

An analysis of Resource mobilization by Chitradurga District Central Co-operative Bank in Karnataka state

Dr.GB.BORAIAH,
ASSISTANT PROFESSOR OF ECONOMICS,
VK COLLEGE FOR WOMEN, DAVANAGERE

Abstract

The planners keeping in view the importance of Agriculture sector in Indian economy considered Cooperation as an instrument of economic development of the disadvantaged, particularly in the rural areas. Hence, cooperatives being local area banks assumed pivotal role in the development of rural sector on which rest of the economic activities depend. This is very clear by the very basic objectives of the fourth five year plan was to establish a socialistic pattern of society in the country, so that the Development with economic stability could be accomplished through Panchayati Raj and cooperatives”.

Being middle tier short term Credit agency, The District Central Co-operative Banks assumed a pivotal position in the Co-operative Banking system; around which activities relating to rural development in a District depend. DCC Banks act as an intermediary between PACS and the State co-operative Banks. Hence the soundness of DCC Banks indirectly reflects the prosperity of the whole country. So, the DCC Banks have been entrusted with a greater responsibility of amassing adequate funds and channelizing them judiciously and profitably. Hence it is an attempt to assess how far CDDCB is successful in its resource management policy and this study entirely depends on secondary data.

Key words: Agriculture industry, macroeconomic stability, intermediary agency, PACS, owned funds, Reserve funds.

Introduction:

Rapid growth needs to be supported by an efficient financial system capable of mobilizing the savings in the system and using them to support economically efficient units¹, one of such economically efficient unit is Agriculture industry. The importance of agriculture as conceived by Economic survey 2011-12 runs like this, Agriculture including allied activities accounted for 13.9% of GDP at 2004-5 prices in 2011-12 as compared to 14.5% in 2010-11. In terms of composition, out of a total share of 14.5% in GDP in 2010-11, agriculture alone accounted for 12.3%, followed by forestry and logging at 1.4%, and fishing at 0.7%. Notwithstanding the declining trend in agriculture's share in GDP, the importance of the sector to the economy is best understood with reference to its share in employment and in terms of its criticality for macroeconomic stability. While the former was well known, the latter became manifest with rising growth in incomes since the mid-2000s². Hence the planners keeping in view the importance of Agriculture sector in Indian economy considered Cooperation as an instrument of economic development of the disadvantaged, particularly in the rural areas³ and hence the Government is striving to reach credit in adequate quantity and at low interest to farmers when they need it. There is special emphasis on bringing all farmers, especially small farmers, under institutional credit⁴. Therefore the cooperatives being local area banks assumed pivotal role in the development of rural sector on which rest of the economic activities depend. This is very clear by the very basic objectives of the fourth five year plan was to

establish a socialistic pattern of society in the country, so that the Development with economic stability could be accomplished through Panchayati Raj and cooperatives⁵⁷.

Being middle tier short term Credit agency, The District Central Co-operative Banks assumed a pivotal position in the Co-operative Banking system; around which co-operative activities in a District clustered. DCC Banks act as an intermediary between PACS and the State co-operative Banks. Hence the soundness of DCC Banks indirectly reflects the prosperity of the whole country. So, the DCC Banks have been entrusted with a greater responsibility of amassing adequate funds and channelizing them judiciously and profitably.

Chitradurga District Central Co-operative Bank was founded on 25th January 1955. This bank is registered as per the A.R.C No. 534 at Chitradurga. It is fairly oldest and successful central co-operative bank in the State of Karnataka, which acts as intermediary agency between PACS at the village level throughout the district of Chitradurga and the State co-operative Apex Bank, Bangalore. The CDCC Bank has been working with 391 co-operative societies at the end of March 31st, 2009 and with the working capital of Rs.9, 960.58 lakhs.

1. Membership

A District Central Co-operative Bank is a federal organizations of PACS spread throughout the district. The bank provides financial accommodation to PACS, which in turn finance their member farmers so as to enable them to carry out agricultural operations at right time. All the members residing in the limits of a loan operation area are eligible to become members of PACS. The society in turn becomes a member of the central bank. This federation has a unique characteristic of co-operation. The membership of the DCCB is open for societies and individuals. The process of gradual Elimination of individual members has been introduced in most of the banks to make them fully co-operative in character. The introduction of new individual members was almost stopped by all the DCC Banks in Karnataka state. The PACS like other types of society's viz., weaver societies, urban credit societies, consumer's stores, marketing societies, industrial societies and employee's societies etc., are members of the bank.

Table: 1 Trend of growth of membership(Rupees in lakhs)

Year	Co-op societies	%	Govt.	%	Nominal membership	%	total	Absolute growth	Index of growth
2004	267.27	68.3	115.48	29.5	8.58	2.2	391.33	--	100
2005	279.98	69.3	115.48	28.6	8.88	2.2	404.34	13.01	103.3
2006	305.29	71.4	115.48	26.9	8.99	2.1	429.76	25.42	109.8
2007	322.02	72.1	115.48	25.9	9.13	2.1	446.63	16.87	114.1
2008	333.52	72.8	115.48	25.2	9.25	2.0	458.25	11.62	117.1
2009	353.98	73.9	115.48	24.1	9.42	2.0	478.88	20.63	122.4
2010	391.00	75.8	115.48	22.4	9.47	1.8	515.95	37.07	131.8
Mean	321.87	71.9	115.48	26.1	9.1	2.1	446.4	17.8	114.1

Source: Annual reports of the CDCCB.

The share of individual members has been declining whereas the number of PACS and other societies affiliated to the bank has been increasing.

2. Source of funds

The CDCCB functions at the district level and attracts funds mainly from borrowings by the State Apex Bank and various deposits from the general public. The main sources of finance can be classified into viz., owned funds and borrowed funds.

The owned funds form the basis for security for external borrowings. Based on this, the lenders and investors invest their money because it inspires confidence among them on the functioning of the bank. CDCCB has not paid interest on these funds except the dividend on shares. The main sources of owned funds are:

- a) Share capital
- b) Reserve funds and
- c) Entrance fee and other fees.

a) Share capital:

It is an integral part of owned funds, to which state government, the affiliated societies and individual members subscribe. The share capital contributed by the member societies is usually linked with their borrowing capacity. Presently the share contribution of the State Government is static at 115.48 lacks in the total share capital of the bank (478.88 lakhs). The next major share is from PACS, urban and non agricultural credit societies and other societies respectively. An individual, a society or bank has an obligation to purchase at least one share of agricultural credit societies/ central bank for enjoying the right of vote. The CDCCB had paid up share capital of Rs.404.34 lakhs as on March 31st 2005 and Rs.478.88 lakhs on March 31st 2009. Admitting new members by raising the value of a share can increase the share capital. Hence, in order to increase the borrowings, CDCCB has to increase its paid-up share capital.

b) Reserve funds:

Reserve funds are important not merely from the view point of member's confidence alone but important from creditors confidence also. Reserve funds are created out of the net profits earned by the bank during previous years for specific purposes to meet the unforeseen losses, to give financial strength and to fortify outside confidence. Reserves reflect the financial soundness of any business enterprise. It is remarked by many experts that, adequate reserve fund is more important from the view point of members security. The reserve fund was Rs. 88.18 lakh on 31st March 2004 and increased to Rs. 1,237.18 lakhs on 31st March 2009. During the period of five years, it has been increased by more than 11 times. This reflects the viability position of the CDCCB. Bank has to be cautious in creating reserves and should see that portion of distributable surplus to the shareholders does not get reduced. It is the only cost free source to the bank.

c) Entrance fee and other fees

The bank collects an amount of Rs. 25 per share towards entrance fee at the time of admission from its members. The sale of application is also a source of income to the CDCC Bank.

The share of the owned funds in the working capital is impressive during the study period. The share of the owned funds is only 8.83 percent (Rs.507.54 lakhs) in 2004-05 but it increased to 17.23 percent (Rs.1, 716.06 lakhs) in 2008-09 against the working capital worth of Rs. 5,749.77 lakhs and Rs. 9,960.58 lakhs respectively in 2004-05 and 2008-09.

Table 2 Growth of owned funds as on 31st March of each year (Rs. In lakhs)

Year	Share Capital	Reserves	Total Owned funds	Absolute Growth	Index of growth
2004	391.33	88.18	479.15	--	100
2005	404.36	103.18	507.54	28.03	105.84
2006	429.76	131.83	561.59	54.05	117.12
2007	446.63	132.94	579.57	17.98	120.9
2008	458.25	1,198.30	1,556.55	976.98	123.8
2009	478.88	1,237.18	1,716.06	159.51	357.9
2010	564.40	1,314.20	1,878.60	162.54	391.8

Source: Annual reports of the CDCCB.

The above table 2 reveals the increasing trend of the total owned funds from the year 2004 to 2010. The owned funds have increased from Rs. 479.51 lakhs to 1,878.06 lakhs. All commissions and authoritarians on banking emphasized the significance of the owned resources.

3. Borrowed funds:

The various deposits constitute the very important and main components of the borrowed funds. It is a liver to boost functioning of a given bank on right track.

Deposit mobilization by the CDCCB.

Deposit mobilization is chief component of the working capital of the bank. It acts as means of bringing out the hidden resources from various sects of the populace. Deposit is an important device for resource mobilization. All the committees and commissions on rural credit have stressed the importance and urgency of mobilization of deposits for the lending operations by the banks. It is the size of the deposits that largely decides the lending operations of the bank (*All India rural credit review committee, 1969*).

Table: 3 Growth in deposit mobilization (Rs. In Lakhs)

Year	Individual and Institutions	%	Co-operative Societies	%	Total deposits	Absolute Growth	Index Of growth
2004-05	111.3	47.6	1223	52.4	2334.3	--	100
2005-06	1187.4	43.3	1556	57	2743.4	409.1	118
2006-07	1287.3	47.8	1408	52.2	2695.3	-48.1	116
2007-08	1602.1	49.3	1649.3	50.7	3251.4	556.1	139.3
2008-09	1682.3	46	1974.2	54	3656.5	405.1	157
2009-10	1875.3	48.4	1999.2	51.6	3874.6	218	166

Source: Annual reports of the CDCCB for various years.

The above table 3 reveals that during the study period the total deposits have increased by Rs. 1540.3 lakhs. However large proportions of deposits with the bank are from co-operative societies in the district. The percentage share of both the deposits has not been consistent throughout the study period. The mobilization of local deposits will reduce the dependence on higher institutions. Further, with higher dependence on deposits, the members would be more concerned about safety of their deposits and will keep a critical eye on lending and recovery (Khusro, 1969).

Table: 4 Distributions of Deposits (Rs. In lakhs)

Year (as on March 31 st)	Current Deposits	%	Fixed Deposits	%	Savings Deposits	%	Total Deposits	Index of Growth
2005	685	29.4	836	36	812	35	2333	100
2006	975	35.5	899	33	869	32	2743	118
2007	806	30	978	36.3	911	34	2695	116
2008	915	28.1	1172	36.03	1165	36	3252	139.4
2009	1111	30.4	1342	37	1203	33	3656	157
2010	1169	28.34	1638	39.71	1318	31.95	4125	177
Total	5661	30.11	6865	36.51	6278	33.4	18804	806

Note: percentages to total deposits.

Source: Annual reports of CDCCB for the related years.

The data in the table 4 explains that the percentage of current deposits to total deposits fluctuates between 28.1 to 35.5 percent during the study period. Similarly the percentage of fixed deposits varies between 33 to 39.71 percent whereas the savings bank deposits ranges

between 32 to 36 percent. The proportion of all types of deposits during the study period has not been consistent because all of them are shown ups and downs but in absolute terms except current deposits all the deposits have increased consistently. The same has been shown in the following charts.

Deposits of the customers are protected by the deposit insurance corporation of India's novel insurance scheme which safeguards the small savers from the risk of loss of their hard earned savings. The nomination facility is also allowed by the bank to its depositors. The CDCCB offers wide range of accounts viz., current, savings, recurring, fixed and other suitable facilities like Chinmoladri cash certificate, Madakari cash certificate, children welfare fund and Regular income scheme to the general public in order to mobilize as much deposits as possible.

The deposit mobilization is governed by three major factors: Quality and range of services, network of branches and rate of interest offered by the bank. The CDCCB has to give due importance to these factors to improve deposit collection and to inculcate the habit of thrift among the rural masses. The bank provides deposit insurance scheme facilities to the depositors and nomination facility in order to protect their interests. Another important strategy adopted by the bank is to undertake the branch banking as per the opinion of AIRSC (1969), for mobilizing the vast rural savings.

CDCCB has the network of 9 branches in and around Chitradurga district to facilitate the business of primary agricultural credit co-operative societies spread across six talukas of the district. Management of the CDCCB is planning to open up new branches gradually in all the suitable places and decided to fully computerize all branches of the bank and it has been already accomplished.

Recently, the State Apex Bank asked all the DCC Banks to install ATM Centers in their premises to provide better customer services on par with other commercial banks.

4. Deposit-working capital relationship

Deposit is one of the important variables which determine the size of working capital. More mobilization of deposits increases the working capital, which consequently expands the volume of business. In this connection Dr. S Nakkiran stressed the significance of deposits as follows "A bank with a sound deposit base can provide loans and advances out of its own internal resources without any outside borrowings for their financial requirements. Higher deposits will enable the bank to reduce its reliance on external borrowings. The prosperity of lending institutions depends on its capacity to generate its own resources, which only make it strong and viable but also avoids the reliance on external borrowings. The deposit is an important indicator of the success and efficiency of credit agency, the self reliance of the co-operatives will fostered only by tapping more resources.⁶

Table: 5 Deposit-working capital relationships (Rs. In lakhs)

Year (as on 31 March)	Deposits	Working capital	Deposits to working Capital (in %)
2004	3222.28	5454.63	59.1
2005	3475.41	5749.77	60.4
2006	3964.52	6753.77	58.7
2007	4132.63	6779.57	60.9
2008	4854.20	7352.61	66.02
2009	5424.93	9960.58	54.5
2010	6144.56	12483.27	49.2

Source: Annual reports of the CDCCB for various years

The size of deposits depends upon the confidence reposed by the public on the bank and on working conditions of the management.

The table 5 reveals us that the deposits as a percentage of working capital in the year 2004 was 59.1% and which decreased to 49.2 in the year 2010. Though the percentage of deposits to working capital is declined marginally the average remained steady at 58.40.

5. C-D Ratio

The bank mobilizes various deposits from the general public to facilitate the member societies to lend productive funds to its members. An increase in deposit-credit ratio represents the efficiency of the CDCCB regarding deposit mobilization. The following table explains the volume of deposits and credits.

Table: 6 C-D Ratio (Rs. In lakhs)

Year	Credit	Deposits	C-D Ratio
2004	1417.24	3222.28	0.44
2005	2410.60	3475.41	0.69
2006	3597.03	3964.52	0.91
2007	5491.89	4132.63	1.33
2008	5396.95	4854.20	1.11
2009	5173.06	5424.93	0.95
2010	6130.42	6144.56	1.0
Mean(Avg)	4231.03	4459.8	0.92

Source: Annual Reports of the CDCCB, Chitradurga.

Microscopic view of the above table tells us that between the year 2004 and 2006 the C.D ratio was less than 1 percent, indicating that the bank has failed to capitalize (harness) the potentiality of the rural people properly to attract the savings. Hence, this ratio is used as a measuring rod for judging the efficiency of the bank but since the year 2007 the C.D ratio though declined marginally maintained at 1:1 ratio. However the performance of the CDCCB is consistent regarding Deposits and credit disbursements.

6. Borrowings

An important source of working capital of the bank is borrowings. The CDCCB borrows funds from state Apex bank, State Government and NABARD. It is common phenomenon that, whenever the CDCCB faces insufficient internal resource base it goes for external borrowings. The borrowings of the bank are connected with share capital and reserve funds of the bank. The NABARD lends through the federal structure. PACS gets funds from District Central Co-operative bank. But too much dependence on borrowings is not good in the interest of bank, because it adversely affects the confidence of the investors and of general public at large.

Table: 7 Trends of borrowings and working capital(Rs. In lakh)

Year	Borrowings	Working Capital	Borrowings to Working capital (In %)
2004	1752.84	5454.63	32.13
2005	1766.82	5749.77	30.73
2006	2227.65	6753.77	32.98
2007	2067.37	6779.57	30.49
2008	1904.95	7352.61	25.91
2009	2819.59	9960.58	28.31
2010	4460.11	12483.27	35.73
Mean	2428.5	7790.6	30.9

Source: Annual Reports of the CDCCB.

The table 7 shows the trends in borrowings and working capital. The borrowings have increased to 4460.11 lakhs from 1752.84 lakhs. But the rate is not consistent throughout. The working capital also increased to 12,483.27 lakhs from 5,454.63 lakhs in the year 2004; here the rate of increase is consistent. But the percentage of borrowings to working capital is oscillating between 25.91 and 35.73 percent, on the whole the average stood at 30.9 percent. So it is clear from the table that nearly 30% of its credit requirements were met by borrowings in the study period. The reasons for the borrowings were mainly due to the defaulting attitude of borrowers and increased intervention by the political leaders in the affairs of the bank. In this connection Srinivasan (1984) opines that, the management of credit is more flexible and effective if the co-operative institutions depend less on resources borrowed otherwise political intervention can't be stopped effectively.

The confidence of the general public upon the working of bank mainly depends on the level of internal resources generated, if the share of borrowings increase, it Erodes the very foundation of banking system.

7. Working capital

The working capital consists of the owned funds, deposits and the borrowings. The volume and the composition of the working capital determine the magnitude of business of the bank.

Table 8 : Composition and trends in working capital (Rs. In lakhs)

Year	Owned Funds				Borrowed Funds				Working Capital	Index Of growth
	Share capital	Reserves	Total	%	Deposits	Borrowings	Total	%		
2004	391.33	88.18	479.51	8.8	3222.28	1752.84	4975.12	91.21	5454.63	100
2005	404.36	103.18	507.54	8.83	3475.41	1766.82	5242.23	91.2	5749.77	105.41
2006	429.76	131.83	561.59	8.32	3964.52	2227.65	6192.17	91.7	6753.77	123.82
2007	446.63	132.94	579.57	8.5	4132.63	2067.37	6200	91.5	6779.57	124.3
2008	458.25	135.21	593.46	8.1	4854.20	1904.95	6759.15	91.93	7352.61	134.8
2009	478.88	1237.18	1716.06	17.23	5424.93	2819.59	8244.52	82.8	9960.58	182.61
2010	564.40	1314.20	1878.60	15.05	6144.56	4460.11	10604.7	85	12483.27	228.9

Source: 1 .Annual Reports of the CDCCB.

2. Potential linked credit plan of Chitradurga district, 2009-10.

The share of the various sources of the working capital determines the financial risk which is in the form of cost incurred in tapping these resources. In this background, the task of the bank management is to enlarge the fund base consistently over the years.

The above table 8 reveals a consistent as well as solid growth of working capital during the study period. Despite the steady increase in the size of the working capital its composition however reflects the greater degree of financial risk, because the most privileged and cost free owned funds remain almost constant throughout. The increase in the owned funds to working capital between the years 2004 to 2010 is not so impressive. This has become cause of worry. It obstructs its attempt to become self reliant. The increase in share capital is warranted because a strong share capital base will generate greater confidence among the investors and reduces the burden of outside borrowings.

The statistics in the above table.8 explains that the share of deposit component in absolute terms has increased in the total working capital from Rs.3, 222.28 lakhs to 6,144.56 lakhs. But share of borrowings is oscillating between 1,752.84 lakhs and 4,460.11 lakhs. The percentage share of borrowed funds remained constant up to the year 2008. In 2009 it

declined to 82.8% which is less than average of 91% up to the year 2008 due to the sharp rise in reserves in the year 2009 due to loan waiver policy of the central government. The data further indicates that about 30% of credit requirements were met by borrowings. An increase in the working capital over the years reflects the financial strength of the CDCCB, which would represent potentiality for better performance in the years to come.

References:

1. Yojana, Special issue, January 2012. Ministry of information and broadcasting, GOI, ,p. 19
2. Economic survey 2011-12, GOI, New Delhi, p.9
3. Ruddar Datt and K.P.M. Sundharam (2006) "Indian Economy" S.Chand and company ltd, New Delhi.p.585
4. Kurukshetra, vol.60, July 2012, Ministry of Rural Development, GOI, P.23
5. Competition vision, October 2012, the classic study circle, Dharwad, p.50
6. Dr. Nakkiran. S (1980), "Co-operative banking in India", Rainbow publications, Coimbatore, P.P 83- 84.
7. Srinivasan P.T.(1984), Cooperative management perspective, the Tamil Nadu journal of Cooperation, Vol. 71, No 9, April, p.7