6.1 INTRODUCTION

A close look at the current style of functioning of the PACS which has been covered in chapter V reveals that there needs to be a sea change in the present style of financing as well as post disbursement follow up and supervision over credit extended to the members. On studying the primary data collected from the identified PACS and the interaction with the NPA account holders the following observations have been made.

Here it will be appropriate to understand how a normal credit proposal is being sanctioned by the financing PACS/bank, and various stages, it passes through. Although this study is relating to the Primary Agricultural Credit Societies, actually the concerned bank branch of the District Central Cooperative Bank Ltd. has a major role to play in the credit management of the PACS. In the following few paragraphs the researcher has discussed the procedures usually followed by a commercial banker. This is a set procedure across the commercial banks. This procedure has inbuilt provision for ensuring proper repayment of the bank loans.

Normal Credit Portfolio Management of Bank

In fact the credit portfolio management involves broadly three functions:

- Pre-sanction credit appraisal,
- Documentation on sanctioning the proposal,
- Post disbursement supervision and follow up of credit.
• The pre-sanctioning phase envisages that the prospective borrower puts in an application (which is usually a prescribed by the financing agency) with requisite additional supporting documents (7/12 extract, 8-A extract, quotation for the proposed purchase of an asset (it may be farm machinery / dairy / irrigation machinery and equipment etc. as per the proposed activity). The bank checks up the credit credentials of the prospective borrower before the loan is sanctioned. The borrower states in the application what is the purpose of raising loan? What is the security he is offering, what is the period in which he wants to clear off the loan liability, (i.e. the period of loan) and some additional information, if any collateral is being offered etc.

• The pre-sanction credit appraisal comprises of the scrutiny of the application and the documents attached therewith. Usually there is a pre-sanction field visit and if there are any queries those are got clarified from the borrower during such field visit. Upon full satisfaction, a credit proposal process note is prepared and the same is put up to the sanctioning authority for according sanction.

• The sanctioning authority takes an overall view on the proposal and if satisfied accords its sanction on the standard terms of sanctions plus if any additional stipulation is made, then the sanction is conveyed to the borrower and he is asked to come to the office and execute the required documents to safe guard the interest of the bank. These documents are mostly in standardized format. There are certain cardinal principles in banking such as the asset created out of bank finance is to be charged to the bank as a security, if a term loan is given for acquisition of fixed asset which will be used for production then in that case the financing bank should also consider the working capital
requirement of the borrower to enable him to service the loan raised for acquisition of the asset.

- Once the documents are executed then the borrower is allowed to withdraw the loan amount. In case of a term loan for any project the same is allowed to be withdrawn in phases as per the completion of the work. In the case of purchase of any asset like machinery/equipment, then the banks usually make the payment directly to the supplier/manufacturer. This is done with a view to ensure that the loan raised is utilized for the very purpose for which it was applied and that there is no diversion of funds. In case of projects, project completion report is required to be on bank’s record. The project completion date is vital because this helps in fixation the repayment schedule in case of a project loan. The bank had sanctioned the finance and the borrower has also laid down the pipe line, purchased the electric motor and pump set but there was an undue delay in obtaining electric connection and the project is completed at an odd time for plantation of the sugar cane crop then naturally the repayment needs to be rephrased. This is because the repayment of the loan is envisaged from the surplus generation from the sugar cane crop. If this care is not taken initially by the financing bank and merely there is a mechanical approach in working out the demand for repayment, naturally the account will be classified as a Non Performing Asset right from the beginning and the charging of penal interest for no fault of the borrower. The borrower is ignorant about these intricacies and here the banker is expected to perform a role of developing banker. If the banker does not perform a positive role in rephrasing the loan repayment then for such type of NPA account, the banker is responsible.
• Even after the project is completed, plantation is there, and then if there is any forward recovery linkage there, then the bank has to ensure that the authority to collect the sale proceeds is registered with the concerned agency (sugar factory/ any other purchaser).

• Even after financing the proposal it is the bounden duty of the banker to verify the security financed (it may be machinery/ equipment/crop financed etc.). These visits are with a view to ensuring that the asset financed by the bank is intact and that there is no threat to security. Else, if there is any diversion of funds that the bank can take prompt steps to safe guard its interest and initiate appropriate actions well in time.

• Now against the backdrop of the above procedure, we will now discuss the procedure that is being followed by the District Central Coop. Bank through Primary Agricultural Credit Societies. This discussion will throw light on the deficiencies that exist in the present style of functioning which gives abnormal rise in the increase in the Non Performing Assets.

Now while elaborating the loaning style of the PACS, simultaneously, the researcher has recorded the observations in a chronological order.

6.2 CONCLUSIONS

6.2.1 The first and foremost observation about the lending policy of the Pune D.C.C.Bank, is that the worth of the borrower member is decided on the land holding that has been charged by the member of the primary agricultural cooperative society by executing E-agreement. The primary member submits his/her loan requirement on the basis of which loan is sanctioned as per the Agriculture Credit Policy approved by
the DCC Bank. The borrower always cites value of the land which has been mortgaged to the Bank and keeping in view the value of the land the pre-sanction scrutiny of the proposal, post disbursement supervision and control over the borrowal account is weakened. The level of credit appraisal and post disbursement supervision and control over these borrowal accounts is far from satisfactory. This particular aspect has now changed the mindset of the members. Because of speedy urbanization the land prices in and around Pune have reached sky high. At a place like Paud the land price is Rs.4 to 6 lakhs per gunthas. When the land is mortgaged to the bank the borrowers are now expect that they should get higher advance instead of relating to the purpose for which they need the advance, it should be related to the security offered to the bank.

6.2.2 The above mind set has also been reflected in the fact that the bank’s exposure under medium term loan is getting reduced. In the year 2008 the Medium Term Loan Outstanding for the bank as a whole it was Rs. 4872242 (000 omitted) while in the year 2013 it came down to Rs. 395166 (‘000 omitted) Apart from the mindset as stated in the above paragraph one more justification received is that during the past two decades the holding under agriculture is getting drastically reduced as the land is being sold at fabulous prices. The new purchasers of the land are not interested in pursuing agricultural activity but instead they are constructing farm houses and are being used commercially. This is the state of affair at all the adjoining Talukas of Haveli Taluka.

6.2.3 The loan application prescribed by the PACS is deficient in several respects. It does not throw light on the existing indebtedness of the prospective borrower. It does not speak
about his credit worthiness. All that information available in the prescribed form is details of his agricultural holding, the purpose of the loan (in respect of short term loan i.e. crop loan the cropping pattern that he wants to follow) and a declaration that he is agreeable to the terms and conditions of the PDCC bank. The form is accompanied with the 7/12 extract and 8-A extract of his land holding. The form is silent about the other family activities of the borrower’s family. He might be pursuing some activity allied to agriculture like dairy/poultry/sheep & goat rearing/bee keeping etc. or there may be somebody from the family who is gainfully employed. All this information proves useful when the account is classified as a Non Performing Asset. This additional information about the family income helps in following the recovery in case of difficulty.

6.2.4 Although it is expected that there should be a pre-sanction visit to the prospective borrower’s agricultural lands, on the pretext of the volume of work, inadequacy of the staff, these visits are not undertaken and therefore the genuineness of the prospective borrower about the cultivation of crops mentioned in the loan application cannot be ascertained. This has become a ritual and hence the borrower is aware that there will be no inspection it provides room for him for diversion of funds, which ultimately brings the account in difficulty for recovery.

6.2.5 Once the PACS proposed liability together with the likely interest is recorded in the record of rights in the village accountant’s office on the 7/12 extract and the loan application is received, the sanction for the crop loan by the PACS board of directors is merely a formality. In fact, there is no credit appraisal as such of the loan proposal. The secretary of the PACS get the document executed and reports the DCC
Bank Branch to which the PACS is attached. The inspector to whom the said PACS is allotted verifies this documentation and the funds are released by the society. There is no system of obtaining bills for seeds/fertilizers/pesticides/irrigation charges payment etc. i.e. to ascertain the end use of funds. This facilitates the borrower to divert the funds for some other purpose and finally the recovery of the loan becomes difficult.

6.2.6 In respect of the medium term loan for various purposes, there is a laid down policy in the Agricultural lending policy booklet published by the DCC Bank every year. The rules are very much there. However, number of stipulations in the policy are flouted which leads to the account turning as NPA. Following illustrations observed during the course of this research throw light on this aspect.

6.2.7 Dairy loans: According to the set norms while financing the PACS/bank should ensure that economically viable unit is being financed. The NABARD has prescribed activity wise viable units. In case of dairy there should be at least two milch animals (she buffaloes/cross breed cows) need to be sanctioned and while releasing the loan in the first place funds only for purchase of one animal may be disbursed. If the repayment of the said account is for the first 6months is regular then the second animal may be financed in the 7th month. This is because in the case of dairy finance, there is a lactation period of about 240 days and thereafter there will be a dry period for about 3 to 4 months. Hence before the dry period of the first financed milk animal starts there is availability of the income from the second milk animal which enables the borrower to maintain both the animals and ensures continuity of income through which the regular loan
installment can be met with. Alternatively, the borrower should have with him milch animals which are free of loan.

It has been observed during this research in respect of the dairy finance in number of cases in almost all the PACS under that this system is not followed. It was not confirmed whether the borrower has a viable unit and if there is a possibility of continuity of income generation even during the dry period.

During the survey it was observed in respect of medium term loans, some of the borrowers have either sold the asset created out of bank finance or have passed on the asset to the relative for whatever reason. These borrowers are not repaying the loans and the accounts have become non-performing.

6.2.8 There were few instances in respect of poultry financing which revealed that the accounts have been classified under NPA merely because of non observance of systems and procedures already laid down by the PACS/Bank. Poultry loan is sanctioned for a particular size, but the borrowers exceeded project size for which additional funds were raised from the other sources with high costs. Naturally the recovery machinery of the private finance is efficient and therefore from the income generation the borrower prefers to pay the loan from the outsider (because of high incidence of interest) and in the process the PACS/bank account recovery is delayed and ultimately the account is classified as NPA. When the account is overdue naturally penal interest is charged and that adds to the cost of borrowing.

If there would have been proper post disbursement supervision over the borrowing accounts naturally such instances could have been surfaced early and remedial action
for providing additional finance for the additional activity could have been considered so as to ensure that the account remains regular. But this is not happening as there is lack of post disbursement supervision.

6.2.9 In respect of medium term loans under minor irrigation it has also come to surface that knowing fully well that the borrower has already has a life irrigation scheme in place, still the proposal for irrigation scheme is sanctioned. This is clearly to accommodate the borrower member to meet his some other needs. In such cases the society/bank has no control over the recovery where the funds have been diverted and the account turns NPA. Had there been a pre-sanction visit the availability of the irrigation scheme could have been noticed is one thing and at the same time the PACS authorities should have conducted primary inquiries which would have revealed about the availability of the irrigation facility. Therefore, it can be safely concluded that this was deliberately ignored and the member was accommodated by the PACS/Bank authorities and such action on the part of the PACS leads to turning the account in NPA.

6.2.10 In respect of financing for the irrigation project it is all the while necessary to have a scheme completion report on record. More particularly the scheme completion data is of vital importance so far as stipulating the repayment schedule. E.g. if there is any undue delay on any account (say non availability of the delivery of the electric motor/pump set or the power connection) then the scheme completion gets delayed. Usually in respect of the minor irrigation projects the surplus available from the sugarcane crop which provides the forward recovery linkage is the basis for the fixation of the repayment. And if at the time of completion of the irrigation
scheme, the time for sugarcane plantation is not proper/suitable, (between August to October) then the sugar cane plantation gets delayed and naturally the sale proceeds are not available for repayment of loan as projected. In such cases, there is need for rescheduling of the repayment schedule. During the course of the primary survey there was not a single case of rescheduling came to lime light. Therefore, the account, right from the beginning becomes NPA attracting penal interest and the dues go on mounting. In such cases PACS/Bank is responsible for the account turning into NPA.

6.2.11 In respect of few NPA accounts it was observed that while raising the loan the family was one and upon availment of the loan there was a division in the family and the bank’s loan repayment becomes nobody’s responsibility. Proper follow up as well as counseling could ensure that the account runs regularly. So, absence of post disbursement supervision and counseling is also a major reason for mounting NPAs.

6.2.12 During the survey it has also been observed that the borrowers are reluctant to repay the loan under the hopes that the government may grant waiver as in the past. Once the available sale proceeds from the crop are not used for repayment of the loans naturally there is scope for diversion of funds and ultimately accounts turning NPA entailing penal interest charge. This is a serious issue and the government should come out and vehemently make it clear that such loan waiver will not be given in the normal course.

6.2.13 In case of number of accounts both in short term and medium term loan financing, the borrowers are willful defaulters. These are the accounts mostly of big farmers. This is really a cause
for serious concern. Most of them are part of the PACS current or the previous management and there are limitations on the part of the secretary of the society to follow up the recovery.

6.2.14 In most of the accounts in short term / as well as medium term the repayment is tied up with the surplus from the sugarcane crop and the forward recovery linkage is available from the sugar factory to which the sugar cane is supplied. Even after registering the authority letter from the borrower there are instances the sugar factories also accede to the borrower’s (who is also a member of the sugar factory) request for advance from the sugar factory under one or the other pretext and the sugar factory accedes to such request. Then in such situations the sugar factory while making the payment of the sugar cane, first deduct the advance given by the factory on priority (as it has a paramount lien over it) and the residual amount is transferred to the financing PACS. Such an amount is not sufficient and the account becomes overdue and classified into NPA.

6.2.15 During the course of the visits to the various PACS under study it was observed that the organization structure of the PACS is weak so far as human resources are concerned. Normally only one secretary or if the size of the society is large an assistant is there. With this much of staff, it is practically not possible to have pre sanction and post disbursement visits to the security verification. Therefore, this responsibility is vested with the concerned DCC Bank’s branch. Even if we consider the staff position of the bank, for looking after the pre-sanction, the PACS are allotted to an Inspector at the branch. One inspector has been allotted about 6 to 10 societies depending on their volume. Usually there are about 600 to 800 borrowal accounts in a society (both short term
and medium term loans). There is a recovery officer at the branch to whom also some societies are allotted. Considering the volume of work and the area of operation, it is not possible for these officials to properly monitor the borrowal accounts. Without properly monitoring the borrowal accounts and taking timely remedial steps, the thrust given by the bank is on recovery which is a negative approach. Therefore, the researcher is of the considered view that financing by the PACS needs to have a second look and the requisite infrastructure (human resources availability) needs to be strengthened.

6.2.16 During the survey it has also been observed that in respect of the sugar cane cultivators where loan is taken from PSCS/Bank the disgruntled borrowers supply the sugarcane on somebody else’s name on gate cane basis and collect the sale proceeds from the factory for using it for some other purpose other than repayment of the bank loan and allow the loan to be categorized under NPA. The integrity of the borrower should have been inquired at the time of sanctioning of the loan. This inquiry about the track record of the borrower would have thrown light at the right time.

6.2.17 In some cases it has been observed that the account is turned into NPA because there was a dispute in the family and the repayment was not forthcoming.

6.2.18 Particularly in respect of the big borrows it was observed that they had a feeling that the bank cannot do anything and they can continue with their overdue account. This reflects on the part of the recovery machinery put in place by the DCC Bank. Usually it is out of political consideration a lenient view is taken and no harsh steps are initiated.
6.2.19 The thrust of the PACS in extending agricultural credit whether it is a short term agricultural credit or medium term agri. credit is on the land holding of the borrower member and the valuation of the land as per the government rates which are revised periodically. This is not a sound practice of financing as the loan repayment is expected from the generation of the income from the use of loan and not from sale of the land. It is an option available as a last resort. At present there is over reliance on the borrower assuming that he will be using the loan proceeds for the purpose which is intended. But in reality it may not be always true.

6.2.20 At present there is no pre-sanction and post disbursement visits to the agricultural lands where the crop is being taken. There is no control to ensure that the borrower has planted /sown the same acreage of land under the specific crop financed by the PACS. Any deviation from the agreed area of crop may land in difficulties as the production will be lower and naturally the loan repayment will hamper.

6.2.21 In respect of short term loans there is a stipulation that loan disbursed after 1st April should be liquidated before 31st March. In fact, the agriculturists should be provided with overdraft / cash credit facility wherein he can deposit the sale proceeds of his kharif crop and then as and when required he can withdraw for the Rabbi operations. This system provides a check point about the sale proceeds of the Kharif season and also results in reducing the interest burden. (Although in the instant case there is 0% interest because of the subsidies). However, when there are no subsidies such a control mechanism is helpful. If the sale proceeds of the kharif crop are not credited to the account, then the availability of the cash in the hands of the agriculturist may tempt him to invest
elsewhere which may or may not be available for the Rabbi crop.

6.2.22 Same is the case of the medium term loan for dairy and poultry and for creation of other assets. If there is a monthly income generation from the asset financed then the installments should be prescribed monthly and not as per present system to fix a date, say 30th September every year. If monthly/quarterly installments are prescribed there will be proper timely follow up well in time if the installment is not received in time.

6.2.23 In case of some of the loan accounts it was observed that the government had granted a settlement scheme in which the borrower was expected to contribute part of the loan and the balance was to be paid by the government. However, in the absence of capacity to pay even the part loan or expectation of the borrower for full loan amount waiver the account remains in NPA.

6.2.24 In the case of crop loan financing while arriving at the loan eligibility in terms of scale of finance, it also accounts for payment of energy bills. However, because of the disbursement of the loan in cash, there is scope for diversion of funds and the borrowers do not pay electricity bills. This has resulted in the mounting dues of the energy provider (M.S.E.B.) and that they have to come out with electricity bill waiver in the case of defaulters. Currently there is such a scheme in operation which envisages that the consumer should pay 25% of the bill amount and the balance is written off by the MSEB.

6.2.25 On the whole it was observed that the efforts put in by the directors of the PACS for recovery of the overdue in NPA
accounts are not adequate. Those should be stepped up. There has to be constant follow up and being the local board members they can achieve still higher success in recovery provided vigorous efforts are put in.

6.2.26 In one society it has been observed that the earlier secretary had committed a fraud and he was removed. There were borrowers saying that they had paid their dues to him and under this pretext they are not willing to pay their balance outstanding.

6.2.27 Unlike the commercial banks there are no personal guarantees taken by the PACS for crop loans. Therefore, it becomes difficult to bring pressure on the borrower for repayment.

6.3 SOME VITAL OBSERVATIONS SURFACED DURING INTERACTION WITH THE PACS’S SECRETARIES

6.3.1 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.

6.3.2 **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.

6.3.3 **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.

6.3.4 **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.

6.4 SUGGESTIONS: FOR THE PACS & THE PDCC BANK;

6.4.1 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.

6.4.2 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.

6.4.3 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.

6.4.4 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.

6.4.5 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.

6.4.6 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.

6.4.7 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.

6.4.8 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.

6.4.9 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.
6.4.10 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.

6.4.11 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.

6.4.12 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.
6.4.13 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.

6.4.14 Prevention is better than cure. It has been observed that there is unprecedented rise in fresh accretion NPAs, in some PACS. Pre-arrangements 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.

6.4.15 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.

6.4.16 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.
6.4.17 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.

6.4.18 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.

6.4.19 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.

6.4.20 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.

6.4.21 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.

6.4.22 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.

6.4.23 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.

6.4.24 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.

6.4.25 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.

6.4.26 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.

6.4.27 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.

6.4.28 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.

6.4.29 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.

6.4.30 In regard to the facility of ‘0’ % interest for short term loans upto Rs.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 Rs.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.

6.4.31 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.

6.4.32 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.

6.4.33 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.

6.4.34 It has been observed that there is need to step up the legal recovery efforts in B and C class societies. Their performances 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.

6.5  A MODEL FOR REDUCING NPAs AT PACS

After discussing both the observations and suggestion the researcher would like to summarize the steps for reducing the NPAs at the PACS level as under:
Fig. 6.1
FLOW CHART OF PROPOSED MODEL

Use of revised Loan Applications

Pre-sanction visit to the farm

Thorough Scrutiny of the loan proposal

Effective post disbursement supervision and control over credit

Timely identification of incipient sickness of the loan account

Close interaction with the above borrowers for Assessing alternative proposals for recovery.

Table 6.1: Description presentation of the model proposed above

<table>
<thead>
<tr>
<th>Step</th>
<th>Narrative</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Revise the loan application form.</td>
<td>A form which gives full financial picture of the prospective borrower will improve the credit appraisal.</td>
</tr>
<tr>
<td>Step</td>
<td>Narrative</td>
<td>Purpose</td>
</tr>
<tr>
<td>------</td>
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<td>---------</td>
</tr>
</tbody>
</table>
| 2    | Scrutiny of the loan application. | a) Ascertainment of the purpose.  
b) Pre sanction visit to the field.  
c) Meaningful personal interaction with the borrower  
   This helps the PACS to ascertain the genuine purpose for which the loan will be utilized. |
| 3    | Scrutiny of the proposal. | With the help of application and the interaction, assess the creditworthiness, honesty, and repaying capacity, and availability of forward linkage if any. |
| 4    | Improved Post disbursement supervision and control over the loan account | Before full disbursement the PACS official should visit and ascertain the use of the disbursed amount judiciously and keep record of such visits. Tagging the authority letter for collection of the sale proceeds with linkage authority. Even before harvesting there should be one more visit to the field to assess the probable yield. This visit will also help in taking steps in case of potential overdue account. |
| 5    | Upon harvesting of the crop constant track with the borrower. | If the borrower receives the proceeds directly it is likely that there may be diversion of the proceeds therefore this step is very much essential. |
While suggesting the above approach it assumed that the PACS are adequately staffed and the staff is trained comprehensively in credit appraisal, post disbursement supervision and follow up and recovery of the loans. At the same time the Board of Directors should also be imparted training on the NPAs and its impact on the PACS financial soundness.

If the above steps are taken in right spirit the researcher is of the considered view that there will be less scope for creeping in NPAs in the working of the PACS.

### 6.6 Attainment of the Objectives Set Out

During the course of the field survey the researcher has conducted detailed analytical study of the working of the Primary Agricultural Cooperative Societies (PACS) and the observations have been recorded in the chapter 5. Thus the objective (a) to analyze the working of Primary Agricultural Cooperative Societies (PACS) has been achieved.

During the course of the field visit to the PACS specifically the credit appraisal systems of the societies was thoroughly studied. At the same time the researchers has also observed the current level of post disbursement of supervision and follow up of the advances portfolio. It has been observed that the current level of pre-sanction appraisal is far from satisfactory. Post disbursement supervision over the advances accounts is virtually absent. The detailed observations in this regard have been recorded in chapter 5 which evidences that the researcher has attained objective (b) to evaluate the performance of Primary Agricultural Cooperative Societies with reference to current level of credit appraisal and post disbursement supervision over credit.
The study of the causes of the non performing assets in the primary cooperative societies was the objective no. (c). In fact this was the thrust area or rather core area of this research. During the course of the field visit various types of agricultural borrowal accounts were studied specifically with reference to the causes that resulted account into NPA. Thus the objective (c) has been achieved.

To study the impact of NPAs on the financial performance of the PACS was objective (d). During the course of survey of the identified societies, the researcher has studied the impact of the NPAs on the financial performance of the societies. The numbers of societies where the volume of NPAs is more, those societies are running in losses. In the case of some of the societies the NPAs are not classified correctly thereby its impact on the performance of the societies could not be ascertained. Thus the researcher has observed the impact of the NPAs on the financial performance of the Societies which has been studied and the data with its analysis has been presented in chapter no. (5) is fully attained.

On carefully studying the causes of the NPAs and the working of the PACS as well as the role played by the Inspector and the recovery officers of the concerned DCC bank branch, the researcher has identified some solutions for containing the NPAs and accordingly suggestions have been presented in this chapter. Thus the objective number (e) is also attained.

6.7 HYPOTHESIS TESTING

For testing the hypotheses the researcher has used three different statistical tests which have been shown in the earlier chapter. For the first hypothesis simple technique has been applied and for the hypotheses 2\textsuperscript{nd} a combination of simple and Karl Pearson Coefficient of correlation test has been applied. For the 3\textsuperscript{rd} and 4\textsuperscript{th} hypotheses again a combination of simple and Chi square test was
applied. For statistically proving the hypotheses null and alternative hypotheses were generated and the hypotheses stand proved.

H1 **The Primary Agricultural Cooperative Societies are being managed in a traditional way.**

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. (Table No. 5.11)

From the table no. 5.36 secretary accept that, society should adopt advanced technology to improve society’s performance.

H2 **Due to rise in the Non-Performing Assets of the PACS the societies are incurring losses which in turn adversely affect the overall financial status of the PACS.**

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. (Table No. 5.17)

The consolidated position arrived at after statistical analysis of the identified societies for the study period reveals that the impact of NPA correlation is clearly seen on all the variables i.e. profit at -.393,
CRAR at -.409, Loan capacity at -.303 and Anisht Tafavat at -.279 and percentage of profit with working funds at -.376 and on working funds -.151. (Table No. 5.64)

By analyzing various parameters with refer to audit class of the identified societies it observes that, the increased NPA percentages affects adversely on overall performance of the society. (Table No. 5.65)

**H3  The improvement in pre-sanction credit appraisal and post disbursement supervision over credit will improve the NPA position of these societies.**

With reference to Table No. 5.14, 5.15, 5.19, 5.22, 5.28 and 5.46, it proves that, 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.**

With reference to Table No. 5.5, 5.6, 5.7, 5.8, 5.9, 5.11 and 5.18, it proves that, the traditional management of these societies needs to be reoriented to professional one.

**Table 6.2: 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 H₀ 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>Sr.</td>
<td>Statistical <strong>Hypothesis</strong></td>
<td><strong>Accept / Reject</strong></td>
<td><strong>Remark</strong></td>
</tr>
<tr>
<td>-----</td>
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</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 <strong>accept the alternative hypothesis</strong></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 <strong>accept the alternative hypothesis</strong></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 <strong>accept the alternative hypothesis</strong></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>Sr.</td>
<td><strong>Statistical Hypothesis</strong></td>
<td><strong>Accept / Reject</strong></td>
<td><strong>Remark</strong></td>
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<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 <strong>accept the alternative hypothesis</strong></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>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 the alternative hypothesis</strong></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 the alternative hypothesis</strong></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>Sr.</td>
<td>Statistical Hypothesis</td>
<td>Accept / Reject</td>
<td>Remark</td>
</tr>
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<td>-----</td>
<td>------------------------------------------------------------</td>
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</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 accept 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>

### 6.8 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.

### 6.9 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 wholeheartedly 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.