vested in the Co-operative Department may the transformed to the DCBs for avoiding the delay in recovery of overdues.

10. Setting up of a National Co-operative Bank is also desirable to have an effective co-ordination in remittance and transfer of funds. It will help to utilise the surplus funds in the most efficient manner.

11. DCBs consortium may be arranged for utilising surplus funds, so that idle funds in certain areas can be transferred to places where it is highly demanded.

12. Regarding maintenance of accounts, to bring about uniformity, it is suggested that appropriate formats may be evolved and followed by DCBs in general.

13. DCBs may also be allowed to enter into merchant banking for utilising surplus funds.

14. Officers upto the rank of senior accountant may be given discretionary powers to decide upon matters particularly in the field of sanctioning of loans.

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