ABSTRACT

“A STUDY OF NON-PERFORMING ASSETS AND ITS IMPACT ON FINANCIAL STATUS OF PRIMARY AGRICULTURAL COOPERATIVE CREDIT SOCIETIES IN PUNE DISTRICT”

1. INTRODUCTION

India is having a historical presence of the banking industry over ages. After the independence the Govt. of India has initiated several banking sector reforms. There was no synchronization between the private sector banks lending and the Govt. planned priorities, as a result of which the gap between the rich and the poor was widening every year. In order to ensure that the bank’s resources are utilized as per the GoI planned priorities, the Govt. of India imposed social control over banks in December 1968.

Since the response from the private sector banks was not as expected the Govt. of India as per the resolution of the Congress Party (which was the then ruling party) decided to nationalize the private section and it was only on the 19th July 1969, 19 private sector banks were nationalized.

The Indian Government has undertaken planned economic development since 1951 through Five Years Plans. It has undertaken the responsibility to generate mass scale employment opportunities and to eradicate poverty. Therefore, the Govt. wanted the banks to do the following:

- The banks should open their bank branches in the rural and semi urban centres and mop up the savings of the individuals to provide credit to support for production and employment generating programmes.
- The banks are expected to finance poor artisans, retailers and small business enterprises with a view to generating employment opportunities.
- The banks are expected to provide credit to agriculture and activities allied to agriculture, to qualified entrepreneurs for starting their small industrial ventures.

As a part of the government economic policies, it has accepted a dominant role for the public sector in the economic development and desired that the banks should serve as instruments for implementation of the government’s economic policies.
Liberalization

In the year 1991 the Indian government embarked upon the policy of globalization, liberalization and privatization. Simultaneously the banking sector reforms were also launched and in that Reserve Bank of India granted small number of private sector banks which are known as New Generation Private Sector Banks. The Global Trust Bank Ltd. was the first bank that was launched and later on it amalgamated in Oriental Bank of Commerce. The other new generation private sectors banks are: ICICI Bank Ltd. HDFC Bank Ltd. IndusInd Bank Ltd. Axis Bank Ltd. (earlier it was UTI Bank). This move has revolutionized the banking industry in India which has given rise to rapid economic growth.

The next important step that was taken was in respect of allowing Foreign Direct Investment in India in Indian banks. The foreign investors were also given voting rights and gradually the original FDI limit of 10% was increased to 49 per cent as at present.

The new generation banks were techno savvy. Right from day one they were fully computerized banks. All these banks were having an enviable ambience. They introduced several new products and services (both deposits and advances) and their style of functioning was quite unique. Their degree of delegation was quite broad resulting in speedier credit decisions. These banks threw open a fierce competition before the public sector and the old private sector banks. Initially their offices were located at the metropolitan and urban centres but now they have started opening their branches in rural and semi-urban areas.

India adopted the Basel Committee Norms for the banking industry starting from the Public Sector and Commercial Banks and gradually the cooperative banks have also been covered. These norms brought in international standard of transparency in banking transactions. These norms included Capital Adequacy Norms, Classification of Assets, and Provisioning norms. This has led the Indian bank to step up their capital base at International standard level in a phased manner as per the directions of the Reserve Bank of India. These banks have started classifying their assets based on the income generation, as Standard Assets, Sub Standard Assets, Doubtful Assets and Loss Assets. (These are also referred to as Non Performing Assets). Clear cut guidelines have been issued by the Reserve Bank of India and over a period of time this system of classification of assets has been stabilized. As a result of this total change in the approach of the Reserve Bank of India regarding transparency and full disclosure, the Banks have now are on their toes for recovery of their NPAs as otherwise they have to make provisions from out of their own earnings. Heavy provisions on this count reflects on the functioning of the banks.
1.1 Co-operative Credit

The Indian Cooperatives Movement is probably one of the largest, strongest and the oldest in the world with wide spread spatial coverage, diversified business activities and ample success stories. It has celebrated its Centenary very recently. Rural credit cooperatives in India were originally envisaged as a mechanism for pooling the resources of people with small means and providing them with access to different financial services. Democratic in features, the movement was also an effective instrument for development of degraded waste lands, increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable.

The history of the cooperative credit movement in India can be divided in four phases. In the First Phase (1900-30), the Cooperative Societies Act was passed (1904) and “cooperation” became a provincial subject by 1919. The major development during the Second Phase (1930-50) was the pioneering role played by RBI in guiding and supporting the cooperatives. However, even during this phase, signs of sickness in the Indian rural cooperative movement were becoming evident. The 1945 Cooperative Planning Committee had discerned these signs in the movement, finding that a large number of cooperatives were “saddled with the problem of frozen assets because of heavy overdues in repayment.” Even so, also in the Third Phase (1950-90), the way forward was seen to lie in cooperative credit societies. The All India Rural Credit Survey was set up which not only recommended state partnership in terms of equity but also partnership in terms of governance and management. NABARD was also created during this phase. The Fourth Phase from 1990s onwards saw an increasing realization of the disruptive effects of intrusive state patronage and politicization of the cooperatives, especially financial cooperatives, which resulted in poor governance and management and the consequent impairment of their financial health. A number of Committees were therefore set up to suggest reforms in the sector.

**NABARD:** At the instance of Government of India Reserve Bank of India (RBI), constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organizational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of National Bank for Agriculture and Rural Development (NABARD). The Parliament, through Act, 61 of 1981, approved the setting up of
NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

Mission: Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

NABARD – Highlights of 2012-13

NABARD recorded high levels of performance in purveying rural credit during 2012-13. The aggregate assets held by NABARD rose to ₹ 2,13,170 crore as on 31 March 2013, an increase of ₹ 30,700 crore (17 %) compared to the position as on 31 March 2012.

Refinance to Banks: Refinance assistance provided by NABARD to cooperative banks, regional rural banks (RRBs) and commercial banks during 2012-13 to disburse crop loans to farmers touched an all-time high of ₹ 66,095 crore, registering an increase of 36 per cent over the previous year. The investment refinance provided to banks by NABARD during 2012-13 for capital formation in agriculture and allied sectors and for non-farm activities stood at ₹ 17,674.29 crore, registering an increase of 15 per cent growth over last year.

RIDF to State Governments: Another all-time high was achieved by NABARD under Rural Infrastructure Development Fund (RIDF) by disbursing ₹ 16,292.26 crore during 2012-13, which was 8 per cent more than the disbursements made to state governments during 2011-12. Sanctions given by NABARD under the RIDF-XVIII was ₹ 20,588.34 crore. These loans are used by State governments to create infrastructure in agriculture and allied sectors including irrigation and power, rural connectivity through rural roads and bridges, health, education, rural drinking water supply, etc.

Health of Rural Credit Cooperatives

Despite the phenomenal outreach and volume of operations, the health of a very large proportion of these rural credit cooperatives has deteriorated significantly. The institutions are beset with problems like low resource base, high dependence on external sources of funding, excessive Governmental control, dual control, huge accumulated losses, imbalances, poor business diversification, low recovery, etc. Around half of the PACS, a fourth of the intermediate tier, viz., the DCCBs, and under a sixth of the State-level apex institutions, viz., the SCBs are loss-making. The accumulated losses of the system aggregate over ₹ 9,100 crore. Non-performing assets (NPA), as a percentage of overdue to loans demanded at the level of SCBs, DCCBs and PACS, at the end of March 2008 were around 17%, 37% and 36%
respectively. These institutions do not, therefore, inspire confidence among their existing and potential members, depositors, borrowers and lenders. Thus, there is a need to find ways for strengthening the cooperative movement and making it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers.

1.2 District Central Co-operative Banks in India

Before the amendment of Co-operative Societies Act (1912) some banks had been established to cater the financial needs of the primary societies. In Uttar Pradesh the primary co-operative credit society worked as Central Bank in 1906. But the revised Act stimulated the growth of central banks. Thus the period from 1906 to 1918 may be called the period of origin of the DCCBs in India. The number of DCCBs went on increasing. The number of these banks increased from 588 in 1929-30 to 611 in 1936-37. But co-operative banking organization was very weak and needed considerable rationalization at the time of the launching First Five-Year Plan. According to the All-India Rural Credit Survey Committee’s suggestion, States in India began to follow the process of reorganization and amalgamation of the Central Co-operative Banks. This basic principle of one Central Bank for each district began to be followed in all the States. As a result of this measure, the number of DCCBs came down from 509 in 1950-51 to 338 in 1981-82. Again, it rose to 352 in 1989-90. During 1999-2000 the number of DCCBs was 369 which increased up to 371 in 2006-07.

1.3 Primary Agricultural Credit Societies (PACS)

Primary Agricultural Credit Societies (PACS) are the grass root level arm of the short-term co-operative credit structure. PACS deal directly with individual borrowers, grant short and medium term loans and also undertake distribution and marketing functions. There are 91833 PACS as on March 2013, with about 139376 thousand members. A large number of PACS, however, face severe financial problems primarily due to significant erosion of own funds, deposits, and low recovery rates. Various policies such as financial support for computerization, steps towards better effective recovery performance, human resource development etc. have been adopted to improve the financial health of the PACS. NABARD has been extending funds to develop the infrastructure for PACS.

The Primary Agricultural Credit Societies (PACS) constitute the ‘hub’ of the Indian co-op movement. Every fourth co-operative in India is a primary credit society. The main objectives of a PACS are:

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2 M. L. Tannan’s Banking Law and Practice in India, (2007) page 31
To raise capital for the purpose of giving loans and supporting the essential activities of the members.

To collect deposits from members with the objective of improving their savings habit.

To supply agricultural inputs and services to members at remunerative prices.

To arrange for supply and development of improved breeds of livestock for the members.

To make all necessary arrangements for improving irrigation on land owned by members.

To encourage various income-augmenting activities such as horticulture, animal husbandry, poultry, bee-keeping, pisciculture and cottage industries among the members through supply of necessary inputs and services.

Primary agricultural credit societies (PACS) are the foundation of the co-operative credit system on which the superstructure of the short-term and medium term cooperative credit system rests. It is the PACS which directly interface with individual farmers, provide short term and medium term credit, supply agricultural inputs, distribute consumer articles and arrange for marketing of produce of its members through a co-operative marketing society.

PACS continue to rely heavily on external support and have not yet been able to become self-reliant in respect of resources through deposit mobilization and internal accruals, affecting their growth and expansion of business activities.

PACS need to function as viable units responsive to the needs, aspirations and convenience of its members, particularly those belonging to the more vulnerable sections of the society. They must function effectively as well managed and multi-purpose institutions mobilizing the savings of the rural people and providing a package of services including credit, supply of agricultural inputs and implements, consumer goods, marketing services and technical guidance with focus on weaker sections.

Some of the critical challenges facing primary level cooperative credit institutions, apart from improving resource mobilization, are the following:

1. Increasing diversification in business portfolio.
2. Improving volume of business.
3. Arresting decline in membership by the borrowers.
4. Reducing cost of management.
5. Correcting imbalance in loans outstanding.
6. Improving skills of the staff and introducing professionalism.

7. Strengthening management information system.
8. Reducing involvement in non/less profitable business.

2. **NON PERFORMING ASSETS**

**Definition:** A loan or lease that is not meeting its stated principal and interest payments. Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. More generally, an asset which is not producing income is treated as Non-Performing Asset.

2.1 **Types of NPA**

NPA have been divided or classified into following four types:-

1. **Standard Assets:** A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

2. **Sub-Standard Assets:** All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.

3. **Doubtful Assets:** All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.

4. **Loss Assets:** All those assets which cannot be recovered are called as Loss Assets.

2.2 **Provision on types of assets**

Provision is allocating money every year to meet possible future loss.

<table>
<thead>
<tr>
<th>Type of Assets</th>
<th>Provisions</th>
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<tbody>
<tr>
<td>1 Standard Assets</td>
<td>0.25% for all type of Standard Advances</td>
</tr>
<tr>
<td>2 Sub-Standard Assets</td>
<td>10% for all types of Sub- Standard Advances</td>
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<tr>
<td>3 Doubtful Assets</td>
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<tr>
<td>- Upto One year</td>
<td>100% of unsecured Advances and 20% of secured advances</td>
</tr>
<tr>
<td>- One to three years</td>
<td>100% of unsecured advances and 30% of secured advances</td>
</tr>
<tr>
<td>- More than 3 years</td>
<td>100% of unsecured and advances and 50% of secured advances</td>
</tr>
<tr>
<td>4 Loss Assets</td>
<td>100% of unsecured and advances and 100% of secured advances</td>
</tr>
</tbody>
</table>
2.3 Relevance of the Study

Academic

The concept of prudential norms in banking industry were introduced for the first time in the year 1991. Those were introduced on the recommendations of International Committee on Banking known as Basel Committee. Earlier to this introduction banks were using their own norms for provision which used to facilitate adjustments in their profits. The new concept of introduction of transparency in the functioning in banking was required to be academically studied and its impact on each bank was expected to be different. Therefore this researcher thought of conducting academic study of this introduction of prudential norms to PACS which are the grass root level credit dispensing outfits of the DCC Banks.

Policy aspects

The Reserve Bank of India is the central banking authority in India. This bank had taken a policy decision to implement the Basel Committee norms in the banking sector. Since it was a total change in the policy of classification of assets and provisioning which was to have a major impact on the bank’s financial soundness, it adopted a sound policy of introducing this concept in a phased manner. In the first place it was introduced for commercial banks, then in the second phase to the cooperative banks. Even within the norms for classification of assets as well as provision phased manner implementation was undertaken which proved to be a wise decision.

Research aspect

The introduction of concept of classification of assets and provisioning norms to PACS was right decision. However, it was necessary to introduce it after adequate training to the PACS staff. Usually the quality of the PACS staff (secretary) is relatively inferior to that of the commercial bank. The secretary is the only staff who has to run the society’s day to day affairs. Therefore, this researcher considered it appropriate to study as to how for the concept of NPA and Provisioning has been stabilized in the PACS, although it was introduced in 2009. Therefore the researcher found relevance of this research study and undertook it.

Performing and Non–Performing assets

The importance of Performing and Non Performing Assets is increasing day by day from the formation of Shri M. Narsimham Committee or Banking Sector reform in 1991. We can say that it is the second land mark in banking sector in India after nationalization of banks. After nationalization of banks, it has been given much attention on the lending policy of nationalized banks but not much
attention was given on the aspects of recovery of the advances of the nationalized banks by Reserve bank of India.

In April, 1992, it was decided to implement the Narshimham Committee’s recommendations on financial sector reforms in a phased manner over a three year period commencing from the accounting year 1992-93. Income Recognition Assets Classification (IRAC) and provisioning norms were introduced in our country with a view to reflecting a true picture of financials of Banks on the basis of their booking the income on actual basis than on accrual basis and also to classify assets according to the level of risks attached to them.

The Reserve Bank has issued directives from 31-03-1993 and presented a new concept of “Income Recognition”. This is done on the recommendations of Shri M. Narshimham Committee.

According to this classification, it is stated as to classify their credit facilities into two parts:

1. Performing Assets.

According to this classification, it is stated as to
(i) When the income must be said to recognize.
(ii) What provision for doubtful debts should be made, and
(iii) Full provision should be made for loss assets.

The Banks are required to classify their advances (Assets) into four broad categories:

1. Standard Assets
2. Sub standard Assets
3. Doubtful Assets, and
4. Loss Assets

A standard asset is one (i) which does not disclose any problems and (ii) which does not carry more than normal risk attached to the business. Such an asset is Performing Asset and not NPA. Sub standard, doubtful and loss Assets are individually and collectively known as Non – Performing Assets (NPA).

2.4 **Impact of NPAs on the banks/and Credit Societies**

The NPAs have blasting impact on the return on assets in the following ways:-

1. The capital adequate ratio is disturbed and cost of capital will go up.
2. The Economic Value Addition (EVA) by banks gets upset.
3. The current profits of banks are eroded.
4. The interest income of banks reduced due to non-receipt basis.
5. Banks profitability is affected adversely because of the provision of doubtful debts and consequent write off as bad debts.
6. Return on Investment (ROI) is reduced.
7. The assets and liability mismatch will widen.
8. It limits recycling of the funds.

This concept of nonperforming assets was aptly introduced by the Reserve Bank of India in a phased manner. In the first place it was introduced for the Public Sector Banks as well as Commercial Banks in 1991. Even in these banks the parameters for classification of the account into NPA were gradually tightened. Next was the turn of the Cooperative Banks. Here again every latitude to the banks for stabilization of the system. Finally it has been introduced in the Primary Agricultural Credit Societies since 2009. So the organizations under studied were the last to adopt the concept of NPA.

Now considerable time has been passed the system of classification of accounts under NPA has been stabilized. Now it is high time to analyze as to how far the system has been stabilized, what is the extent of NPAs in PACS, what are their causes and how those can be attended to bring those to bear minimum level or to zero level? This study has attempted to find out the grass root reality and wherever problems have come to surface, remedial measures have also been suggested. Thus it is in this context the research is significant.

3. **OBJECTIVES OF THE STUDY**

Keeping in mind the title of the research, the researcher has formulated the following objectives to be achieved through this research exercise:

a. To analyze the working of Primary Agricultural Cooperative Societies (PACS).
b. To evaluate the performance of Primary Agricultural Cooperative Societies with reference to current level of credit appraisal and post disbursement supervision over credit.
c. To study the causes of Non Performing Assets in Primary Agricultural Cooperative Societies.
d. To study the impact of NPAs on the financial performance of the PACS.
e. To identify possible solutions to overcome these.

3.1 **Justification for the Objectives**

As has been stated in the introduction PACS are the grass root arm of lending to the agriculture sector through cooperative system. The study of Non Performing Assets encompasses the whole gamut of banking as lending is the primary activity of any banking sector. PACS
is the extended arm of banking and hence it is essential to study the PACS on the lines of banking working systems. i.e. Pre-sanction appraisal of the credit proposals, post disbursement and supervision over credit are essential ingredients to study the Non Performing Assets. It has therefore been considered necessary to study the working of the PACS under study, the system and level of pre-sanction credit appraisal and the post disbursement supervision over credit needed to be studied in-depth. Hence the objectives (a) and (b) have been formulated. While studying the NPAs naturally it will throw light on the causes for classifying an account under NPA and while doing this it will also throw light on the possible solutions for avoiding NPAs. Therefore, the objective number (c) has been stated. As the NPAs record increase, naturally the society has to make adequate provisions out of its own income and naturally it has its adverse impact on the financial status of the society. And therefore to study this impact of NPA on the financial status of the society the last i.e. (d) objective has been incorporated.

In nutshell, the justification can well be given as follows:

- Implementation of the prudential norms for the PSCS has been of recent origin.
- The system is still to be stabilized in the PACS.
- Implementation of these norms, more specifically the classification of assets and the NPA norms has adversely affected the financial position of the PACS.
- PACS are required to take certain remedial measures in order to improve its financial soundness.

Keeping these vital points the objectives for this research have been stated.

As stated in the title of the thesis the one of the objectives is to study the impact of the NPA on the financial status of the PACS. Here the researcher has used the term Financial Status so as to include impact of NPAs on the growth of capital, reserves, advances portfolio, its profitability etc.

4. HYPOTHESES OF THE STUDY

On the basis of the initial study of the subject while preparing the Research Proposal the researcher has taken a bird’s eye view of the subject and in the process has formulated the following hypotheses:

H₁ The Primary Agricultural Cooperative Societies are being managed in a traditional way.
H₂ Due to rise in the Non Performing Assets of the PACS the societies are incurring losses which in turn adversely affects the overall financial status of the PACS”
H₃ The improvement in pre-sanction credit appraisal and post disbursement supervision over credit will improve the NPA position of these societies.

H₄ The traditional management of these societies needs to be reoriented to professional one.

The above statements of hypotheses made by the researcher are tested in this research.

4.1 Justification of the Hypotheses

The researcher has earlier conducted statutory audits of the various Primary Agricultural Cooperative Credit Societies functioning in Pune District. Therefore, he has adequate exposure to the functioning of these PACS. The researcher has observed that these societies are functioning in a traditional manner. Therefore the hypothesis number H₁ has been formulated.

It has been observed during the course the researchers visit to few societies that these societies are incurring losses due to mounting nonperforming assets. As per the Reserve Bank of India’s directives on NPAs interest on the NPA is not allowed to be taken to Profit and Loss account as an income. However, at the same time, the societies are under obligation to make provision for these non performing assets at prescribed rates from out of profit earned from performing assets. This is the reason as to why these societies are incurring losses. The researcher wanted to find out the causes of turning accounts into nonperforming assets, and hence this hypothesis H₂ has been formulated.

Needless to say that there is a dire need to improve upon the working of the societies in which the prime concern is in arresting the growth of the NPAs and for which there is need to take preventive action in the form of improving the pre-sanction appraisals of the loan proposals and at the same time improving the post disbursement supervision over credit. The societies are required to gear up their recovery machinery on war footing. Hence this hypothesis H₃ has formulated and the same has been tested through the primary data collected.

The researcher has through his experience as an auditor of various PACs has observed that there is a need to improve upon the current traditional management and to introduce professional management in managing the business of the society. Therefore, this last hypothesis H₄ has been formulated and this has been tested through this research.
5. RESEARCH METHODOLOGY

This research deals with “A study of Non Performing Assets and Its impact on Financial Status of Primary Agricultural Cooperative Societies, in Pune District”. The type of research adopted is exploratory, based on exhaustive analysis of primary and secondary data, though the main thrust is upon secondary data.

5.1 Significance of the study

The main focus of the study is to find out the performance of the Primary Agricultural Cooperative Societies on the Non Performing Assets and its impact on their financial status. Though concept of Non Performing Assets has been introduced in Indian Banking industry, it has been introduced in phases. Initially it was introduced in commercial banking, followed by cooperative banks. Now since 2009 the concept of nonperforming assets has been applied to Primary Agricultural Cooperative Societies. Even in all these banking organizations the concept of nonperforming assets was introduced in stages. Therefore the study aims at finding out how far the concept of nonperforming assets has been understood and is being implemented in PACS. What are the problems these PACS are facing in its implementation? What could the possible solutions to bring down the incidence of NPA and ultimately its impact on profitability and strengthening the cooperative movement.

Scope of the Study: Geographical Scope and selection of the sample area: The geographical scope of study is limited to Primary Agricultural Cooperative Societies functioning in Ten talukas of Pune District. There are 14 Talukas (including Pune City) in the Pune District.

5.2 Identification of Sample

The researcher has identified 2 Talukas from each of the sub-division detailed herein above. The talukas and the number of societies (Audit class wise) are shown in the following table.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Taluka Names</th>
<th>Total No. of Societies (Functional)</th>
<th>Audited Societies</th>
<th>Audit Class Awarded</th>
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<tr>
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<td>1</td>
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<td>Audited</td>
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<td>Pune Sub-Division</td>
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<td>Identified Societies</td>
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</tbody>
</table>

Source: Field survey data collected from District Deputy Registrar of Coop. Societies, Pune.

5.3 Operational Scope

Parameters decided for selection of the Talukas & Societies:
1. Two talukas from each sub Division. However, as Khed Sub Division has four talukas in it, the researcher has identified 3 talukas from this sub-division.
2. Since Pune sub-division has only one rural taluka i.e. Haveli, the researcher has identified only one taluka from this sub division.

3. In Maval sub division as there are only two talukas, both have been identified for this study.

4. The total audited PACS are 870.

5. The societies were selected on the basis of the audit class awarded as on 31.3.2013.

6. Initially the researcher had contemplated to cover 3 societies from each audit class category. However, during the field study it was observed that in some talukas particular audit class societies are not available and hence the number has changed. These changes have taken place in the following talukas:

7. In Ambegao Taluka only two societies were having Audit Class A. Therefore, both the societies have been covered and the deficit remained to be one.

8. In Haveli there was not a single society having Audit Class A. Therefore, no society from A category was taken up.

9. In Khed taluka there was only one society having audit class A. Therefore, there is a deficit of two societies in this class. So also in this taluka there was not a single society from C category audit class. Therefore, none of the society from this C class has been covered by this study.

10. In Maval taluka there was not a single society having Audit Class A. Therefore, there the deficit is of 3 societies.

11. In Mulashi taluka there were no societies having A and C audit class therefore 6 societies have not been covered by this study.

12. In Velhe taluka there was not a single society having audit class A. Therefore, three societies from this category remained in deficit.

13. Thus in all from Audit Class A = 15 societies and for C class = 6 societies are in deficit.

**For identification of the beneficiaries availing credit facilities from the society criteria applied is as under:**

- Ten respondents from each identified audit class A, B and C. Thus there will be 30 borrowers from each Society. Thus the total respondents would have been 900 borrowers. However, as there were only 69 societies available according to the criteria the total number of borrowers should have been 690. However in respect of certain categories of types of advances no borrowers were available and hence the number has been reduced to 573.
- While selecting these borrowers the researcher has also paid attention to the type of credit facility availed i.e. Short term, medium term loan.
• While selecting borrowers from medium term loans care has been taken to identify the various sub sectors of agriculture i.e. irrigation / farm mechanization / activities allied to agriculture i.e. dairy, poultry, horticulture etc. This will take care of the cross section of the overall agriculture financing by the PAC.

While selecting the type of borrowers the following parameter was used:

Three borrowers were selected from Short term loans and 7 from medium term loans. Even in Medium Term loans care was taken to select borrowers from different purposes i.e. dairy, irrigation, farm mechanization etc. Thus the category wise total borrowers identified were as under:

- Short Term Loans: 187
- Medium Term Loans: 386

5.4 Temporal Scope

For detailed study, 6 years period from 2007-08 to 2012-13 is selected. The Indian Banking sector witnessed introduction of banking sector reforms. Various prudential norms were introduced to Indian Banking. In the beginning in 1991 onwards these norms were made applicable to the Commercial Banking and gradually these norms were introduced to cooperative banks from 1996-97 in a phased manner. Thus these cooperative banks and in turn the PACS have also been brought in the main stream from 2009. For the purpose of calculating growth rates, data of 2007-08 is used as base year.

5.5 Sources of Data

5.5.1 Primary Data

Researcher has used the data sources, primary as well as secondary, though the main thrust is placed on secondary data relating to financial performance and problems of PACS in the identified sample area i.e. ten talukas of Pune District. The researcher has also obtained primary data from the identified PACS, their secretary / directors, Pune Dist. Central Coop. Bank’s managers, agricultural borrowers from PACS.

5.5.2 Secondary Data

It was obtained from annual reports of the 69 PACS from the 10 talukas for 6 years i.e., from 2007-08 to 2012-2013. The period-wise performance in respect of NPA growth by using the performance parameter is studied. At the same time, information was collected from various published literature, reports of the Committees appointed by Reserve Bank of India,
Government of India, Government of Maharashtra and Maharashtra State Co-operative Banks and various reference books, research journals and periodicals available in the following libraries and research centers.

The researcher has visited various libraries and research centers to collect the secondary data viz. Gokhale Institute of Politics and Economics, Pune, SVPM’s College of Commerce, Science and Computer Education, Malgaon (Bk), Jaikar Library, Pune, office of the Commissioner for Cooperation & Registrar of Cooperative Societies, Pune, Reserve Bank of India’s College of Agricultural Banking – Pune, District Statistical Office, Pune.

5.5.3 Questionnaire and Interview Schedules

Entire primary data was collected through interview schedules and through structured questionnaires. Researcher has prepared a detailed and comprehensive questionnaire and interview schedules of different types to collect primary data.

I. Questionnaire for Secretary / Board of Directors of PACS
II. Questionnaire for borrowers of PACS

The questionnaires and interview schedule were prepared in Marathi language. Copies of the questionnaires and interview schedules duly translated into English are given at the end of the thesis in Annexure.

The primary data will collected with the help of structured questionnaire getting fill up from PACS’s Secretaries and default Borrowers of identified PACS in Pune district of Maharashtra.

5.6 Statistical Techniques

The researcher has used simple statistical techniques to analyze the data collected for the purpose of the study. The following statistical tools have been used:-

- Percentages
- Diagrams and Graphs
- Descriptive Statistics – Mean, Standard Deviation
- Chi-square Test
- Karl Pearson Correlation Coefficient

6. LIMITATIONS OF STUDY

Following are the limitations of this study
1) The study is limited for the period of 2007-08 to 2012-13.
2) Present study is restricted only to Primary Agricultural Credit Societies in Ten Talukas of Pune District.
3) This study is limited mainly to Non Performing Assets and its impact on the financial standing of the PACS.
4) The general limitations applicable to the sample survey method are also applicable to present research work.

On account of above limitations, researcher feels that the findings of this work relating to PACS in Ten Talukas of Pune Districts may or may not be generalized. However, researcher has kept himself away from bias with a view to make analysis subjective.

7. CHAPTER SCHEME

Chapter I – Research Methodology: This chapter deals with significance of the study, research problem, objectives of the study, hypotheses, research universe, sample selection, sample size, primary and secondary sources of data, statistical tools used for analyzing the data, analysis and interpretation of primary data collected, scope of the study, limitations of the study and finally chapter scheme adopted for presenting this research.

Chapter II – Review of Literature: In this chapter the researcher has reviewed previous research in this area, reports of committees, books, journals and periodicals, new paper reports etc.

Chapter III – Concepts in Banking: This chapter covers the introduction to the research subject, historical perspective of banking industry in India, evolution of cooperative movement, establishment of District Central Cooperative Banks, Growth of DCCBs, formation of Primary Agricultural Coop. Societies, introduction to the functioning of PACS, Importance of PACS, introduction to the concept of Non Performing Assets, National level statistics relating to NPAs in banking sectors of all types, NPA of DCCB, etc.

Chapter IV – Profile of Pune District: In order to understand this thesis in right perspective it is considered necessary to present a brief profile of the study area. It will facilitate easy understanding of the observations and suggestions, these profiles have been incorporated in this chapter.

Chapter V- Analysis and Interpretation of the Data: The primary data collected has been analyzed using various statistical tools and has been presented in this chapter. Comments on each of the item presented have also been incorporated in this chapter.
Chapter VI – Conclusion, Suggestions/Recommendations, and Validation of the Hypotheses: In this chapter the researcher has recorded his observations/conclusions on the analyzed data and has also offered suggestions/recommendations wherever possible. The researcher has also presented substantiation/validation of the hypotheses formulated, and has also incorporated scope for further research and conclusion.

8. CONCLUSIONS

8.1 Analysis of Primary Data – Secretary Level

1. **Education:** It is observed that, 31% of the secretaries have studied upto SSC level, while 17% have passed twelfth standard, 30% have completed graduation and the rest 22% are post graduates.

2. **Training:** It is revealed that only 45% of the secretary receives training every year and the rest of the 55% of the secretary reported that they have not received training every year. Although the difference in the quality of working cannot be quantified, but during the course of the interaction with the trained secretaries the researcher could feel the difference in their approach. This leads to conclude that if the secretary’s knowledge is updated through formal training it will be helpful to them for efficient running of the society.

3. **Operational command:** The data reveals that 46 secretaries i.e. 66.7% of the total number of secretaries have command area of more than one society. There is an upper limit of 3 societies per secretary, however, it was revealed during the study that majority of the secretaries are having in their command 2 societies. This situation has given rise to a de novo thinking about the overall quantum of work to be attended to by the secretary and the parameters to be set out for judging the performance of the secretary for which an appropriate suggestions has been given in the subsequent chapter.

4. **Staff support to the secretary:** The data reveals that in respect of 37 societies there is no additional staff support available to the secretary and at the rest of 64% societies the additional staff support is available. Since the concerned society has to bear the cost of additional support the management takes up this decision keeping in view the overall profitability of the society as well as the genuine need for it.

5. **Management’s interference in the working of the society:** It is worthwhile to observe that almost 50% of the secretaries have responded positively in favour of the management’s interference
in the day to day work of the secretary which is not a good sign. These secretaries are giving their free and frank response deserved to be complemented. Therefore, the researcher is of the view that there is need for improvement on this score, so that the secretary will have freedom to work according to his judgment and protecting the interest of the society.

6. **Owning property by the society:** It was a good sign to see that 66.7% of the societies under study have their own properties wherein their office is also working. Only 33.3% societies because of their size of operation as well as their own funds position they cannot have their own building. It was further observed that societies which are having audit class A have their own building and in respect of societies having B category out of 30 societies 24 societies have their own building while 6 societies do not have their own building. Societies in C category are 24 of which 7 societies are having their own building while the rest are in rented buildings. Obviously this is because of the own funds constraints. Here it is necessary to understand that those 7 C class societies who are having their own buildings were initially having audit classification of A and subsequently their working was adversely affected and hence the audit class has been changed.

7. **Computerization of accounting system:** It can be seen from the data that the number of societies which have switched over to the computer system of accounting is sizably more i.e. out of 69 societies 44 societies have adopted computer system of accounting. Computerization involves costs and requires skilled manpower. The societies which have so far not switched over to computer accounting will in course of time are planning to do it. It has been further observed that the societies having secured audit class A have all switched over to computer accounting system and are reaping the benefits of it. Societies in audit class B are by and large switched over to computer accounting and those who have not done it so far are in process of switching over it. It was but natural that societies which have audit class C are currently using manual accounting system and the reason is obvious lack of funds.

8. **Adequacy of the financial support from PDCC Bank for loaning:** By and large it was reported by the societies in audit class A category that they get full support from the PDCC Bank. Societies in B class and C class receive the support according to their recovery performance. This is evident from the following data.

9. **Availability of State Govt. support to PACS:** It is seen from the data that there are about 55 % societies reported that such
a support is available to the weak societies. Some of the societies whose financial standing is improving they are also repaying the State Govt. Funds in phases.

10. **Availability of the forward recovery linkage for recovery of society loans for other than sugarcane crop:** During the field visit it was observed that in Ambegaon and Khed talukas apart from sugarcane crop forward recovery linkage is available for potato crop which is being supplied to the potato food processing units. Similar such support can be obtained from the Dairy Societies operating in the talukas. Such dairy societies can send their milk supplied proceeds to the PACCS financing for dairy activity of the member and the financing society can recover its installment from out of it and the balance funds can be made available to the borrower member. This will ensure easy and timely recovery without much of efforts.

11. **Post disbursement supervision on borrowing accounts:** It has been observed with great concern that in the PACCS financing of agricultural operations / activities neither there is provision for neither pre-sanction credit appraisal nor effective post disbursement supervision over credit. In fact this is the very basic care the financing institution should take to ensure end use of funds which will have positive effect on the recovery of the funds lent. This system is very much lacking in almost all the PACCS and not only in this district but also in all the districts which information has been surfaced through review of literature. Therefore, the researcher is also of the view that for this lack of post disbursement the financial institution can well be responsible and blamed for overdue position.

12. **Scope for further extending the concept of ‘0’ % loan:** It can be observed from the data that in addition to the Central / State Govt. and the PDCC Bank, the societies may from out of their profits may come out with a scheme which may share the part of interest of the large size borrowers say upto ₹ 5.00 lakhs. This will increase the borrowers and may strengthen the profit kitty of the PACCS. This will also strengthen the society by appropriately attracting big borrowers to their fold which are knocking the doors of the other nationalized banks.

13. **High NPAs affect the overall financial health and profitability of the society:** Needless to say that there is 100% agreement by the secretaries of the identified societies. As per accounting principles and guidelines by NABARD, society has to make provision for NPA from the income of the society.

14. **Review of the list of defaulters’ accounts:** It is observed with concern that in 80% of the societies there is no system of...
reviewing the defaulter’s accounts at monthly meeting. This account wise review provides direction to the efforts by the society official in the matter of recovery and hence it is essential.

8.2 Analysis of Primary Data – Borrower Level

1. Education: It is observed that the selected borrower’s education that, most of the borrower’s education of selected sample i.e. 22% is Graduate, 21% are SSC pass-out, 20% are Post-graduate and 18% are HSC pass-out. Out of the sample around 19% borrowers are illiterate.

2. Number of family members: The researcher observed that, 20% borrowers have 6 dependent family members, 17% borrowers have 4 & 5 dependent family members, 16% borrowers have 3 dependent family members and 15% borrowers have 7 & 8 dependent family members.

3. Type of land holding: It is observed that borrowers’ land holding type (irrigated/dry land) researcher observed that, most of the land of selected borrowers i.e. 55% are having irrigated land and only 45% borrowers having non-irrigated land holding.

4. Activity complementary to agriculture pursued by the borrower: The data reveals that almost 50% of the respondents are not pursuing any economic activity to supplement their agricultural income. These are certainly opened to risks. If there is a failure of monsoon then it will become very difficult for them to meet out their livelihood. The activities allied to agriculture classified are of more or less equal in percentage terms and does not warrant any special comment about it.

5. Purpose wise borrowing by the members: The data and the pie chart reveals that there is a fair amount of distribution of the purposes for which the loans are raised. Crop loan appears to be prominent accounting for 33% followed by irrigation purpose at 29%. Rest are ranging between 21 and 17.5 %.

6. Other than society borrowing by the members: It is observed that almost 84% of the society borrowers have resorted to outside borrowing from different sources. 54% of the members have borrowed from organized sector while 12% have borrowed from the money lenders.

7. Guidance from the Society Directors & the Secretary for repayment of society loan: The data and the chart reveals that almost 50% of the society directors and the secretary do not provide guidance or create awareness amongst the borrowing members in repayment of the society loans. This is a sad state
affair. When the directors take initiative in sanctioning the loans it is expected that they also come forward in helping the society in recovery aspect. If the directors and the secretary extend guidance at least to the defaulting members there are chances of better picture of recovery which is ultimately reflect on the society’s performance.

8. **Pre sanction visit as well as the post disbursement visit of the bank officer to the borrowers field:** It has been observed that in respect of 83% cases there is no pre-sanction field visit which provides an opportunity to the bank official to confirm the genuineness of the needs of the borrowers. This is a serious matter and the DCC Bank should give a thought to this situation. Even at the cost of providing additional staff for this purpose or for outsourcing of the requisite personnel this vital aspect should be strictly followed. This will unearth ill intentions of the borrowers which will have its impact on the recovery of the society and in turn of the bank.

The present state indicates that there is over trust on the borrower’s honesty and integrity which may not be the real situation. The very absence of such visits helps the borrowers to misuse the borrowed funds for other than productive purposes which ultimately puts the society funds in jeopardy.

9. **Impact of society borrowing on member’s earning and life style:** 72% of the respondents expressed positive impact of the society financial assistance in increasing their agri. income as well as life style. Hardly 29% of the respondents expressed in negative manner. Perhaps those who stated in negative manner might not have rightly understood the question and hence such a response. If the society’s assistance is properly utilized in the normal course there should be no such observation.

10. **Rationale for borrowing from other sources:** It is surprising that everybody has raised loan from other than the society. However, those who state that they raised loan from other source because of the delay by PACC in sanctioning the loan usually temporarily borrow from friends and relatives and repay it when the society loan is sanctioned. Therefore, there is no mismatching of the data on this count. Family problems are the major reason accorded.

8.3 **Analysis of Secondary Data – Society Level**

1. **Societies under audit class ‘A’:** The above analysis reveals that the correlation of NPAs to Outstanding shows 0.110 which is low degree positive. Similarly CRAR has also almost low degree positive impact. Loan capacity is also impacted with low
degree positive correlation i.e. 0.182. Anisht Tafavat (difference between Society’s payments due to DCC bank and amounts receivable from the members) is having negative low degree correlation at – 0.098. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.010. NPA’s impact on the quantum of working funds also shows low degree positive correlation at 0.065.

2. **Societies under audit class ‘B’:** The above analysis reveals that the correlation of NPAs to Outstanding shows -0.130 which is low degree negative. Similarly CRAR has also almost low degree negative impact. Loan capacity is also impacted with low degree negative correlation i.e. - 0.097. Anisht Tafavat (difference between Society’s payments due to DCC bank and amounts receivable from the members) is having positive low degree correlation at – 0.013. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.130. NPA’s impact on the quantum of working funds also shows low degree positive correlation at 0.015.

3. **Societies under audit class ‘C’:** The above analysis reveals that the correlation of NPAs to Outstanding shows -0.065 which is low degree negative. Similarly CRAR has also almost low degree positive impact. Loan capacity is also impacted with low degree negative correlation i.e. - 0.257. Anisht Tafavat (difference between Society’s payments due to DCC bank and amounts receivable from the members) is having negative low degree correlation at + 0.170. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.185. NPA’s impact on the quantum of working funds also shows low degree positive correlation at - 0.209.

4. **Societies under audit class ‘D’:** The above analysis reveals that the correlation of NPAs to Outstanding shows + 0.483 which is low degree positive. Similarly CRAR has also almost moderate negative impact at – 0.502. Loan capacity is also impacted with moderate negative correlation i.e. - 0.648. Anisht Tafavat (difference between Society’s payments due to DCC bank and amounts receivable from the members) is having negative moderate degree correlation at + 0.660. Percentage of profit/loss with working funds is also showing negative low degree correlation at – 0.290. NPA’s impact on the quantum of working funds also shows moderate negative correlation at - 0.645.
5. **Consolidate Position of All societies according to Audit Class:**

1. It can be seen that the percentage of NPA to total outstanding goes on increasing as per the class of the society decreases.
2. Percentage of NPA accounts to the total loan accounts also shows increasing trend as per the class of society decreases.
3. Percentage of defaulters to total members also shows the same trend.
4. Percentage of overdue to total outstanding shows increasing trend.
5. Percentage of recovery through legal course varies. In the case of societies having A class the percentage is more as they have to resort to legal course to ensure their audit classification into A category and they are otherwise also prompt in recovery. In case of B and C category these societies are relatively lax and in case of D class societies for their very existence they have to concentrate on the recovery through legal means.
6. Bank level recovery performance also commensurate with the audit class i.e. decreasing as the audit class is reduced.
7. Same is the observation as per 6 relating to percentage of profit to working funds.
8. Percentage of investment with DCC Bank commensurate with the class of the society i.e. descending order from A to D.

8.4 **Revelation from the Identified Borrower’s Account**

It can be seen that the reason for not repaying the loans is the expectation of loan waiver by the Govt. which is a serious concern. Unless the Govt. takes a firm stand that there will be no loan waiver the recovery climate will not improve. The second in rank is the natural calamity on which no human being has a control, however in such cases the NABARD authorizes the PDCC and the PACCs to convert these loans into medium/long term loans and re-phase their repayment. Unless and until this culture is brought in the problem of overdue in agriculture sector will not be resolved permanently.

Diversification of the borrowed funds as well as very casual approach in repayment can also be curbed with proper steps at both pre-sanction and post disbursement level. The reason for borrowing from money lenders can well be addressed if the appraisal and sanction go hand in hand.

Unawareness of impact cannot be justified by any means.
9. TESTING OF HYPOTHESES

All the hypotheses mentioned earlier have been tested using statistical tools and have been fully substantiated. Below is the summary of the hypotheses tested.

**Summary of Hypotheses framed for Statistical Testing**

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Statistical Hypothesis</th>
<th>Accept / Reject</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Performance of societies is not significantly related with Loan policies adopted by PDCC Bank.</td>
<td>Rejected the null hypothesis $H_0$ and accept the alternative hypothesis</td>
<td>The Performance of societies is significantly related with Loan policies adopted by PDCC Bank. (as given in the Table No.5.21)</td>
</tr>
<tr>
<td>2</td>
<td>There is no significant relationship between the various causes for turning the account as NPA.</td>
<td>Rejected the null hypothesis $H_0$ and accept the alternative hypothesis</td>
<td>There is significant relationship between the various causes (as given in the Table No.5.24) for turning the account as NPA.</td>
</tr>
<tr>
<td>3</td>
<td>There is no significant relationship between repayment and turning the account as NPA with private borrowing by members of the society.</td>
<td>Rejected the null hypothesis $H_0$ and accept the alternative hypothesis</td>
<td>There is significant relationship between repayment and turning the account as NPA with private borrowing by members of the society. (as given in the Table No.5.27)</td>
</tr>
<tr>
<td>4</td>
<td>There is no significant relation between Society’s Efficiency and several measures that are incorporated in the question.</td>
<td>Rejected the null hypothesis $H_0$ and accept the alternative hypothesis</td>
<td>There is significant relation between Society’s Efficiency and several measures that are incorporated in the Table No. 5.30</td>
</tr>
<tr>
<td>5</td>
<td>There is no significant relationship between society’s development and issues of various internal and external factors detailed in the question.</td>
<td>Rejected the null hypothesis $H_0$ and accept the alternative hypothesis</td>
<td>There is significant relationship between society’s development and issues of various internal and external factors detailed in the Table No. 5.33</td>
</tr>
<tr>
<td>Sr.</td>
<td>Statistical Hypothesis</td>
<td>Accept / Reject</td>
<td>Remark</td>
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<tr>
<td>6</td>
<td>There is no significant relationship between Improvement in Society's Performance and several views expressed by the secretary.</td>
<td>Rejected the null hypothesis $H_0$ and <strong>accept</strong> the alternative hypothesis.</td>
<td>There is significant relationship between Improvement in Society's Performance and several views expressed by the secretary. (as given in the Table No.5.36)</td>
</tr>
<tr>
<td>7</td>
<td>There is no significant relationship between performance about credit appraisal and difficulties to borrow loan from PACS.</td>
<td>Rejected the null hypothesis $H_0$ and <strong>accept</strong> the alternative hypothesis.</td>
<td>There is significant relationship between performance about credit appraisal and difficulties to borrow loan from PACS. (as given in the Table No.5.51)</td>
</tr>
<tr>
<td>8</td>
<td>There is no significant relationship between NPA and the several causes stated in the question</td>
<td>Rejected the null hypothesis $H_0$ and <strong>accept</strong> the alternative hypothesis.</td>
<td>There is significant relationship between NPA and the several causes stated in the Table No. 5.54</td>
</tr>
</tbody>
</table>

**10. SOME VITAL OBSERVATIONS SURFACED DURING INTERACTION WITH THE PACS’S SECRETARIES**

i. Appropriation of the recovery by DCC Bank: At the DCC Bank level the aggregate recoveries are credited by the PACS in their current account. The finance extended by the DCC Bank is of two types (short term, medium term) for which two different rates of interest are applicable. In PDCC bank short term loan upto certain limits is at 0% and the medium term loans are at higher rates. Here the DCC Bank appropriates the amount deposited by the medium term borrowers of the PACS to the short term loan account of the PACS as it carries 0% or low rate of interest. This appropriation costs adversely the PACS as the recovery in the higher rate of interest loans is being adjusted to the low rate of interest thereby interest burden of the society increases. Therefore the suggestion that emerges that the DCC Bank should appropriate the recoveries on the basis of the origin of the account which will reflect the correct position and will not affect the PACS’s financial position as such.

ii. **Method of charging interest accounting as on the 31st March every year.** The PACS are not allowed to charge interest on the short term loan to the respective borrowers who repay
their loans before the scheduled date usually i.e. 31st March. However, the BANK puts its subsidy claim (received from the PACS) to the authorities for getting the interest subsidy which usually takes 3 to 4 months and till then charges interest to the PACS. In the process it cuts the PACS profitability. The only remedy to give justice to the PACS is to allow them to charge interest on such accounts till the subsidy is received by the PACS. This when implemented will present true picture of the PACS profitability.

iii. **Accounting Procedural Problem:** In case some societies the societies outstanding with the bank is higher than the recovery made by the PACS. In such cases the DCC Bank rightly puts certain restrictions such as Not to grant medium term loans as well as on the eligibility of society to raise loan from the DCC Bank. However, this situation leads to increasing the overdue portion of the society as the members who have the capacity to repay withhold the repayment as they are afraid that their loan requirement will not be met by the PACS as the lonable funds are reduced by DCC bank. As a result the overdue position increases. This is a very tricky situation and calls for a dialogue between the society and the DCC Bank and at higher level some remedy will have to be found out.

iv. **Recovery of overdue interest:** As per the legal provision the banks are not allowed to charge interest more than the principle amount. But in reality as the DCC Bank recovers interest from the consolidated account of the PACS but the PACS are not allowed to account for the interest over the principle amount as a result it cuts the PACS. It is suggested in such situation the DCC should not charge interest to the PACS which is illogical. This is a very vital concern and needs to be debated at the State Level Coop. Bank i.e. apex level bank and some positive solution be worked out.

### 11. **SUGGESTIONS: FOR THE PACS & THE PDCC BANK**

1. The PACS/DCC bank to which the PACS is linked should have adequate staff to undertake pre-sanction as well as post disbursement follow up of the account so as to ensure end use of funds. This is a very vital requirement and if there is a diversification of funds, one can immediately come to know about it and may provide an opportunity to the PACS to take corrective action so as to avoid account getting into NPA trap. At the moment the work is expected to be attended to by the Inspector of the DCC Bank to whom the society has been attached. The same inspector has another 8 to 10 societies allotted to him. Each society has on an average 600 plus agricultural loan accounts and it is practically not possible to
undertake such visits. For this purpose DCC Bank should have adequate staff to undertake effective post disbursement follow up and supervision over advances. In the current situation only the loaning function is attended and the post disbursements follow up and supervision is totally lacking. This is certainly because of the non availability of the adequate man power.

2. While suggesting this the researcher is fully aware of the fact that additional staff will entail costs but then if one compares these costs with the provisioning for NPAs as well as write offs by the PACS/ DCC Bank the additional staff cost will be much less. Not only that but it will be a positive expenditure as it will create healthy credit administration atmosphere and the incidence of NPAs would be reduced and at the same time the addition to the human resources would mean provision for the increased jobs in the rural areas.

3. One more point the researcher would like to mention is that, it has been observed that the local staff find it difficult to pressurize the local borrowers for the recovery. Hence, the strategy should be that the recovery job may be assigned for an employee who does not belong to the place of his work.

4. Usually the academic background of the secretaries of the PACS is not so high. Their level of understanding is also low which has been revealed from the fact that there are number of PACS where the concept of NPAs has not been followed in right perspective. Therefore, the need of the hour is to create awareness about the NPAs at the grass root level. So also there should be training programs for the directors of the PACS.

5. The present loan application form should be modified and may be made comprehensive so as to ensure that all the relevant information about the prospective borrower’s credentials and credit character can be traced back, which may facilitate the decision making.

6. At present there is no pre-sanction credit appraisal of the loan proposal from the member. The proposal received should be subjected to thorough scrutiny. Thrust should be on the credit character of the prospective borrower. During the assessment of the credit proposal the repayment capacity of the borrower should be scientifically assessed. Data of his previous year’s agricultural income should be scrutinized. His cultivation practices as well as the income from the activity allied to agriculture may be also ascertained. Information about the other sources of income should also be obtained which will help for recovery in times of difficulty. Details of his liquid assets such as LIC Policy, investment in NSC, Kisan Vikas Patra, bank deposit etc. should be obtained and kept on record. This is very vital when the account becomes NPA.

7. There should be pre-sanction visit to the borrower's fields and it should be ensured that whether he has undertaken land preparation for the proposed cropping. Particularly the area
stated in the application for each crop should be carefully seen. This is because in number of cases it was observed that for raising loan amount higher area under cash crop is shown while in actual case the area is reduced and the funds are diverted for unproductive purposes which ultimately adversely affect the repayment of the loan.

8. The PACS should consider the prospective borrower member in totality and not in isolation restricting only to the agricultural holding. His other economic activities if any are also required to be brought on record. These can prove to be useful when the account starts showing signs of sickness and to avoid its classification as Non Performing Asset, this data would be useful to find a way out.

9. So also during the presentation scrutiny, his existing borrowal accounts if any with other financial institutions should also be looked into. The status of such borrowal accounts need to be inquired into.

10. In order to contain the transaction cost which is a goal to be achieved by every bank to maintain its profitability of the organization, the PACS and the DCC Bank may carry out ABC analysis and concentrate the post disbursement supervision and follow up more vigorously in respect of B and C category of borrowers where close supervision is necessary based on the previous experience. E.g. In case of dairy accounts where regular monthly installment is being received either directly or through a forward recovery linkage established, then the security verification of such account may be deferred and only in case of accounts where the installment has not been received prompt inspection of the security be carried out.

11. There should be a proper training to the Board of Directors which should include management aspect in handling the affairs of the PACS. Currently in number of cases it has been observed that many of them are ignorant about the NPAs as well as the steps to be taken for the recovery of NPAs. DCC bank should periodically conduct meetings of these directors and motivate them for improving the recovery performance.

12. The scale of finance (per unit) as decided by the Agriculture loan policy of the DCC Bank should also have relevance with the crop production of the borrower. There are number of agriculturists who cultivate agricultural lands extensively and with modern techniques using higher inputs and takes out increased production than assumed in the Agriculture Credit Policy. For such accounts where there is a good track record, the scale of finance should be suitably increased to cover the investment required. This deviation may provide an incentive to increase production of the crop.

13. In the wake of expansion regime of credit although the asset quality of banking system has improved considerably, banks need to safeguard against any deterioration of credit quality.
Banks need to have a comprehensive system in which the process of risk monitoring is combined with proper risk assessment.

14. Prevention is better than cure. It has been observed that there is unprecedented rise in fresh accretion NPAs, in some PACS. Prearrangements must be made to contain the fresh accretion. The surest way of containing NPAs is to prevent their occurrences. The tenets of this prevention policy lies on:
   - Proper risk management system.
   - Sound pre-sanction credit appraisal.
   - Strong and effective credit monitoring.
   - Open and co-operative working relations between PACS and borrowers.

15. Internal governing factors at PACS are, possibly responsible for current level of NPAs. The onus, therefore, rests with the PACS themselves. The organizational structuring. Improvement in managerial efficiency, up-gradation of skills for proper assessment of credit worthiness and a change in the PACS attitude towards legal action need to be called for.

16. Supervision and follow up are two sides of the same coin. The regular monitoring makes the borrowers not to divest the funds for purposes other than the purpose for which the loan is sanctioned. Funds should not be sanctioned and released suddenly or immediately rather it required to be done step by step. A personal enquiry may be conducted over the borrowers whose accounts become NPA.

17. Repayment ethics should be inculcated in the minds of the borrowers by optional utilization of various media i.e television, video films. All India radio and press. The incentives could be offered to the regular payers by financing again or providing bonus or disincentives for the willful defaulters in the form of public crime action or adverse publicity in the news papers.

18. The credit management implies an ethical responsibility on the part of the lenders to the borrowers to secure their genuine and bonafide interests. Lenders are thus liable to the borrowers to practice clear and transparent policies, to extent need-based finance, to convey timely sanction and further to effect in-time disbursements. Recovery should be based on pragmatically calculated anticipated cash flows of the borrower concerned, while recovery of installments of term loans should be exclusively out of profits and surplus generated and not through recourse to the corpus of working capital of the borrowing concerns.

19. In order to establish an atmosphere conducive for sound recovery, to motivate the borrowers, the PACS and DCCB should felicitate those borrowers who are regular in repayment of the loans availed.
20. The data analysis on the Training input for the secretaries has revealed that 55% of the secretaries have not been trained every year. Needless to say that this reflects on the working of the society. Therefore, it is suggested that the DCC Bank and the Cooperative Department, should conduct training programmes for the secretaries and ensure that each and every secretary has an opportunity to attend a training programme which will provide them an opportunity to sort out their operational difficulties and at the same time they will come to know the latest development in the approach in managing the societies as well.

21. As far as command area of the secretary the finding suggests that majority of the secretaries are working for 2 societies. The researcher is of the view that there should be a periodical review of the adequacy of the services of the secretary on the basis of the development of the society. This review needs to be taken by the District Secretarial Cadre as well as by the management of the respective society. Currently such a review is taken only when the society secretary puts up his demand.

22. During the course of interaction with the secretaries it was observed that at the moment there are no standard norms prescribed for creation of a new position of a secretary. The researcher is of the view that there is a need to standardize the work load of a secretary keeping all the aspects of running the society efficiently. Therefore, it is suggested that the cooperative department, DCC Bank and the Management of the Societies should have a thorough discussion on this issue and arrive at a bench mark for the secretary’s working. This will be helpful to the management of the society in assessing the performance of the secretary.

23. During the course of the visit to the societies it was observed that there are no specific norms for providing additional support to the secretary. In fact the management should assess the working of the society not only from the quantitative aspect but also the quality aspects should also be borne in mind which deciding on this point. So far as the Secretary’s role is concerned he has to attend to multi faceted functions. In order to do justice to the functioning of the society if the quality and quantity norms for additional staff support are worked out by the management and the secretary and mutually some consensus is arrived it will improve the performance of the society.

24. As regards the management’s interference in the day to day working of the society it has been observed that in almost 50% of the societies there is interference by the management. This situation needs to be dealt with concern. During the training programmes conducted by the DCC Bank and the Coop. Department for the Directors of the PACS, they should enlighten the board members of their duties and specifically to see that
they do not involve themselves in the day to day working of the society.

25. During the course of field visit it was observed that in case of some societies they have large building and have surplus space available either for letting out for commercial purposes or for using the same for social purposes like housing free library/study hall for the needy students. Therefore, it is suggested that the societies should make optimum use of the available space for improving their earning capacity else may shoulder social responsibility by providing the additional space for some good social cause.

26. Keeping in view the benefits available from the computerization of accounting and the availability of MIS facility it is suggested that in respect of the societies in B and C category which have still not switched over to computerized accounting, the PDCC Bank may prevail upon them and ensure that they also fall in line with the other societies in switching on to computerized accounting. If need be the PDCC Bank / NABARD may provide soft loan to these needy societies specifically for this purpose so that their earning will be strengthened by reducing the staff cost.

27. So far as the State Govt. support to strengthening the own funds it is suggested that the government should have a machinery to periodically review the financial standing of the PACC assisted by the Govt. and ensure that the societies whose financial standing has improved repay the Govt. support so as to enable the State Govt. to recycle the scare funds for other needy societies.

28. It was observed that in respect of dairy loans by the DCC Bank or by the PACC the Dairy societies are not remitting the milk proceeds to the financing agency. The proceeds are disbursed to the milk supplier member. If the Dairy societies provide forward recovery linkage to the financing agency the recovery will be smoother and will have positive impact on the NPA position of the society. The government should also come forward to offer forward recovery linkage for the other than cash crops through Market committee organization/Specifically organized marketing societies like grape growers societies etc.

29. Post disbursement supervision of the borrowal accounts is a totally neglected area in all the PACCs. There is no machinery to take up this responsibility. The concerned DCC Bank branch has posted loan officers at the branch, but then the quantum of work they have to attend to do not permit them to carry out this task at the desired level. One inspector has been assigned number of societies and the spread is more and physically it is not possible for him to carry out his duties efficiently. The researcher is therefore of the considered view that instead of waiving or writing off the loans if the societies/DCC Bank invest in strengthening the post disbursement supervision the recovery
position will substantially improve. DCC Bank should consider this with all seriousness and instead of making provisions for NPAs this will be a positive step which will improve the recovery climate and ultimately will help the agriculturists to come out of the debt trap.

30. In regard to the facility of ‘0’ % interest for short term loans upto ₹ 3.00 lakhs subject to their repayment within the prescribed period, the healthy societies may come out with a proposal to extend this facility to the short term borrowers upto ₹ 5.00 lakhs meeting the interest portion from their own profit. This will help their big borrowers to continue with the PACC instead of shifting to the other banks which also cuts the PACC so far interest earning is concerned. This is a new concept and societies which are financially sound may take lead and set an example for the others.

31. It was with great concern observed that there is no system of reviewing the defaulters accounts at the monthly meeting of the board of directors of the PACCs. This is a very vital issue and the DCC Bank as well as the Coop. Dept. should insist on each society to commence this practice and that this should form the part of the minutes also. Usually this is also pointed out by the society auditors but it is not being taken seriously.

32. On a question as to the guidance from the society directors and the secretary the data revealed that in almost 50% of the cases the borrowers have expressed that they do not get any sort of guidance from these officials. In order to develop the society it is expected that the directors who are taking interest in sanctioning the loan but they should also help the secretary in recovery of the overdue portion from the members. It is suggested that there should be some score in assessing the performance of the society from awarding the audit class.

33. On the whole it has been observed that there is no enough interaction between the borrower and society/bank official about the utilization of the loan and the repayment capacity. This is because the normal channels available for the society/bank inspectors are not being tapped. These include pre sanction and post disbursement supervision of the funds lent. So also the directors should also utilize their valuable time to interact at least with the defaulting borrowers and find out via media for repayment of the society loans using other available resources. This researcher is of the considered view that in order to project the proper picture of the agriculturists’ position greater contribution from the society/bank official is necessary which is currently missing very badly.

34. It has been observed that there is need to step up the legal recovery efforts in B and C class societies. Their performance on this score appear to be poor. In fact in all the societies there should be a system of taking monthly review of the outstanding legal cases wherein the advocates should also be requested to
be present. This meaningful dialogue will help in expediting the recovery.

12. SCOPE FOR FURTHER RESEARCH

Banking and finance field is not a static field but a dynamic one. Everyday there are changes in the style of functioning, and approaches. Therefore, as the business environment changes, naturally it has its impact on the functioning of the PACS. It may be in the field of NPA, Composition of Deposits; Style of extending credit etc. newer dimensions will have its impact on the overall performance of the PACS/DCCB. Therefore, so far as the scope for further research studies is concerned there is ample scope. One may take a specific variable and undertake research to study its impact on the overall performance of the PACS.

Also there are various other aspects of collection of deposits, composition of advances, engaging in other services using the infrastructure available to increase its income and to step up the total earnings, costing of the services are the various aspects which can be studied in greater detail to achieve competitive edge in this competitive world.

13. SUMMARY

The prudential norms introduced at the behest of acceptance of the Basel Committee Recommendations have brought about a full transparency in the banking sector. The concept of nonperforming assets and the provisioning norms is not new to the commercial banking and cooperative banking sector. However, it is a new concept for the Primary Agricultural Cooperative Credit Societies. The system of classification of assets has not yet been stabilized in the PACS. The major difficulty in its stabilization is the quality of the staff at the PACS. So also the Board of Directors of the PACS should whole heartedly subscribe to the adoption of the classification of NPA accounts. Now it is high time that the DCCBs should take up the issue with the PACS and see that the NPA classification is scientifically undertaken. In order to maintain sound financial health of the PACS it is very much essential that the NPAs are practically minimum. Rather it would be appropriate to say that there should be no scope for creeping in the NPAs in the assets financed. Else there should be adequate provision and the net NPA percentage should be zero. This will also require change in the mindset of the Board of Directors of the PACS.

If the suggestions given herein above are observed meticulously the chances of the loan accounts turning into NPA are remote. Therefore, the PACS/DCCB should ensure that the proper systems are
placed in operation and the NPAs are brought to minimum. It is not a difficult task but there should be honest and sincere efforts to contain the NPAs. In fact for the survival of the organization this is a must. Let us hope that the PACS will rise to the occasion and will improve their financial health in times to come.

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