Chapter I

Conceptual Framework Of Business Planning And Evaluation
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CONCEPTUAL FRAMEWORK OF BUSINESS PLANNING
AND EVALUATION

INTRODUCTION

The advent of cooperation in India, and its development at various stages is the product of government policy. Denzil Ibbetson stated in the Central Assembly in 1903 while passing the Cooperative Societies Bill that the government recognized the enormous advantage which would result to the Indian cultivators by the introduction of Raiffeison Credit System. He further stated: "If the Bill passes into Law, we shall impress upon the Government that simplicity and elasticity are essential in the rules framed under the law".¹

Subsequent developments in the Cooperative Sector bear ample evidence that the government policy pronouncement rather than people's initiative steered the direction of cooperative development. As such there has never been a genuine cooperative movement in India; what existed was merely a state policy on cooperative development.

In the pre-independence era, the appointment of committees such as Cooperative Planning Committee and Agricultural Finance Sub-Committee resulted in the end of laissez-fair policy and the commencement of policy formulation in different provinces regarding cooperative development. In the post-independence era, following the recommendation of All India Rural Credit Survey Committee, for the first time, "A comprehensive policy relating to the Cooperation was formulated and has presumably been in operation throughout the country".²

Yet, the macro-development policy on Cooperatives has been inconsistent and at times conflicting. Any approach to Cooperative development was by and large linked to the macro development objectives and political ideology of the party in power. Therefore, ad-hocism prevailed in the matter of Cooperative

² Gadgil D.R, Writings and Speeches of Professor D. R. Gadgil on Co-operation, Bombay : Orient Longmans, 1975, p.81.
development and there was no official proclamation of Cooperative policy except NDC resolution 1958. Nevertheless there had been marked shifts and swings in the public policy on cooperatives which had decisive influence on the direction of cooperative development.

**Policy Perspectives**

**Nehruvian Idealism**

Jawaharlal Nehru, the tallest among statesmen India has produced, is a strong advocate of Cooperative development in its pure form and content. According to him "Cooperative movement seems to offer a philosophy, a method of approach, which would aim at the kind of social purpose without infringing too much on individual freedom. Therefore many of us were attracted to that ideal".3 His fascination to the cooperative ideal is akin to the 'new moral world' visualized by Robert Owen and Saint Simon and the 'new positive order' propounded by the early Sociologist Auguste Comte.*

Jawaharlal Nehru conceived Cooperative approach as an ideal approach for ushering in national development. Cooperative Commonwealth was accepted as the objective of Indian National Congress.

Jawaharlal Nehru visualized a voluntary Cooperative development without state interference. He favoured a small-village, self-dependent and self-reliant approach and was against a state-aid approach advocated by the All Indian Rural Credit Survey Committee. In his opinion, "even though it might bring some results locally and temporarily, it pushes the Cooperative movement in a direction which is not Cooperative at all, and which is something else and which offends against the whole philosophy, which I believe has grown up around the movement".4

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* According to Auguste Comte “The new social order would have love as its principle, order as its basis and progress as its aim. The egoistic propensities to which mankind was prone throughout previous history would be replaced by altruism, by the command “live for others”. Individual men would be suffused by the love for their fellows; and they would lovingly venerate the “positive engineers of soul”.

Nehru had a grand vision about the Cooperative Movement. He stated:

"My outlook is to convulse India with the Cooperative Movement or rather with Cooperation; to make it, broadly speaking, the basic activity of India, in every village as well as elsewhere; and finally indeed, to make the Cooperative approach the common thinking of India".5

The Mixed Economic System designed during this era provided relatively greater opportunities for cooperatives than social systems, which tend to either extreme. Cooperatives in mixed economies are not confined merely to limited sectors to insulate against competitive conditions or as a countervailing power to fight against economic injustice as in the capitalist system or to promote collective action or decentralized development as in the communist system. Their objectives and coverage go beyond these limits.6

The first two Five Year Plans reflect the Nehruvian Idealism, in their approach to Cooperative development. The first Five Year Plan stated: "The principle of Cooperation is indeed the basic to rapid social and economic development under democratic conditions".7

The Second Five Year Plan outlined the policy on cooperative development as follows:

"Economic development on Cooperative line offers vast fields for the application of Cooperation in its infinitely varying forms. Our socialist pattern of society implies the creation of a large number of decentralized units, both in agriculture and industry".8

The third Five Year Plan also followed the same line of idealistic approach with Democratic Socialism being the accepted pattern of development. Cooperation, which incorporates the values of socialism and democracy, combines freedom and opportunity to suit the small man with the benefit of large-scale operation. According to the plan, "Economic and social change are equally vital elements in the reconstruction of India's social and economic structure. Cooperation is one of the principal means of bringing about changes of a

5 Ibid, Sharma M. L., p.i.
fundamental nature within the economy”.9

Soon it was realized that the idealism and Cooperative purism advocated by Jawaharlal Nehru could not work. The country had to charter an alternative course in respect of cooperative development. State aid became the main plank for Cooperative development. The concept of Cooperative Commonwealth could not be given particular shape, as there was considerable vagueness about it. It was considered as a Utopian ideal incapable of bringing about any fundamental change. Gunner Myrdal has pointed out the inability of Cooperatives to bring about any structural change in the following words:

“Unfortunately, the notion that Cooperation will have an equalizing effect is bound to time out to be an illusion. While land reforms and tenancy legislation are at least in their intent devices for producing fundamental alterations in property rights and economic obligation, the Cooperative approach fails to incorporate a frontal attack on the existing in-equalitarian power structure. Indeed it aims at improving the conditions without disturbing that structure and represents, in fact, an evasion of equality issue”.10

Interventionism

The active role of state in Cooperative Development was advocated even before Independence. In 1946 the Cooperative Planning Committee, appointed by the Government of India, specifically listed laissez faire policy of Government as one of the principal reasons for the inadequate progress of cooperatives in India. The committee stressed “It is upon a policy of active economic development by state that the success of cooperation will depend”.11 Even ardent cooperative thinkers like Charles Gide advocated state intervention and close cooperation between the cooperative sector and the public sector, State.

After the introduction of Economic Planning and the formulation of long-term development plans, Cooperation became a key component of the development programmes.

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"The principal reason why cooperatives receive prominent recognition in the planning document is connected with the consideration that the objectives of Cooperation and the objectives of development planning broadly overlap."  

The Report of the All India Rural Credit Survey proved to be a watershed in India's Cooperative Policy. The committee strongly advocated a state-aid model of cooperative development. It justified state partnered Cooperative development on the ground that ends become so desirable and the means become less important. The forces opposed to Cooperatives are so strong that Cooperatives by their own strength would not be able to counter them effectively.  

It further stated "The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their existence. The forces of transformation have to be at least as powerful as those which are sought to be counteracted. Such forces can be generated not by Cooperation alone but by Cooperation in conjunction with the state".  

The National Development Council resolution (1958) and Nehru's intervention brought about a temporary shift in Cooperative policy towards state interference and control and in favour of small Cooperatives based in village community, instead of large-sized Cooperatives as recommended by the Rural Credit Survey. In pursuance of this resolution the Government of India issued detailed guidelines for deofficialization of the Cooperative Movement. The Government of India stressed that "every effort must be made to encourage the people and their leaders to take over the organization and running the movement. The Government will no doubt continue to perform its statutory functions under the law and give maximum possible financial and other assistance. The objective however, should be to transfer, as early as possible, the responsibility for the movement to the people and their leaders". 

But soon there was a reversal of the trend and there were growing compulsions of greater control and restrictions through amendment to Cooperative law for implementing the programme of reorganization of Primary Cooperative Credit Societies into viable units by means of compulsory amalgamation as a

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result of the Metha Committee recommendation (1964). Further the need to contain the growing influence of vested interests in the Cooperative Movement by appropriate legal and administrative measures to eliminate and prevent such vested interests on Mirdha committee’s recommendation enhanced the control of state on cooperative administration. Statism as a policy of cooperative development, originally proposed by the All India Rural Credit Survey Committee, was accepted as a strategy of cooperative development by renowned cooperators like D.R.Gadgil and B. Venkatappiah. The Fourth and Fifth Five Year Plans reflected this line of thinking. The Fourth Plan states as follows:

It will be part of the policy during the Fourth Five Year Plan to ensure that opportunities before cooperatives are as large and varied as they can be utilized effectively while it will be up to the Cooperatives to make the efforts involved and reach those standards of efficiency which will enable them to compete with other forms of organizations serving similar purposes. The Government on its part will endeavour to assist Cooperatives to equip themselves for the task regarding important aspects such as finance, organization, training, etc.\(^\text{15}\)

The policy of state-partnered Cooperation, continued as a historical legacy, became more complex. Paradoxically state partnership, which was conceived as an effective measure for strengthening the Cooperative credit institutions, has paved the way for ever increasing state control over Cooperatives, culminating in virtually depriving the Cooperatives of the democratic and autonomous character.\(^\text{16}\)

As rightly stated by S. S. Puri: “In developing countries, while the need for an active state policy and state aid is obvious, a line has to be drawn somewhere in order to ensure that the cooperatives do not get virtually incorporated into the state apparatus or the state aid and state administration do not become part of the package deal.”\(^\text{17}\)


Instrumentalism

The next phase of Cooperative development witnessed perceptible change in policy which assigned only a limited role to Cooperatives. There seemed to be no unified policy on the assigned for the Cooperative sector as a whole in the overall scheme of development. The importance of Cooperatives has been reduced considerably in the 6th, 7th and 8th Five Year Plans; there is no separate chapter on the Cooperative development perspective and no policy on Cooperatives was spelt out.

In the 6th Five Year Plan multi-agency approach was identified as a major policy in the agricultural credit, though the major burden of providing agricultural credit will be in the Cooperative sector. The approach favours earmarking of a larger share to weaker sections. Cooperatives are dovetailed to the sectoral programmes and its separate identity is not very much preserved.

The Seventh Plan document did not spell out any special goal to Cooperatives, except that it should become instrumental in the development of weaker sections and less developed regions.

During this period Cooperatives were more and more identified with weaker sections and the rural poor such as small and marginal farmers, agricultural labourers and rural artisans. The policy of Cooperative development is to enhance the capability of Cooperatives to extend support to programmes of poverty eradication and serve the weaker section effectively, by improving functional aspects like efficient management, improving recovery, strengthening capital base and professionalizing cadres, 'By the Seventh Five Year Plan the idea that Cooperatives were mere instruments in the hands of the Government for implementing its developmental and populist measures had become an unquestioned assumption'. Policy makers and cooperative officials consider cooperatives to be mere instruments for implementing government schemes and channelling special assistance to certain target groups.

The narrow perception of Cooperation merely as a delivery system or institutional mechanism to serve the weaker sections of the community or even a particular sector of economy is not justifiable. "The Cooperative leaders who view Cooperatives from the peephole of a particular type of organisation, or who interpret Cooperation solely in terms of savings and dividends, or whose focus is
on day-to-day operations alone will never lead the movement in the field of national development".\textsuperscript{18}

Cooperatives have a role in shaping not only Cooperative development plans but also general development plans in sectors like agriculture, animal husbandry, small scale and cottage industries, housing, consumer trade, etc. Cooperative policy should be dovetailed to the development policies in the respective fields of economic activity.

In the opinion of Dr. Gadgil, Cooperative policy in India finds itself in a sorry state as a result of a number of personal prejudices and pre-conceived notions, which have never been adequately discussed in public.

In more recent times there has been a drift in the Cooperative policy. It has come to a stage where the Government does nothing but benignly neglect. Institutions for agricultural credit and marketing including the Cooperatives created in the post-independence period face historical bias against them. All these are collapsing. The state has nothing to offer beyond pushing private sectors and NGOs. The current policy environment is characterized by bureaucratic, piecemeal and short-term consideration.\textsuperscript{19}

Thus, a stable and sound policy on Cooperative development has been a missing element in the history of Cooperation in India. Dr. Gadgil outlined the ingredients of Cooperative policy, which is relevant even today: It is high time it was recognized i) that future development must take into account the achievement and experience in the past, ii) that there is enormous variety in condition and stage of development within the country, and that these rule out a rigid, uniform approach and call for regional adaptation and adjustments and that iii) no adequate policy can be formed in any context, in the absence of full public debate and of the cooperation of non-official workers.

A century of cooperative development in India has witnessed a variety of policy initiatives and intervention in wide ranging circumstances, which have sustained the cooperative movement in the country.

\textsuperscript{18} Ibid; Puri S. S., 1979, p.88.  
\textsuperscript{19} Dayanantha Jah, "Policy Drift in Agriculture" EPW, November, 2003, p.4947.
Chronological Interventions

a) Policy Changes Introduced

- 1793 – introduction of taccavi loans as a measure of administrative relief after recurring famines.
- 1904 – introduction of a cooperative credit system based on the Raifessian Model.
- 1928 – introduction of land mortgage banks.
- 1935 – creation of the Agricultural Credit Department in the Reserve Bank of India.

b) Appointment of Committees and Commissions

- 1949 – Rural Bankers’ Enquiry Committee
- 1954 – All India Rural Credit Survey Committee
- 1955 – Formation of State Bank of India
- 1960 – Committee on Cooperative Credit
- 1963 – Agriculture Refinance Corporation
- 1975 – Agricultural Refinance and Development Corporation.
- 1968 – National Credit Council Study Group on Organisational Framework for Implementation of Social Objectives
- 1969 – All India Rural Credit Review Committee
  - Nationalisation of 14 largest banks
- 1972 – Banking Commission
- 1975 – Working Group on Rural Banks
- 1982 – Formation of NABARD
- 1989 – Agricultural Credit Review Committee (Khusro) – Business Development Planning
- 1998 – R. V. Gupta Committee on Rural Credit
- 2000 – Jagdish Capoor Committee
- 2001 – Vikhe Patil Committee
- 2001 – Vyas Committee
- 2005 – Vaidyanathan Committee
As a result of the implementation of the recommendations of the above committees as well as administrative and policy interventions, the rural credit delivery system, particularly the PACS, has been undergoing constant change. Very recently, the Government of India constituted a Task Force under the chairmanship of A. Vaidyanathan on 05 August 2004 to formulate a practical and implementable plan of action to rejuvenate the rural cooperative credit structure. It recommends financial restructuring of cooperative credit structure i.e., Recapitalisation Assistance.*

Business Development Planning and Development Action Plan have been among the important administrative measures implemented recently to make rural credit effective and to enhance profitability of PACS. Being the grass roots organisations of rural people, PACS remain the foundation of co-operative credit structure, which play a pivotal role in the mobilisation of local resources and strengthening of people's capacity to improve their incomes and living conditions through group action. Yet these institutions remain the weakest link in the short-term credit structure. The organisational structure and the operational mode of these institutions are characterised by low membership, lack of business diversification, poor financial base, preponderance of inactive members, absence of linkages between credit and other economic activities, and excessive dependence on the government as well as federal organisations. Recommendations made by several committees and measures adopted to rehabilitate weak societies have been of no avail. Hence Business Development Planning has been introduced to remove these limitations and help PACS to become self-reliant cooperative institutions.

Business Development Planning (BDP) is a rational process of deciding the objectives of a co-operative society in the light of its strengths and weaknesses as well as business opportunities and threats prevailing in its area of operation and selecting a suitable line of actions in order to achieve its objectives. It is prepared well in advance for a period ranging from one year to five years. The shorter the

* The Union Cabinet has approved a Rs.13,600 crores package for revival of the short term rural co-operative credit structure. All PACS with a recovery of at least 30 percent of the demand on June 30, 2004 would be eligible for revival package. The Financial assistance is a one-time measure – The Hindu, 17.12.2005.
time span, the more concrete will be objectives; and the longer the period associated with planning the more vague will be the objectives.

“BDP is a process to ascertain the local resource potentials and to identify the opportunities for the society for the expansion and diversification of its business for catering to members' needs with their active involvement. Only such business activities which are found to be economically feasible and which fulfil the needs of members’ should be taken up”\footnote{NCCT, \textit{Training Material for BDP in PACS}, (Unpublished) New Delhi : National Cooperative Union of India, p.2.}

The salient features of Business Development Planning are discussed below:

**OBJECTIVES OF BDP**

The basic objectives of BDP are to help the PACS increase and diversify its business activities so as to enable them to become viable units.

The primal objectives of BDP are outlined below:

- **Business Enhancement and Diversification**

  Normally PACS get low margin. So they should take up a package of services and activities in order to fetch high income and to minimise transaction cost.

- **Resource Mobilization**

  A PACS can mobilise its resources in three ways namely share capital contribution by members, deposits from members and institutional borrowings. Retaining internally generated funds is very crucial for ensuring self-sustained growth of PACS. Member-oriented policies and activities and reduction in dependence on external funds and governmental support are vital for resource mobilization by PACS.

- **Members Participation**

  The success of a PACS depends on its members active participation in its business or services. While the society has to create appropriate organisational structure to enable greater participation, creating greater awareness about the...
services or activities of the society must motivate members for greater participation.

- **Building Social Capital**

  A large section of members in PACS are inactive, economically weak and socially disadvantaged. Organizing them into homogenous groups will enable them to effectively participate in viable economic activities and have access to complementary material and non-material resources.

  Cooperatives, particularly PACS can play an active role in promoting the self-help groups. They can provide support to those members who are inactive in finding ways and means to pool their resources, identify viable and gainful activities, develop leadership, be accountable to the group, manage funds, keep records of incomes and expenditure, etc.,

- **Establishing Linkages**

  Business development planning is a multi-disciplinary activity, and therefore linkages have to be established between PACS and a number of supportive institutions like DCCBS, marketing societies, regulated market committees, processing societies, consumers stores, warehousing corporations, state government, voluntary organisations, social welfare boards, field unit of KRIBCO, IFFCO and so on.

**BDP-ADVANTAGES**

The important advantages of BDP to PACS are economic, environmental and social:

- Economic advantage: BDP enhances financial viability and growth potential to PACS through diversified activities. It also helps to increase productivity, income and technological access to factors of production.
- Environmental advantage: BDP helps the PACS to have easy access and judicious use of local resources.
- The social benefits available to PACS through BDP are: leadership development, control by members over factors of production and educational and health improvements to members.
BDP- THE NEED

The irksome external factors like politicisation, bureaucratisation, dominance of state control and pervasiveness of co-operative law are generally responsible for poor performance and mismanagement of PACS. The consequence of these factors are low involvement of members, poor deposit mobilisation, declining share in the agricultural credit disbursement, input distribution, output marketing, consumer business, lack of diversified activities and consequent non-viability of PACS. The implementation of BDP is a desirable step in the right direction in order to remove these irksome factors and to make PACS strong and viable.

The effective implementation of BDP in PACS, nevertheless, depends on the following factors:

• ATTENTION ON OBJECTIVE

The objective line of action and target of PACS are seldom determined internally. But the government or the Department of Cooperation or District Central Cooperative Bank ultimately determines these. But BDP enables the PACS management to make rational use of its resources and entrepreneurial capacity to decide objectives in the light of the members' requirements.

• DECISION ON CLEAR PROGRAMMES

It is certain that if the line of action is decided clearly commensurating with objectives and are acted upon by the personnel of PACS, objectives can surely be realised.

• PLANNED ECONOMIC PERFORMANCE

Planned economic performance calls for clear enunciation of objectives and programmes of action to prepare the budget in terms of estimates of business turnover, costs, income and allocation of financial and other resources to various activities. It helps to keep various costs in relation to business turnover under a limit to earn surplus. Thus PACS set a cost limit for different activities leading to economic performance and profitability.
• MINIMISATION OF RISK AND UNCERTAINTIES

Business objectives are future propositions sought to be realised at some future dates. Risk and uncertainties are inherent in futuristic pursuits. Therefore, careful estimation of various factors like area profile, market consideration, business prospect, competitive condition, risk factors etc., will be considered for deciding objectives and to make plan realistic. This will lead to accurate business forecast, minimising the chance of risk and uncertainties and maximising the chance of success.

• PROBLEM SOLVING TECHNIQUE

The past and current performance of the PACS has to be assessed properly in order to locate their strengths and weaknesses. The weaknesses have to be taken up on priority basis for finding solution; without solving identified problems no amount of development will be possible. Thus BDP should not be viewed merely as a tool of planning but should be understood as a problem solving technique as well.

• CONTROL THROUGH PLANNED TARGETS

The PACS till now do not have systematic process of controlling the business performance. The implementation of BDP would provide a strong basis to the management's of PACS to exercise control through planned targets. BDP gives targets for different business activities constituting performance standards. If there is any gap between the performance standard and actual results, corrective measures have to be taken up by the PACS management.

APPROACH OF BDP

PACS can prepare BDP by two approaches namely: The Master Plan or Basic Business Plan and Operational or Functional Plan. The Master Plan covers the entire business activities of a PACS on an aggregate basis for a certain period of time. On the other hand the operational plan provides a specific plan for each business activity of PACS separately for one year such as credit plan, agricultural inputs plan consumer business plan and so on. Both these plans have to be integrated into a single plan.
PACS manager in consultation with the president and other functional staffs of PACS should prepare the basic Business Plan. The Managing Committee and General Body should approve both the plans.

Both the plans may be preferably prepared for one to five years at least one month in advance of the commencement of the plan coterminous with the tenure of the managing committee. At the end of the co-operative year, the next year plan should be ready after due approval of the Managing Committee and General Body.

The plan should be preferably implemented from the first day of the year for which it has been prepared.

COMPONENTS OF BDP

The basic purpose of BDP is to initiate the process of revitalization and accelerate the process of development with diversified activities in order to enable the PACS to achieve the objective of growth, stability and sustainability. For the purpose of creating awareness and developing skills among PACS managers, a simple model of BDP consisting of the following elements is adopted:

♦ Basic business plan
♦ Operational plan for each business activity
♦ Budgeting
♦ Implementation
♦ Monitoring and control.

PACS prepare BDP in the light of its strengths and weaknesses and potentials of the area of operation for the next one to five years. The planning process is the same for any PACS irrespective of the type of activity.

 STEPS FOR PREPARING BDP

The important steps to prepare the BDP are:
i) Review of PACS performance to identify problems
ii) Review of area profile and the scope of economic activities to be taken for the subsequent years
iii) Deciding concrete objectives for the forthcoming one or more years
iv) Estimating business turnover, trade margins, operational costs and net surplus and
v) Estimating financial requirements and allocation of resources.

It is important to describe these above steps briefly in order to indicate the knowledge and skill required for preparing BDP

• REVIEW OF PACS PERFORMANCE

The PACS manager should also review the performance of PACS concerned in terms of percentage of population covered, number of sales depots or branches, category wise coverage of membership, financial structure, borrowings, credit business, input and output marketing, sale of consumer goods, etc.,

• REVIEWS OF AREA PROFILE

The PACS manager should have adequate data and information about the area of operation like number of villages covered, population by gender, occupational distribution of working population, area in hectares, cropping pattern, irrigation facilities, consumption of agricultural inputs, other cooperatives functioning with in the area of operation, traders, etc., of the PACS concerned.

• DECIDING OBJECTIVES

The PACS manager has to identify problems on priority basis in consultation with the chairman and others, which need more urgent attention for solution. Based on the information collected in these two aspects viz., review of area profile and review of PACS performance, the PACS manager would decide definite objectives for realisation in the near future. Objectives can be set in two forms i.e., first fixation of annual rate of growth for the existing business and the kind of activities which may be added.

• ESTIMATING BUSINESS TURNOVER.

The estimation of business turnover refers to projection of sales and credit delivery for the next year as per reasonable rate of growth fixed over the current year. Trade margin refers to the difference between cost price and sale price and is also called gross profit. The trade margin will be estimated for the business turnover projected on the basis of estimated cost of goods and sales price. The total cost includes all types of running costs, which should be controlled in such a
way that it should be less than trade margins so as to have a net surplus. Business plan in simple terms means estimating business turnover, trade margin, total costs and net surplus.

**ESTIMATING FINANCIAL REQUIREMENTS**

Financial requirements for each business can be calculated by estimating the expected rate of turnover of each and every business in a given year. The estimated business turnover of each business activity may be divided by the rate of turnover, which would give the financial requirements. The PACS manager should decide upon the extent of internal sources and borrowing power. Then only the allocation of required amount to different business activities may be possible.

**COMPONENTS OF BUSINESS ACTIVITY PLAN**

Generally there are five kinds of business activity in PACS namely credit business, inputs business, consumer business, output marketing business and deposit business.

BDP provides guidelines for preparing plans for each business line mentioned above. They are briefly explained below.

**A. CREDIT BUSINESS PLAN**

The steps involved in the preparation of credit business plan are:

- Estimating of loan required by the members for raising crops. The amount of loan required by rural artisans mainly for working capital can be estimated by assessing economic feasibility.
- Estimation of cost of lending is done by calculating the cost of capital and proportionate managerial expenses.
- The expected income can be estimated by calculating the margins available minus the total cost of lending.
- The factors to be considered while estimating of loaning are: irrigation facilities, scale of finance, eligibility of members to get loan, scope to admit new members, their economic feasibility, non-agricultural credit activities and the previous year’s performance in loan distribution.
The essential factors which decide the success of a credit plan are enrolling new members, timely preparation of normal annual credit statement, timely distribution of loans, adequate supply of agricultural inputs in time, active liaison with members and supervision over the utilization of credit. Nevertheless, factors like timely recovery of loan, timely availability of agricultural inputs and adequate rainfall are the critical factors which would affect the credit business plan.

B. INPUTS BUSINESS PLAN

PACS are expected to supply agricultural inputs as kind component of crop loan to the members and others. The important aspects to be considered while preparing this plan are given below:

ESTIMATION OF SALES

The adequacy of inputs like fertilisers, seeds, pesticides and agricultural implements can be calculated by:

Quantity of inputs = Total acreage of eligible members and prospective buyers under different crops x application rate

ESTIMATION OF INPUTS INTERMS OF MONEY

It can be estimated by quantity of inputs required x sales price.

ESTIMATION OF COSTS IN INPUTS BUSINESS

The following aspects should be added and considered while estimating the costs:

Purchase price of inputs or cost of inputs minus operational cost. Operational cost includes handling expenses, leakage, wastage, interest on working capital, proportionate managerial expenses etc.

ESTIMATION OF EXPECTED INCOME

It may be worked out by:

Net surplus = Total sales in rupees minus cost.
          (Cost refers the cost of goods sold plus operation cost.)

ESSENTIALS FOR SUCCESSFUL INPUTS PLAN

The essentials in this regard are: preparation of inputs business plan well in advance, inclusion of all agricultural inputs required by members, procuring inputs
of right quality, quantity and price at the right time and periodical review of implementation of plan.

C. CONSUMER BUSINESS PLAN

PACS are also expected to undertake the business activity of supplying controlled and non-controlled items needed by the consumers. The steps involved in the preparation of consumers business plan is same as in the case of inputs business plan.

ESTIMATION OF VOLUME OF SALES

The following points are to be taken into consideration while estimating volume of consumer items: estimation of the number of consumers, buying capacity of consumers, requirement for different commodities, number of traders doing business in the area of operation, sales during the previous year, etc.

ESTIMATION OF TOTAL COSTS

The estimation of total costs for consumer business plan includes: cost of the goods, interest on working capital used, present wages and other costs, rent and depreciation of the shop, furniture, etc.

ESTIMATION OF NET SURPLUS

The net surplus in this plan can be estimated by:

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\text{Net surplus} = \text{Total sales (Rs)} - \text{Total cost (Rs)}
\]

D. AGRICULTURE MARKETING BUSINESS PLAN

PACS are also expected to undertake effective agriculture marketing service of the members as recommended by the All India Rural Credit Survey Committee. The important points to be considered before preparing Business Plan are important crops raised by the members, non-availability of immediate market for the corps, availability of remunerative price, possibility of creating processing facilities, availability of necessary technical knowledge and possibility of storing crops.

Estimation of marketable surplus and estimation of marketing costs are the important steps involved in the preparation of Marketing Business Plan. Marketable surplus can be arrived at by total quantity of production minus quantity for personal consumption plus seeds plus wages plus animal feed plus quantity
required for religious function. Estimation of marketing costs includes costs involving produce, procurement, administration, storage, sales, etc.

E. DEPOSIT BUSINESS PLAN

PACS require Deposit Business Plan to mobilize resources in order to become self-reliant and develop the habit of savings among rural people. As a first step, PACS have to project Deposit Business for coming year based on previous year's performance.

STEPS INVOLVED IN DEPOSIT PLANNING

The important steps involved in this Deposit plan are the calculation of gross surplus from deposits. The cost of deposits can be arrived at by adding interest paid to depositors, managerial costs and other costs. The net income is the difference between gross surplus minus costs.

ESSENTIALS FOR DEPOSIT BUSINESS PLAN

The essentials needed for the successful implementation of this plan are: maintenance of close contact with members, introduction of new schemes of deposits suited to members needs, provision of comfortable facilities to customers having the system of pass books, giving incentives at individual and group levels for deposit mobilization, bringing women in this plan and organizing special camps to explain the advantages of deposit schemes.

PREPARATION OF TOTAL BUSINESS DEVELOPMENT PLAN

After preparing activity-wise business plans a total business plan for PACS can be consolidated in the following Proforma

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Activity</th>
<th>Previous years volume of business</th>
<th>Business volume as planned (Rs)</th>
<th>Total amount</th>
<th>Estimated Net Income</th>
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<td>IQ</td>
<td>IIQ</td>
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<td>Input</td>
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<td>Marketing</td>
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<td>5.</td>
<td>Others</td>
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IQ = First Quarter  IIQ = Second Quarter  IIIQ = Third Quarter  IVQ = Fourth Quarter
MONITORING, CONTROL AND REVIEW OF BDP

"Monitoring and control is an integral part of planning, which enables the PACS management to see that activities and programmes are performed according to the plan and to take up corrective measures if there is any deviation in actual performance in the light of the planned performance"\(^{21}\)

"Control is one of the crucial functions of management and has broader connotation than monitoring. It may be said that monitoring is one of the activities of a control system"\(^{22}\)

TYPES OF MONITORING

There are two types of monitoring of BDP namely internal monitoring and external monitoring. The abridgement of these two types of monitoring is given below.

INTERNAL MONITORING

Regular monitoring and review of implementation of BDP at PACS level helps to meet the following objectives.

- to know the progress of activities and programmes under BDP in terms of quantity and quality,
- to assess the impact of various business activities on viability of PACS,
- to ascertain the extent of increase of members participation in the various activities of PACS,
- and to know the deviations and to take up corrective actions.

Internal monitoring and control can be carried out by two methods namely: quantitative method and qualitative method. Quantitative assessment of BDP is possible by collecting information on progress of various business activities against quarterly or half-yearly or annual targets of BDP. Qualitative evaluation of BDP can be done by collecting information of the select indicators to know the impact of BDP on the health of PACS.


\(^{22}\) Ibid; p. 136.
IMPLEMENTATION OF BDP

The following steps are important for the effective implementation of BDP.
They are:

* IDENTIFICATION OF SUPPORT SYSTEM

PACS are developed by the involvement of institutions within the co-operative sector or outside. Both of these two types of institutions provide a variety of assistance for the development of cooperatives. All these constitute support systems. Most of the PACS are weak. So the successful implementation of BDP depends on the regular and smooth flow of various types of services.

* CATEGORY OF SUPPORT SYSTEM

There are several institutions supporting co-operative development in different ways. These institutions may be broadly categorised as follows:

* APEX CO-OPERATIVE FEDERATIONS

The primary co-operatives are federated to District, State and National level federations. They are highly expected to provide financial, business, technical, advisory support to their constituent PACS in achieving their objectives and targets of BDP.

* FINANCING INSTITUTIONS

Several financing and developmental financing institutions in general and the co-operative sector in particular are established by the Government like NABARD, NCDC, Khadi and Village Industries Commission (KVIC), NDDB, and Commercial Banks. They provide financial assistance, technical guidance and promotional facilities to co-operatives. Even though they are not cooperative institutions, they cater to the development requirements of the cooperatives.

* PROMOTIONAL CO-OPERATIVE FEDERATIONS

District Cooperative Unions, State Cooperative Unions and National Cooperative Unions are some of the cooperative federations which are responsible for the development and promotion of cooperatives by lobbying, publicity, member education, training and other promotional activities.
**NATIONAL AND STATE GOVERNMENTS**

These Governments provide legislative, administrative, financial, developmental and judicial support to the cooperative sector. The cooperative department of the State Government has greater scope to play an important role in the preparation and implementation of BDP. The Department of Agriculture and Cooperation, Government of India has established a monitoring and evaluation system with the help of the National Informative Center (NIC) to review the progress achieved in the implementation of BDP.

**DEVELOPMENT ACTION PLAN**

The NABARD has initiated a series of development programmes for strengthening cooperative credit institutions. The latest among those is being the preparation of Development Action Plan (DAP) during the year 1993-94 introduced by the NABARD.

**DAP - CONCEPT, SCOPE AND OBJECTIVES**

DAP is a specific cooperative credit institution action plan to be evolved to strengthen PACS and DCCBS, taking into account their present strengths and weaknesses or constraints and untapped or under-tapped potential available for development. Preparation of such Action plan facilities the flow of credit to the desired levels.

Financially strong and organisationally healthy and viable credit institutions are imperative for the distribution of adequate and timely credit. Therefore, cooperative banks should be very cautious about the concepts of cost effectiveness, commercial orientation, professionalisation, accountability, etc.

Many of the co-operative banks are not working on desired lines and are handicapped by various shortcomings like inadequate resources, improper deployment of funds, heavy overdues, low level of business, high transaction cost, huge accumulated losses, bad debts, loss on account of PDS business, inadequacy in professionalisation of management, high cost of administrative expenses and so on. So DAP helps co-operative banks overcome these shortcomings and become viable units.
The basic objective of the DAP is to ensure that PACS as well as the DCCBS function as viable units on a sustainable basis. To assess the status of viability of the institution, a thorough analysis of the various parameters having a bearing on viability like financial and organisational systems and procedures and HRD is called for. On the basis of the above analysis, the factors that stand in the way of bank's viability have to be identified and the specific course of action required for the removal of the said constraints implemented.

It also aims at achieving current viability, say, within a year or two and sustainable viability in about 5 years. Current viability is the ability to meet the cost of management out of the gross financial margin available and be in a position to earn reasonable profit. Sustainable viability is the ability to completely wipe off the amount of accumulated losses, and unrealisable imbalances, to provide for bad debts or assets adequately, etc, and to start with a clean transparent balance sheet.

MEMORANDUM OF UNDERSTANDING (MOU)

In DAP, projections have been made by PACS as well as the DCCBS annually since 1994-95. Based on DAP, MOU has been entered into by the State Apex Co-operative Banks of all states with NABARD. A similar MOU has also been entered among the State Governments, Apex Co-operative Bank and the NABARD. The Apex Co-operative Banks will enter into separate MOUs with each of the DCCBS.

As per the MOU, there are action points for performance. As per one of the action points, the Registrar of co-operative societies of States has constituted Task Force Committee (TFC) separately for each district under the chairmanship of the Regional Joint Registrar of Co-operative Banks and DCCB concerned have to look into the viability norms of PACS at the district level taking into account the financing of agriculture and other activities undertaken or to be undertaken by PACS and evolve viability norms. The Task Force will formulate a specific package for the viability of the individual PACS.
DAP – CONTENT

It is to be ensured that the projection for future years are based on available potential and realistic estimation keeping in view the past performance and capacity of the concerned institution.

The broad frame – work of the DAP shall be as follows:

I. MANAGEMENT AND ORGANISATION – HRD EFFORTS

It refers to the following aspects: like

- Elected Board of management, composition of Board
- Organisational set-up, staff position, details of staff on deputation, details of technical staff, professionalisation, system of staff recruitment, motivation, training, arrangement and data on trained staff.

II. BUSINESS AND OPERATIONS

It indicates the following:

- Status of viability of PACS classified according to size of loan business, particulars of non-credit business and profitability analysis,
- Availability of office building and godown,
- Details of owned funds,
- Deposits : deposits-mix existing and proposed,
- Borrowings : source, extent and cost.
- Loans and advances issued and outstanding : purpose – wise, size-wise etc.
- Credit-potential : scope and strategy for step-up loan and diversification. Scope for development of non-farm sector, support to other business like consumer loan etc.
- Management of funds and its compliance with statutory requirement such as Cash Reserve Ratio and other provisions of Banking Regulation Act and also State co-operative Societies Act.
- Present position and potential for non-farm credit business like issue of letter of credit, providing locker and other facilities, collection of cheques, issue of drafts, jewel loans etc., and handling of PDS in case of PACS.
Recovery performance; principal and interest separately; in-depth overdue analysis: purpose-wise, age-wise, activity-wise; measure for improving recovery performance, staff-wise targets, accountability, etc.

Profitability position like current profit/loss, accumulated profit/loss, analysis of accumulated profit/loss, steps for improving profitability, profit/loss on account of PDS activities, inputs business, consumer business, etc.

Viability analysis on financial return i.e. interest and other income, financial cost, gross margin, cost of management and net margin.

III. SYSTEMS AND PROCEDURES

It refers to loan policy and procedures, delegation of powers and effectiveness of supervision. The Break - Even volume of business required for current as well as sustainable viability may be worked out as follows:

1. BE for Current Viability = \( \frac{COM + RC - MIS \text{ INCOME}}{FM} \times 100 \)

   COM : Salary and Allowances, other operating expenses like rent, taxes, depreciation, postage, stationery etc.

   RC : Risk Cost i.e. \( \frac{\text{Average annual incremental Bad debts}}{\text{Average Advances Outstanding}} \) x 100

   FM : Financial margin i.e., Average yield on earning Assets minus Average cost of funds.

2. BE for sustainable viability = \( \frac{\text{Net Erosion}}{\text{Financial Margin}} \times 100 \)

   Net erosion = Accumulated losses plus Bad debts plus unrealisable imbalances.

IMPLEMENTATION AND MONITORING OF DAP

The success of DAP would depend on its effective implementation. Therefore, it would be imperative to evolve a suitable machinery at the level of State Co-operative Banks and District Central Co-operative Banks to monitor the implementation of the DAP.
PERFORMANCE INDICATORS

Performance evaluation is an important pre-requisite for the sustained growth and development of any institution\(^23\). The need for evaluation has acquired greater relevance owing to the emergence of competitive environment in rural credit and the growing credit need in the rural sector. It is necessary in co-operatives to evaluate the performance in relation to the pre-determined goals and objectives.

The Government of India favours rating, based on performance for cooperative banks. This is a part of a larger move to streamline the finance sector.\(^*\)

A co-operative society does not exist for earning profit for its shareholders, but for improving the conditions of its members. They are expected to meet the common economic needs of its members effectively and economically. The main aim of a co-operative society is not to maximise the return on capital employed but to render effective services to its members. The performance of a co-operative society cannot be merely judged on the basis of the amount of loans advanced or the volume of business transacted or the quantum of profits earned. Therefore the typical measuring yardstick of rate of profitability or return on capital employed applicable to profit oriented enterprises is not adequate to measure the performance of a co-operative undertaking.

A cooperative society being an enterprise and all association at the same time is a complex business mechanism combining economic and social aspects. Any attempt to measure the performance of cooperatives should be comprehensive to include the economic and social dimensions.

Indicators to evaluate the working performance of co-operatives specific to PACS are seldom available. Those which are available are not comprehensive. Nevertheless, a few attempts have been made to evolve indicators in different contexts, which will be helpful in evolving a set of prime indicators relevant to measure the performance of PACS. Devising a set of standard performance indicators to PACS is a must.

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\(^*\) The Union Government favours creating a mechanism to give credit rating to cooperative institutions, banks, departments of various states and even state governments. If a cooperative institute is rated "A", then it should directly get credit from institutions like NABARD – Economic Times, 30\(^{th}\) July 2004.
indicators has become all the more relevant in the context of the implementation of BDP and DAP and the need to evaluate the level of performance. A few such indicators evolved by different authors are discussed below.

The Report of the Committee on Co-operative Credit (1960) contained the first serious attempt to view the PACS in business terms. The committee defines the concept of viability of co-operative credit society in terms of the ability:

♦ to render the more important services adequately without depending upon financial assistance from the Government within a reasonable time.
♦ to command the services of personnel
♦ to meet the expenditure fully incurred on such personnel
♦ to meet expenditure on rent
♦ to pay the cost of audit and supervision
♦ to contribute to cooperative education fund and common good fund
♦ to pay for reserve fund
♦ to pay some return on capital.

The conference of the State Ministers of Co-operation held in Hyderabad in 1964 almost endorsed the criteria of viability evolved by the Committee on Co-operation (1960). It further recommended that area-wise standards of the quantum of business and credit and non-credit necessary to enable the society to attain viable status have to be worked out and a survey should be carried out to delimit areas within the accepted population coverage, which will ensure adequate business potential.

Report of the Committee on Co-operation (1969) gives some criteria for the viability of Agricultural Credit society as follows:

- Coverage of an area of about 3 miles radius
- Coverage of a population of about 3000
- Loan transactions of not less than Rs.2 lakhs in a year.

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24 Govt. of India, *Report of the Committee on Co-operative credit*, (Chairman : V.L.Metha) 1960, p.73.
Okafor.F.O. attempts to articulate some indices for assessing the efficiency of the co-operative society in Nigeria. The concept of efficiency according to Okafor implies quantitative and qualitative aspects. The measurement of efficiency must be quantifiable. Factors in co-operation like good management, mutual trust and member's commitment are difficult to quantify precisely but measurable to some extent. He has developed a detailed criteria of performance for evaluating the effectiveness of co-operatives by assessing three different groups of competencies namely: ability to operate on the basic principles of Rochdale; ability of cooperatives to satisfy members' aspiration, both social and economic; and ability of cooperatives to achieve some relevance in society i.e., structural quality (economies of scale), cost minimising criterion and economic returns (profitability).

Dubashi. P.R. is not in favour of assessing the performance of co-operatives in terms of efficiency in profit earning, as they are service-oriented institutions. But their efficiency can be judged in terms of maximising services at the least cost. Thus the credit societies have to disburse loan at a lesser rate of interest to their members than the rate of interest prevailing in the market. Specifically the author pinpoints efficiency in terms of capital employed, human and physical resources involved, extent of members participation and productivity.

Turto Turtianinen and Von Pischke feel that co-operatives have objectives that are different from those of other forms of economic organisation. Their unique objectives make it misleading to apply the conventional business theory to their finances without appropriate modifications. Their uniqueness and diversity also make it difficult to formulate general guidelines for evaluation of co-operative finance. Principles and criteria of financial analysis may be specified, which reflect co-operative objectives, but their application must be flexible in order to accommodate diversity. They suggest that the main categories of ratios and standards commonly applied to measure solvency, stability, profitability and

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27 Dubashi, P.R., Strategy of Cooperative and Other Essays, New Delhi : National Cooperative Union of India, 1970, p.64.

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efficiency may be adopted to evaluate the operating and financial performance of cooperatives as well.

Krishnaswamy.O.R,\(^{29}\) has evolved a set of Key Result Areas (KRAs) to measure objectively the performance of all types of co-operatives, which includes:

- coverage of villages;
- coverage of population;
- coverage of membership;
- member users;
- capital formation and capital structure;
- cost of capital;
- volume of business;
- cost of services;
- managerial efficiency;
- Profitability and social responsibility.

Suresh.K.A,\(^{30}\) has reviewed the performance criteria suggested by High Level Committee on Co-operative Credit in Kerala(1980), which indicated certain norms in absolute figures. The author has also developed certain methods of determining viability, namely: Viability by Norms, Viability by Objectives, Ratio Analysis, and Break-Even Analysis.

The co-operatives have to satisfy all the norms like membership, share capital, deposits, loan operations and so on. A co-operative, which satisfies all the norms, is considered viable and those, which satisfy two third norms, are considered potentially viable. A co-operative society which operationalises all the objectives specified in the by-laws are considered viable units. A co-operative society may also be judged by means of ratio analysis. Major ratios relevant to co-operatives are: recovery ratio, working capital ratio, profit ratio, etc. Break-Even Analysis would indicate the level of profit of a firm at the given level of cost and output.


\(^{30}\) Suresh.K.A. and Moly Joseph, The viability of co-operatives as a means of enhance of Agricultural production and productivity, Sahakrita Samshedhan, Jan-June,1988, p.46.
Sukumaran A and Shaheena P\(^3\) attempt to analyse the efficiency of Palghat District Central Co-operative Bank, Kerala in terms of the interest spread and burden to increase the profitability of the Bank. The authors suggested the following ratios to measure the profitability performance of the bank, which are applicable to the PACS as well: Interest Ratio, Interest Paid Ratio, Non – Interest Income Ratio, Other Expenses Ratio, Manpower Expenses Ratio, Pay out Ratio, Profitability Ratio etc.

Taimni K.K.\(^3\) has given some parameters, which were discussed in the Regional Workshop on Monitoring and Evaluation of Primary Rural Co-operatives. He is of the opinion that the performance evaluation of agricultural co-operatives should be focussed on the organisational as well as enterprise side. The impact of co-operatives on the production and living conditions of members specific to small farmers and the community are important and they should be evaluated in terms of:

- Reach i.e., the number of active members;
- Functional Participation which refers to the share of agricultural co-operatives in the total economic activities of members;
- Participation i.e., the extent of subordinate or allied activities given to the members; and
- Social concerns i.e., the involvement in human problems by co-operatives such as aiding poor, cooperative education, strengthening democracy.

Madane, M.V.\(^3\) argues that any indicator for judging the performance of co-operatives should be relevant to the ultimate benefits or the end service available to the members from the total co-operative effort. Hence the ultimate goal of all tiers of co-operatives is to serve the primary member. He has given the following indicators for judging performance.

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Economic - As democratic organizations, they should function to the satisfaction of the members.

Social - Co-operatives have to maintain non-exploitative character in all their dealings.

Ethical - Co-operatives should have some ethical standards in their business.

Human Related - Integration of all services i.e., provision of economic benefits Vis-a-Vis the total needs of the members and family; and
- members active involvement in the affairs of the co-operatives.

Mustafa.K.Mujeri\(^{34}\) has given a multidimensional index of indicators to define the characteristics of successful co-operatives based on the two studies of the Center For Integrated Rural Development for Asia and the Pacific (CIRDAP), which includes, economic and social dimensions and organisational aspects like self-reliance and participation.

Bhave. G.P.\(^{35}\) has very simply constituted a norm of viability for co-operatives. The financial performance of the co-operative credit society can be made in terms of:
- Financial costs i.e., the cost of raising resources
- Transaction costs i.e., the costs of day to day operations in relation to manpower, office space, risk costs, etc.

A co-operative institution in financial terms is viable if the total costs are less than the income, which represents interest, as well as other incomes like commission, etc.

A co-operative institution in financial terms is non-viable, if the costs are higher than the income and the margins are negative. The writer expresses that the viability of co-operatives is also influenced by the quality of service to

\(^{34}\) Mustafa.K.Mujeri, "Effectiveness of Village Level Primary Agricultural Co-operatives in selected Asian countries", (Symposium paper, IRMA, Anand, Dec 7-11, 1992).

members, social costs, etc. The author has suggested the following criteria to determine viability:

- ability to run on profits or at least avoid incurring loss.
- Ability to promote the member's economic conditions.
- Ability to maintain the basic values and principles of co-operation ever.

Tushaar Shah\textsuperscript{36} selects four primal indicators to assess the organisational performance of village co-operatives like PACS, dairy, marketing, weavers, jaggery, oilseeds co-operatives etc. Those indicators are based on

- Member perception
- Business results
- the overall qualitative assessment
- Surrogates of salience.

Niranjan Raj Urs. B.\textsuperscript{37} has developed some analytical tool such as self-reliance, deployment of resources, member utilisation and participation and economic performance for assessing the performance of PACS.

Kulandaiswamy V.\textsuperscript{38} has arrived at four distinct dimensions of operational efficiency in the context of co-operative organisation. They are: a) Technical efficiency, b) Economic efficiency, c) Functional efficiency and d) Social efficiency. He has identified a set of measurement parameters and ratios for precise measurement and evaluation.

1. Efficiency in Output : a) Achievement of Target
   b) Input-output Ratio
   c) Capacity Utilisation
   d) Value Addition

2. Efficiency in Cost : a) Operational Cost (as % to sale)
   b) Unit Cost
   c) Standard Cost

\textsuperscript{38} Dr. Kulandaiswamy V., Cooperative Management, Coimbatore : Arudra Academy, 2002.
3. Profitability
   a) Return on Sale
   b) Return on Investment
   c) Percentage of gross profit to sales
   d) Percentage of net profit to sales

4. Liquidity Tests (Ratios)
   a) Current Assets : Current Liabilities
   b) Liquid Assets : Current Liabilities
   c) Percentage of receivables to assets
   d) Percentage of receivables

5. Solvency Tests
   a) Debt-Equity ratio
   b) Member equity to total capitalization
   c) Coverage ratio
      i.e., Operating Profit : Interest on Liabilities

6. Service to Members
   a) Member Turnover
      \[ \frac{\text{No. of Members Joining} + \text{No. of Members Leaving}}{\text{No. of Members at the Beginning} + \text{At the End}/2} \times 100 \]

   b) Drop out
      \[ \frac{\text{No. of People Leaving}}{\text{No. of Members at the Beginning} + \text{At the End}/2} \times 100 \]

   c) Service Surplus
      \[ \text{Average price differentials} \times \text{Total Volume of Business done with members} \]

   d) Patronage Refund

Yashwantha Dongre and Narayanaswamy\textsuperscript{39} has developed a model incorporating all the dimensions of development to measure efficiency of PACS particularly those which combine trading and banking. His statistical model is based on scaling techniques intended to measure the performance of PACS by grouping them as good, satisfactory and poor.

\textsuperscript{39} Yaswantha Dongre and Narayanaswamy, "Performance Evaluation Model for Primary Agricultural Credit Societies" Vikalpa, Jan-March 1999.
Attwood and Baviskar argue that most studies of co-operatives in India and their performance tend to be mechanical, judging them by the volume of business without going into the deeper process involved in the functioning of these organisations.

On the basis of the studies reviewed thus far, a comprehensive inventory of appropriate indicators has been identified carefully with a view to evaluating and quantifying the performance of PACS. Based on the available literature on indicators, a comprehensive set of indicators considered relevant for the study was developed. Among these indicators those which are operationally relevant and amenable for quantification were selected to construct a package of measurement parameters for the study as listed below.

I. ORGANISATIONAL (STRUCTURAL) INDICATORS

1) Percentage of coverage of families
2) Coverage of weaker sections (landless/rural poor)
3) Average membership per bank
4) Share capital per member
5) Working capital per member.

II FUNCTIONAL INDICATORS

1) Deposit per member
2) % of borrowing members
3) ST loan disbursed per member
4) MT loan disbursed per member
5) Total loan outstanding per member
6) Overdue per member
7) Inputs sold per member
8) Total business turnover per member
9) Credit deposit ratio = \( \frac{\text{Credit}}{\text{Total Deposits}} \)

\[
\text{Credit} = \text{Total Loan Outstanding}
\]

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III SELF RELIANCE INDICATORS

1) Percentage of member's share capital to total paid up share capital
2) % of owned funds to total working capital
3) Debt Equity Ratio i.e., ratio of borrowed funds to owners capital
4) Net worth to Asset Ratio = \[
\frac{\text{Net Worth}}{\text{Total Assets}}
\]
Net worth : Paid up capital plus reserve fund plus other reserves plus undisbursed net profit if any
5) Total subsidy received so far
6) Ability to pay for reserve fund
7) Capitalisation ratio i.e., ratio of reserves (all reserves) to paid-up share capital.

IV PROFITABILITY INDICATORS

1) % of Gross profit to total transaction
2) % of Net profit to total transaction
3) Return on invested capital i.e., % of net profit to total capital employed
4) Yield on investments i.e., interest received from investment
5) Return on assets i.e., net profit as % to total assets
6) Working capital to business turnover ratio
7) Interest paid ratio i.e., \[
\frac{\text{Total Interest Paid}}{\text{Volume of Business}} \times 100
\]
8) Interest income ratio i.e., \[
\frac{\text{Total Interest Income}}{\text{Volume of Business}} \times 100
\]
9) Non-interest Income ratio = \[
\frac{\text{Total Non-Interest Income}}{\text{Volume of Business}} \times 100
\]
10) Total non-interest expenditure ratio = \[
\frac{\text{Total Non-Interest Expenditure}}{\text{Volume of Business}} \times 100
\]
11) Profitability Ratio = \[
\frac{\text{Profit before Tax}}{\text{Volume of Business}} \times 100
\]

V. COST INDICATORS

1) Transaction cost as % loan outstanding
2) Transaction cost as % of total turnover
3) Financial cost i.e., interest cost as % of loan outstanding
4) Risk cost i.e., % of bad and doubtful debts to loan outstanding
5) Spread Ratio i.e., the difference between interest received and paid
6) Man power cost i.e., salary cost to total cost
7) Man power efficiency:
   - Turn over per employee
   - Loan outstanding per employee.
8) Pay out ratio = \( \frac{\text{Total Man Power Expenses}}{\text{Total No. of Employees}} \)
9) Bürden ratio = Total non-interest expenditure ratio – interest income ratio.

VI. DEMOCRATIC PARTICIPATION INDICATORS
1) % of attendance in the General Body meeting
2) Ratio of active members
3) % of members voted in the election

VII. SOCIAL EFFICIENCY INDICATORS
1) Percentage of Coverage of small and marginal farmers
2) Percentage of Coverage of SC and ST members
3) Coverage of women
4) % of loan disbursed to small and marginal farmers
5) % of loan disbursed to SC and ST members
6) % of loan disbursed to women
7) PDS Sales
8) Number of ration cards registered

Conclusion
The Union Government and the State Governments have taken several macro and micro level policy initiatives and adopted intervention strategy for the development of cooperatives in India. These governments and RBI have appointed various committees and commissions to go deep into the working, assess and suggest ways and means for the effective and efficient functioning of cooperatives. The Agricultural Credit Review committee (1989) recommended a
national programme of Business Development Planning for cooperatives. In the similar line NABARD also has initiated Development Action Plan aiming at profitability for credit cooperatives. An attempt has also been made in this chapter to develop performance indicators like organisational, functional, self-reliance, profitability, cost, democratic participation and social efficiency indicators having sub group indicators. These indicators are used in the subsequent chapters as the basis for analysing the performance of PACS, before and after implementing Business Planning.