CHAPTER - 7

PROBLEMS OF PRIMARY AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES
CHAPTER – 7

PROBLEMS OF PRIMARY AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES

CHAPTER AT A GLANCE

7.0 INTRODUCTION

7.1 PROBLEMS OF CAPITAL INADEQUACY
  7.1.1 SHARE CAPITAL INCLUDING ENTRANCE FEES
  7.1.2 RESERVES
  7.1.3 DEPOSITS
  7.1.4 BORROWINGS

7.2 PROBLEM OF CREDIT PROVIDED

7.3 PROBLEM OF LOAN POLICY OF PACS

7.4 PROBLEM OF RECOVERY OF LOANS

7.5 PROBLEM OF OVERDUES

7.6 PROBLEM OF SUPERVISION

7.7 PROBLEM OF LOANS ADVANCED OTHER THAN CASH CROP

7.8 PROBLEM OF MANAGEMENT

7.9 PROBLEM OF ORIENTATION OF LOANS
Chapter 7

PROBLEMS OF PRIMARY AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES

7.0 Introduction

This chapter is a summary of all the aspects analysed in previous chapters in the form of concluding remarks of the researcher in the nature of problems. For this purpose data available as regards to the different variables in respect of the historical perspective into different blocks of periods having representativeness are accounted for responses collected from the respondents through the questionnaire are also taken into account for the purpose, precisely, the problems are enumerated as,

7.1 Problem of Capital Inadequcy

Capital in the parlance of PACS is the amount available for, either by internal or by external sources, such as Share Capital including Entrance Fees, Deposits, Reserves and Borrowings the disposal to the management of the PACS precisely the problems in this respect are.

7.1.1 Share Capital Including Entrance Fees

Entrance fees charges on the admission of members provide only a very minor proportion of the working capital. As compared to the volume and the nature of lending transaction of the PACS the entrance fees collected from the
members as compared to the Working Capital is very less unable to cover even preliminary expenses.

The percentage of paid-up share capital to the working capital in the year 1970-71 was 29.75 per cent which decreased to 16.73 per cent in the year 1999-2000, which means the amount of share capital collected is gradually reducing and its magnitude is so small which unable to facilitate for the Working Capital.

In other words, this is nothing but the weakness of the PACS in the form of non-viability to make available the own funds to meet the requirements of Working Capital which leads to burdening on the borrowings which ultimately creates the vicious circle of ever increasing outstanding and overdues.

7.1.2 Reserves

It is an amount retained within the concerned by the institutions with a provision to face the contingency and fluctuations in the future, out of the current profit. Having the reserve on large scale is an indicator of financial soundness because this fund is available without any burden.

The analysis of the PACS in this respects shows very worst situation for entrance in the year 1970-71 the total amount of reserves was Rs.55 lakhs, while Working Capital was Rs.847 lakhs. While in 1999-2000 the amount of reserves increased to Rs.1,287 lakhs, while Working Capital amount to Rs.
48,182 lakhs which means reserves contributed very less amount in the total Working Capital of the PACS.

7.1.3 Deposits

Deposits implies the amount given by the members to PACS with view to earn the interest. In the sense of financial management availability of large volume of deposits is indicator of success and efficiency in the form of mobilisation of resources of one side and tapping of savings of the members of the others, so it is considered as a means of capital formation, but the analysis of the deposits of the members with PACS shows the petty state of affair, precisely the percentage share of deposits to the Working Capital in the year 1970-71 was nearly 0.94 per cent further it decreased to 0.70 per cent in the year 1994-95, which shows the inability of the PACS to supplement or provide their own resources with those of their members. Either due to lack of savings or failure to the mobilise the resources in the competition to the other financial institutions.

In other words, PACS, are failed to market the savings of the members or to motivate them for savings because of their internal inabilities as well as their personality as only a lending institution which is not worthy from the view of an institution working on financial activities.
7.1.4 Borrowings

It is a major source of raising the funds to achieve the objectives through the creditors in the sense of PACS borrowings implies the amount of money taken from the State Government, C.F.S.S., District Central Co-operative Bank and other financial institutions. It ultimately constitutes the form of loans taken by the PACS.

The percentage share of borrowings to the Working Capital in the year 1974-75 was 62.78 per cent which gradually show an increasing trend and subsequently it becomes 79 per cent in the year 1999-2000. Which means PACS are relying more and more on the borrowings rather than their own funds. "As every rupee of borrowings is subject to the burden of interest, it shows ever increasing the liability of the PACS in the form of interest on borrowings."

This high degree of dependents is contrary to the sound principle and practice in financial management. The gross financial management not only crippled the PACS but also adversely affected the capability of District Central Co-operative Bank, that lending agencies.

Thus, the analysis of the capital structure of PACS shows the imbalance in its different constituents as well as indicates the symptom of capital inadequacy in the form of less owned capital and more borrowing capital.
Ultimately shows dependency and reliance on external sources inviting more and more financial burden.

7.2 Problem of Credit Provided

Providing the credit facilities to the member farmers is one of the major objectives of the PACS. It is assumed that PACS must be engaged in the advancing loans to the farmers for improvement and modernisation of agricultural techniques increasing the efficiency of input utilisation, converting the cropping pattern oriented with the cash crop on farm development etc. The wide range of needs leads to heavy amount required for these activities by making the analysis of the data available for the year 1999-2000 revealed that, there were 1,055 PACS having 4,34,455 members out of which only 1,06,419 were borrowing members. It means less than 25 per cent of the total members were the borrowing members. At the same time average amount of loan advanced per member were Rs.27,495. It means inspite of the main objective of PACS are unable to provide sufficient amount of money to the members for agricultural development. It may be because of non-availability of sufficient owned fund and excess dependency on borrowed funds.

7.3 Problem of Loan Policy of PACS

Formulation of loan policy by PACS commensurate with the crop loans system of the farmers is a pre-requisite of success of the role of the PACS in rural credit. In this sense by making the analysis of the responses from the
sample respondents in the study area, there are many problems in respect of loans policy these are,

(1) There is no proper time schedule either for disbursement of loans or for recovery of loan because of which farmers face the problems of non-availability of credit facilities on time, on one side and failure of observance of schedule of repayment on the other which leads to problem of overdues.

(2) Loans advanced by PACS are disbursed not by installment but on lump sum basis which leads to wastage of money, utilisation of money for unproductive purposes other than agriculture etc.

(3) Compliance of formalities leads to delay in sanction and disbursement of loans which leads to inconvenience as well as non-availability of fund at the time of requirement.

7.4 Problem of Recovery of Loans

Credibility of any financial institution is measured on the basis of degree of recovery of loans advanced, because, it is directly related to efficiency and effectiveness of management both in formulation of loan policy and its implementation. Analysis of the data available of PACS in the Solapur district, in this respect revealed that in the year 1994-95 total loans advanced were Rs. 10,644 lakhs of which only Rs. 7,015 lakhs recovered. It means only 65.91 per cent of loans is recovered. This non-recovery of loans leads the PACS in
dual problem on one side burden of borrowings under taken for advances continuously goes on increasing and non availability of amount on time for repayment and other side increase the problem of overdues.

7.5 Problem of Overdues

Here, overdues of the loans implies the loans which are not be repaid during the stipulated period. The data available in respect of the PACS of the study area for the year 1999-2000 revealed that total loans advanced were Rs.8,348 lakhs considered as overdues which constitute 28.53 per cent. It means this much amount is not available to the PACS for its circulation, ultimately leads to over burden on financial resources of the PACS. In other words the overdues have crippled the financial effectiveness and have made most of the PACS financially non-viable entities.

7.6 Problem of Supervision

Effective supervision on sanction of loan its disbursement, observance of repayment schedule, checking of adherence of the purpose for which loan is sanctioned etc. is necessary for effective financial management.

The analysis of responses from the respondents of the study area revealed that, there is no satisfactory arrangement for strict supervision over the proper utilisation of loans by the borrowers. Neither the members of the director nor the authorised staff vigilant in this respect.
This ineffective supervision on one side and complete absence of specialized machinery to take the feedback leads to non-recovery of loans, use of loans other than the agricultural purpose leads to non-fulfillment of basic objective of PACS.

7.7 Problem of Loans Advanced other than Cash Crop

Major portion of the loans advanced by the PACS is for crop loans. Only the loans advanced for cash crops loans such as for Sugarcane, there is direct link between the PACS and the sugar factories for recovery. So there is least possibility of non-recovery. But in case of other crops which are directly traded in open market, because of absence of direct linkage between the market authority and PACS the loans are not guaranteed for repayment in which case problem of non-recovery of loans in large scale.

7.8 Problem of Management

Analysis of management set up of PACS revealed that it is dominated by democratic decision making process along with traditional system of flow of authorities and responsibilities create the ineffective management at unit level.

The directors do not take active interest in day to day working of the PACS. The secretary is the only person who actively works for implementation of all policies and decisions of the PACS, which sometimes creates the one man show of the PACS at unit level.
7.9 Problem of Orientation of Loans

The loan policy of the PACS is based on the security of land which gives the importance to the size of land holding.

This orientation facilitates more and more opportunities to the large farmers to obtain large amount of loans, on the other side marginal and small farmers because of their small size land holding to obtain the required amount of loan for agricultural development. This defeats the basic objectives of PACS and fails to provide the incentive to the small farmers for the agricultural development.