Chapter II

Design And Execution Of The Study
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Introduction

Rural credit has remained an 'Achilles heel' of Indian Economy. While the demand for credit is ever expanding, the supply does not cope with the demand. The financial needs of the rural poor have been met by both institutional and non-institutional agencies. Among the institutional agencies of rural finance, co-operatives occupy a premier place. The Primary Agricultural Credit Societies (PACS) at the village level are the foundation of the entire co-operative credit system, which has been built up in our country to serve the farmers. These co-operatives not only saved the farmers from exploitation by private moneylenders but have also made positive contribution to their economic development by providing inputs, marketing facilities, etc. At present India has a widespread institutional network with the PACS at the village level affiliated to district, state and national level federations. The aim of the entire co-operative credit system is to help the people living in rural areas to meet their credit needs and improve their standard of living and quality of life.

The implementation of various development programmes under the Five-Year Plans and the greater involvement of co-operation in those programmes resulted in the development of co-operative movement. In the First Five-Year Plan, co-operation was regarded as an instrument of economic development. The Plan very clearly set out the approach to co-operative development; and underlined the need for having a co-operative organisation in each village, which will cater to the multiple needs of its members.

Nevertheless, the Agricultural Credit Cooperatives constituted the sheet-anchor of cooperative policy and development in India. The government started paying greater attention to the Agricultural Credit Co-operatives by providing assistance in a variety of ways particularly after the recommendation of All India Rural Credit Survey Committee (1954). Besides its effective support in regard to formulation of various policies and programmes, the enactment of co-operative
legislation and extending of financial assistance in different kinds are of vital importance.

In the subsequent Plans also co-operation was regarded as an important vehicle for socio-economic transformation of the country. The emphasis was on diversification of co-operatives as an institutional framework to ensure growth with stability and social justice.

The effective delivery of credit and dispensation of services to the rural households hinge on the capacity of the institutions, particularly at grassroots level. Therefore the strengthening of organizational viability and efficiency is perceived as a corollary of effective dispensation of services. The concept of viability of PACS has been the main plank of the development of the PACS since 1960. The recommendations of All India Rural Credit Review Committee (1969) laid great focus on the promotion of viable units and development of business potentials of the PACS. The seventh plan aimed at a comprehensive development of PACS to function as multipurpose viable units and reorientation of policies with emphasis on Business Planning. (See chapter I for elaborate policy perspectives)

Statement of the Problem

In the short-term credit structure, which comprises Institutions at three levels the PACS are the base level units dealing with primary borrowers. The federal institutions at higher levels intend to lend support to the funding of the PACS. It is therefore imperative that, in any strategy of co-operative development, major emphasis should be on the strengthening of the PACS. The super structure would determine the health of the whole co-operative credit movement, which rests on the foundation of the PACS. Improvements in productivity and income of the farmers and promotion of other subsidiary and non-farm activities largely depend on the viability of the credit delivery system of the PACS. They are expected to promote the interests of farmers by providing inputs for increasing agricultural production and arranging services like processing, grading, warehousing, marketing etc.
As a result of the reorganisation of societies undertaken at the national level, the total number of PACS decreased from 1,34,838 during 1974-1975\(^1\) to 98408 during 1985-1986\(^2\) and further decreased to about 92000 (1995-96)\(^3\). Out of the total number of PACS, 65 percent were found viable during 1995\(^4\).

In spite of various efforts taken, however, a large number of PACS are yet to become viable enterprises and are not functioning as efficient service providers.

The working group on co-operatives for the Fifth Plan laid down the norm of Rs.2 lakhs of loan business as early as 1973\(^5\). According to the guidelines of NABARD, a PACS with a loan business of Rs. 10 lakhs is normally viable. More recently, the Agricultural Credit Review Committee has suggested that the optimum level of operation of the PACS is Rs.25 lakhs to 30 lakhs of business per annum and the break even level of credit business is Rs 17 lakhs\(^6\). Thus, the viability norms have been progressively set at higher levels. Mere setting of viability norms is of no use, unless it is implemented effectively by means of certain development plans. For the first time in the history of credit co-operatives in India a countrywide plan was formulated to effectively intervene in the management and planning process of the PACS by the initiative of the government and federal agencies. As a result of such policy interventions, significant results have been achieved at macro-level.

At the national level the total membership of PACS increased from 39.5 million in 1975 - 76 to more than 91 million in 1995-96\(^7\). The average membership per PACS increased from 293 in 1975-76 to 991 in 1995-96 though in many states it was much lower. The number of borrowing members from the PACS decreased from 17.8 million in 1975-76 to 13.1 million in 1990-91. The average of owned funds per society increased from Rs. 0.32 lakhs during 1975-76 to Rs.1.22 lakhs during 1985 - 86 though in many states it was

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\(^1\) Government of India, *Agricultural Credit Review Committee*, (Chairman : Khusro), New Delhi, 1989, p.220 and 270.
\(^4\) Ibid., p.2.
\(^5\) Op-cit; Quoted by ACRC, p.226.
\(^6\) NCCT, *Training material for Business Development Planning in PACS*, New Delhi.
very low. The percentage of overdue to demand, however, remained around 41 from 1975-76 to 1985-86. The percentage of PACS making profit to the total number of PACS declined from 58.1 in 1975 - 76 to 57.6 in 1990-91. Of the total number of PACS, about 65 percent were found to be viable during 1995 - 96.

Out of 98247 PACS in India as on 31 March 2002, 62252 (63.4%) were viable, 28126 (28.6%) were potentially viable, 3970 (4.0%) were dormant and 3899 (4.0%) were defunct. During the year 2002-03, 58683 PACS earned profit and 53,626 PACS reported losses amounting to Rs.4595 crores.

Despite these encouraging statistical profiles, there exist certain structural and functional weaknesses like low business turnover, poor share capital base, high cost of operation, dependence on external borrowings, insignificant deposit mobilisation, inadequate member participation in share capital and business transactions, inadequate participation by women members, etc. With these weakness as the PACS have to face many challenges in the context of the Government's policy of liberalization and the resultant competitive environment. This calls for concrete measures such as diversification of business, improvement of operational efficiency, upgradation of business and management skills of elected management and employees and activation of non-participating members.

In the above context the intervention strategy initiated by the Government of India on the recommendations of the Agricultural Credit Review Committee (ACRC), appointed by the RBI, under the chairmanship of Dr. A.M. Khusro (1989), for strengthening the co-operative credit delivery system and to diversify business activities in the country is a significant milestone in the development of the PACS. The ACRC recommended initiating a programme of BDP in each and every primary village co-operative in the country under a phased programme so that during the Eighth Plan Period (1991 - 95) all the village co-operatives are enabled to emerge as self reliant and autonomous.

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institutions\textsuperscript{11}. The Pant Committee (1990) and Sankaran committee (1991) were also appointed by the Government of India to highlight the need to take up Business Development Planning in an organized manner. In fact the Pant Committee was appointed to suggest measures to implement the recommendations of ACRC\textsuperscript{12}.

Subsequently, the NABARD entered into a Memoranda of Understanding (MOU) with the State and District Co-operative Banks and the State Governments concerned for implementing the specific Development Action Plan (1994-95) to revamp the loss-making PACS and to improve their viability.

Since the two kinds of development plans have been in operation for the past many years, it is pertinent to evaluate these plans on the operational efficiency of the PACS. It is felt that “There is the need for undertaking evaluation of the results emerging from the implementation of BDP in various states in terms of improvements effected in the operational efficiency and viability of the PACS. The results of such evaluation studies should be utilized for effecting necessary modification in the framework of future BDP\textsuperscript{13}. Therefore a micro level empirical study will provide valuable feedback information regarding the business progress and performance of PACS brought about as a result of inducement, intervention and business planning. The proposed study seeks to find answers to the following questions: What is the current status of the PACS in terms of business efficiency?

What is the impact of the scheme of Business Planning on the performance of the PACS?

What are the structural deficiencies and operational shortcomings experienced by the PACS?

How do the members perceive the benefits of the PACS? What remedial measures need to be taken for improving the performance of the PACS?

\textsuperscript{11} NCUI; \textit{Forward manual on BDP in Primary Agricultural Co-operative}, (Unpublished) New Delhi.
Review of Earlier Studies

BDP and DAP are recent phenomena. So many research studies have not been undertaken to extensively assess the impact of Business Planning on the business performance of PACS. Further, only a very few research studies have adopted quantitative parameters to evaluate performance. A summary of review of such available research studies is presented below:

I. Research studies on performance of PACS

Balishter and Chauhan (1982)\(^{14}\) conducted "A Study of Co-operative Finance in Agriculture" in Bichpuri Block of Agra, Uttar Pradesh. The main objectives of the study were loan advancement, recovery of loans and overdue. The sample villages were selected by purposive sampling procedure whereas the census method was administered to gather data from farmers. The study concluded that availability of crop loan per farm from co-operative society increased with the increase in farm size. In all categories of farmers the crop loan provided was diverted to unproductive purposes. The position of repayment of loan taken by the farmers was not very satisfactory. However the position of repayment was better in the case of big farmers.

Ramachandra Bhat and Aruna Rao (1982)\(^{15}\) conducted a study on the evaluation of growth of Primary Agricultural Co-operative Credit Societies in 1965-1978 in Karnataka, with the primary object of studying Primary Agricultural Co-operative Credit Societies. The data were obtained from the Statistical Statements Relating to Co-operative Movement. The variables chosen for the study included share capital, advances, recoveries, overdue and deposits. The study revealed that there was a phenomenal growth in membership, share capital, deposits, loans and advances and recoveries in terms of aggregate as well as per member.

Singh M.P (1971)\(^{16}\) conducted a study on "Service Co-operatives, their Operations and Performances at the Farm Level" with the main object of


examining their operations and performance in four societies selected from two blocks. The important findings of the study were: the coverage of households within the area of the societies was generally low; the credit provided was inadequate and untimely; the major component of the working capital was external borrowings; the deposits and reserves constituted negligible amount; the share capital mobilized was lower than the amount required for achieving viability.

Pandey U.K and Muralidharan (1977)\(^{17}\) conducted a study on “Mounting Overdue in Co-operative Credit Institutions in Banda District of Uttar Pradesh”, with the primary objects of examining the nature and extent of loan overdue in the Central Co-operative Banks and Primary Agricultural Co-operative Credit Societies and the effect of overdue on the flow of fresh credit. Banda district was purposively selected as one of the heavy overdue districts. A sample of 25 percent of the Primary Agricultural Co-operative Credit Societies was randomly selected. The study revealed that there was only one society without any overdue. In all the societies the overdue ranged from 30 to 90 percent and therefore the impact of overdue on the flow of fresh credit to farmers was visible.

Purusothaman .P. (1979)\(^{18}\) conducted a study on the operational growth of the Primary Agricultural Co-operative Credit Societies in Andhra Pradesh. He attempted to measure the rate of the growth of operations of the selected PACS based on secondary data. The study brought out the following findings: the annual growth rate of membership, paid-up share capital, deposits, recoveries and loan outstanding were positive; only 13.9 percent of the PACS were managed by full-time paid employees; and the defaulters constituted 33.20 percent of the borrowing members.

A study on utilisation and overdue of co-operative loans was conducted by T.V. Moorthi and others (1981)\(^{19}\) in Kangra district of Himachal Pradesh. A three stage stratified sampling design was followed for the selection of farmers,


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from two strata viz. beneficiaries and non-beneficiaries. Both primary and secondary data were collected. The main focus of analysis was on the trend of growth of co-operative credit societies in respect of membership, share capital, deposits and loans and on examining the pattern of utilization and problems of overdue of co-operative loans. The important findings of the study were:

The membership of the societies increased with an average annual growth rate of 3 percent. Share capital and deposits recorded an annual compound growth rate of 7.80 percent and 10.60 percent respectively. Loans and advances grew with an annual compound growth rate of 5.40 percent while overdue recorded a compound growth rate of 16.70 percent.

G.N. Singh and others (1978) conducted a study on "An Economic Appraisal of Co-operative Agricultural Finance" in Uttar Pradesh. The study was based on secondary data. The important objectives of the study were: to investigate the flow of credit by different farm financing institutions and to examine the performance in respect of recovery and overdue. The study revealed that the overdue stood at 12 percent showing a good performance in respect of recovery.

Singhal .C.D (1986) made an investigation to identify various services rendered by PACS in Haryana. Simple random sampling procedure was adopted to select societies. Both primary and secondary data were used. It was found that 74 percent of the total loan was disbursed to agriculturists. Of the total sales, controlled goods accounted for 89 percent; and 7 percent of the respondents complained of non-availability of credit in time.

Bhosale and others (1988) conducted a study on overdue of co-operative loans. They attempted to study the extent of short-term loan borrowings, the repayment position of the loans and the factors responsible for overdue. The important results of their study were:

The average short term loan outstanding per year per family stood at Rs.1,720; but the average overdue per family per year worked out Rs. 2,563.

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Tushaar Shah (1995) studied two Primary Agricultural Cooperatives in Tamilnadu of which one was successful and the other not so successful. He found that lack of effective competition, an energetic and patronage responsive staff, and high performance support explained the success of the first society, *inter alia*, from DCCB which also made high performance demands on the primaries. The failure society suffered, in contrast, because of a corrupt and patronage unresponsive management, and an incompetent Chairman and Board. Continuous monitoring by the DCCB through periodic meetings and inspections kept the manager and staff active. Both the PACS enjoyed relative freedom from competition. The only effective competition was offered by several informal chit funds operating in each village.

Dr. Mohan Rao, R. M (1998) attempted to evaluate viable co-operatives at the macro level. He used statistical data of NABARD. He mainly focused his attention on the viability of the PACS across the country. He found that only 64 percent of PACS were viable; more than 90 percent of viable PACS were in Haryana, Karnataka, Rajasthan, Tamilnadu and Punjab while in many other states the viability was poor. Only 49 percent supplied agricultural inputs; 50 of the PACS undertook distribution of consumer goods; only 2 percent undertook marketing activity; and only 32 percent had godown facilities as against 64 percent of the viable PACS. Further it was found that there was no correlation between percentage of the viable PACS and percentage of those supplying agricultural inputs, and distribution of consumer goods and marketing activities. But there was significant correlation between the percentage of viable PACS and the percentage of PACS owning infrastructure like godown.

Koli. P.A (2004) felt that the performance of the cooperative institutions is influenced by the external as well as the internal factors. The internal factors consist of the board of directors, chairman and the chief executive officer while the external factors constitute the Cooperative Acts, Rules and

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Government. In this circumstance, it is expected that the cooperatives should be provided autonomy in their functioning and need to be recognized as member owned, member driven, self-reliant, democratic institutions and above all, economic enterprises.

ii) Research Studies on BDP/DAP

Samar .K Datta and Sanjeev Kumar (1992)²⁶ studied two PACS selected purposively one each from Maharashtra and West Bengal. They pinpointed some gaps in the existing system of operation of the PACS and suggested some specific policy measures for revitalisation of the PACS concerned. The study revealed that serious and systematic efforts were not taken for the preparation of BDP; it was prepared on the basis of past performance or arbitrarily; no serious steps were taken for marketing agricultural output; no dependable estimate was made on credit requirement; no planning was made to bring inactive members to the activities of the society and no effort was made to form self help groups.

Rayudu .C.S (1992)²⁷ conducted four case studies of the PACS in Anantapur district of Andra Pradesh. His study came out with the following findings; untrained officials of the District Central Co-operative Bank prepared BDP; the officials of the sample societies did not have expertise for the formulation of BDP; and the BDP prepared by the District Central Co-operative Bank was accepted by the sample societies as a routine activity.

Mohanan .N. (1992)²⁸ studied three PACS, one each from Tamilnadu, Kerala and Andra Pradesh. The following observations emerged from his study: the business viability of sample societies largely depended on internal resources and diversification of business; the PACS could get continuous member support by providing integrated farm services at competitive rates; business planning at the society level and service orientation at member level

²⁷ Rayudu C.S, Business Development Plans in Agriculture Co-operatives. Ibid.
were compatible objectives, which led to the success of the sample societies; the sample societies had no uniform pattern in planning business and the key areas for the success of the sample societies were innovative business ventures, financial self reliance, co-operative spirit among members, managers and non-official leaders.

Sriram. M.S (1992) traced the process of Business Planning adopted by a group of primary multipurpose co-operatives in Andhra Pradesh. He tried to take a critical look at the process of Business Planning and alternative procedures used for business planning and its effectiveness. He found that the officers of the District Central Co-operative Bank and the Co-operation Department prepared the BDP. The chairman and the members of the Board of the selected societies were unaware of the existence of the BDP.

Dinabandhu Mahal (2002) conducted a study to assess the impact of Development Action Plan in Pune District Central Cooperative Bank. He came out with the result that the Development Action Plan had created some sort of awareness in the bank. The selected bank had been very successful in the area of loans and advances. The transaction costs as percentage to working capital was found to be less after the implementation of DAP. This shows the level of efficiency and also helps to increase the profitability of the bank. This is really a remarkable achievement.

The research studies reviewed thus far suggest that a large majority of the studies were focused on the problem of overdue and quite a few studies were on the problem of viability. Development planning, being a recent phenomenon, has attracted only fewer research studies. Majority of these studies laid focus on the process of Business Planning and the problems in the implementation. Impact of Business Planning on the business efficiency and service effectiveness is least studied. Hence the present study.

Objectives of the study

The following principal objectives have been set for the present research study:

1. To outline the conceptual framework of the Business Planning in PACS.
2. To present the growth profile of PACS in the macro level.
3. To evaluate the performance of PACS by using certain select indicators.
4. To assess the impact of Business Planning on the working performance of PACS in the study area.
5. To gauge the perception of members on the services rendered by the PACS.
6. To offer suggestions for the better performance of the PACS.

HYPOTHESES

A few working hypotheses have been developed based on the findings of the research studies reviewed earlier as well as the researcher's own grasp of the field situation. They are as follows:

HO-1: There is significant improvement in the performance of PACS as a result of the implementation of Business Planning.

HO-2: The economic and financial indicators contribute in a greater measure than the social indicators to the overall performance of the PACS.

HO-3: Considering the uniformity of the administrative set up and period of implementation there is no likelihood of significant variation in performance among the PACS of the different geographical regions.

HO-4: The business performance at the Institutional level and service orientation at member level are compatible objectives.

Definition of the concepts used

Business Planning

It refers in general to the Business Planning (1989-90) and Development Action Plan (1994-95) introduced to improve the business efficiency of the Primary Agricultural Credit Co-operatives on the recommendation of the Agricultural Credit Review Committee and NABARD respectively.
**Business Development Planning (BDP)**

It is an intensive planning to achieve the objectives of the village level co-operatives by means of introducing change in economic, environmental and social aspects.

At the PACS level Business Development Planning aims at resource mobilisation, business diversification, enhancing member participation, organising inactive members into self help groups and promoting marketing of village produce.

**Development Action Plan (DAP)**

Development Action Plan is a concept introduced by the NABARD, which is a means for improving the viability of credit co-operatives by entering into memoranda of understanding (MOU) with the State and District Central Co-operative Banks for implementing the plan.

**Primary Agricultural Credit Society**

For the purpose of the present study, Primary Agricultural Credit Society refers to the village level Primary Co-operative Credit Society registered under the Tamilnadu Co-operative Societies Act of 1983, and includes the Primary Agricultural Co-operative Society.

**Performance Appraisal**

The term performance appraisal in the context of the present study denotes the appraisal of the extent to which the PACS have realized the objectives by means of performance and results both in terms of internal planning and control in the important functional areas as well as the ability of the PACS to render effective services to its members.

**Western Tamilnadu**

For the purpose of the present Study, Western Tamilnadu denotes the revenue districts of Erode, Coimbatore and Nilgiris.
Methodology
The present study is an empirical one and evaluative in nature. The field survey method and personal interview techniques have been used for the collection of relevant data for the study.

Sampling Procedure
Multi-stage sampling procedure is used for the present study.

A – Stage-I Selection of Districts
The present study is confined to the western districts of Tamilnadu namely Erode, Coimbatore and Nilgiris, which constitute a distinct geographical and agro-climatic region of Tamilnadu. In cooperative development these districts are ahead of the rest of Tamilnadu (See Appendix-I). Besides, the proximity of this region to the researcher's domicile is also taken into consideration in selecting it.

Stage-II Selection of Blocks
Judgment sampling is used to select the Kodumudi Block of Erode district representing wetland, Karamadai Block of Coimbatore district representing garden land as well as dry land, and Kothagiri Block of Nilgiris district representing hill area. These three blocks are considered representative of the respective districts and different agro-climatic regions and selected on the basis of the discussion held with the officials of cooperatives.

Stage-III Selection of PACS
Census method is used to select PACS in the three blocks. Accordingly all the 11 PACS in Karamadai, 11 PACS in Kodumudi and 8 PACS in Kothagiri are selected. Altogether 30 PACS have been included in the sample.

B. Selection of Members
The main focus of the present study is on the PACS and the impact of Business Plans on the performance of PACS in the study area. Yet, it was felt that any study on the performance of cooperatives would not be complete
without studying the members. Therefore the members' perception / opinion about the services offered by the PACS was included as another dimension. This would help to vouch the results of the study. Hence it was decided to select 5 members at random each of 30 PACS in the three blocks giving representation to each cooperative society. Totally 150 members were selected with the help of Quota sampling procedure.

Tools and Techniques of the Study

A detailed interview schedule was constructed for collecting necessary information from the PACS. The interview schedule comprised data regarding total population in the area of operation, membership, share capital deposits, borrowings, reserve fund, loan disbursement, demand, collection, balance, input marketing, output marketing, management, administration, profit and loss, etc. Interview and discussion were also conducted with the secretaries and other officials of cooperatives whenever required. Information regarding the concept of BDP and DAP, the process of preparation, person in charge of preparing plans, etc., were also collected from the officials of the PACS concerned.

Period Covered

The study covers a period of 15 years for the collection of necessary data. The period for the study is classified into two distinct periods, namely pre-Business Plan period (1994-1995) and post-Business Plan period, hereinafter referred to as period-I and period-II respectively in the thesis.

Delimitation of the Study

The impact of Business Plan was judged from the performance outcomes and results; and as such the study does not intend to evaluate Business Plan per se or its implementation. The scope of the study is confined to certain limited geographical areas of Western Tamilnadu, namely the Karamadai Block of Coimbatore district, Kodumudi Block of Erode district and Kothagiri Block of Nilgiris district. The findings of the study may not hold good for larger generalization.
Limitations of the Study

The success of the Business Plan depends on several uncontrollable environmental factors and proper implementation, which are beyond the control of planners and administrators and other internal players. The study has not taken into account the environmental factors in analyzing the impact of Business Plan. The main focus of the study is on Business Planning and its impact on performance of the PACS. The other aspects of the working of the PACS do not find a place in the present study. Further the sample size for the study of members’ perception is limited to a small segment i.e., 5 members from each society, as the present study focuses mainly on performance appraisal, and the study of members is only to elicit overall opinion about the services.

Chapter Scheme

The report is organised into six chapters.

- The first chapter outlines the conceptual framework of intervention strategy with special reference to Business Planning.
- The second chapter presents the design and execution of the study.
- The third chapter describes the PACS in India : Macro Perspectives.
- The fourth chapter presents the working profile of the selected PACS in the study area.
- The fifth chapter assesses the impact of Business Plans on the performance of the PACS.
- The sixth chapter gives an assessment of members' perception about the services offered by the selected PACS.
- The seventh chapter presents findings, conclusions and suggestions.

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