V DISCUSSION

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CHAPTER V

DISCUSSION

The results of the study are discussed under the following heads.

5.1 Growth indicators of PACS in Karnataka
5.2 Factors influencing performance of PACS
5.3 Causes for economic non-viability of PACS
5.4 Perceptions of members about functioning of PACS
5.5 Viability Model

5.1 Growth indicators of PACS in Karnataka

The indicators of the growth of PACS are discussed as under.

5.1.1 Number of PACS

It is clear from the results that number of PACS declined at the rate of 0.69 per cent per annum for the state as a whole. The negative compound growth rate ranged from 0.02 per cent per annum in Dakshina Kannada to 1.52 per cent per annum in Chitradurga district. This indicates that the reduction in number of PACS in Karnataka was highest in Dakshina Kannada and least in Chitradurga district. The compound growth rate (CGR) for Kodagu and Uttara Kannada was almost zero. This reduction in the number of PACS was due to the mergers as a result of the reorganization policy of the state.
5.1.2 Membership

The performance of PACS based on membership criterion indicated that the total membership did not increase significantly. The membership of PACS in the state registered a CGR of 2.06 per cent annum. The CGR for the total membership ranged from 4.87 per cent in Bangalore Rural district to (−2.21 per cent) in Shimoga district. The growth of membership was not uniform across districts due to agro-climatic differences as well as due to differences in the perceptions/attitudes about the cooperative system.

5.1.3 Share Capital

The Share capital of the PACS increased during the period under study. It registered a CGR of 6.11 per cent per annum but was not very significant. Dakshina Kannada district registered the highest CGR while Hassan registered the least CGR in the Share capita.

5.1.4 Government’s

It is evident from the results that there has been an increase in the State’s contribution towards total share capital of PACS. The CGR of this indicator has increased from the lowest of 5.73 percent per annum in Hassan to the maximum contribution of 14.9 per cent per annum in Chikamagalur district with an overall increase of 7.93 percent for the state. This indicates the increased dependency of PACS on the state funds.
5.1.5 Deposits

Another important indicator of the PACS' performance is their capacity to mobilise deposits. The growth of deposits helps PACS to reduce its dependency on external resources. It is observed from the results that the deposits grew at 12.1 per cent annually for the state as a whole. The districts of Hassan, Bidar and Bijapur registered fairly high CGR with respect to deposits (34.54 per cent, 24.53 per cent, 20.05 per cent per annum respectively). The study reveals that PACS of more than 15 districts have been able to increase their deposits during the study period.

5.1.6 Working Capital

The working capital increased at the rate of 12.5 percent annually for the state as a whole. The growth of working capital reveals that the districts of Bidar (17.2 percent), Dakshina Kannada (17.1 per cent), and Uttara Kannada (15.3 per cent) registered comparatively high CGR than the remaining districts. Working capital has increased significantly in most districts in the state during the period under study. The increase in total working capital can be attributed to the improvement that has taken place in the components of working capital such as share capital, deposits, government's contribution and increased borrowings.
5.1.7 Total Advances

The assessment of PACS based on the loans advanced criterion indicated that the total loans advanced increased significantly yielding a CGR of 16.5 per cent. The districts of Uttara Kannada (27.0 per cent) followed by Dharwad (25.6 per cent) and Bidar (22.8 per cent) registered the higher CGR than the other districts. This increase can be attributed to higher demand for funds from the members of PACS. Because of larger advances and low membership per society, advances were more in Dharwad district.

5.1.8 Total Recovery

It is evident from the results that the loans recovered by PACS increased at the rate of 14.05 percent annually for the entire state. The districts of Uttara Kannada (27.8 per cent), Bijapur (22.03 per cent) and Chikmagalur (20.09 per cent) registered high CGR with respect to recovery of loans. The growth rate with reference to recovery performance was significant in the districts of Belgaum, Chikmagalur, Kodagu, Kolar, Dharwad, Hassan, Bidar, Bangalore Rural, Shimoga, Tumkur and Mysore. The growth rate was not significant in other districts.

5.1.9 Loans Outstanding

It is clear from the results that the loans outstanding increased at 15.8 per cent in the state. The districts of Bidar (20.6 per cent), Belguam (15.3 per cent) and Dakshina Kannada (15.3 per cent) followed by Uttara Kannada (15.1 per cent) registered high CGR with respect to liability.
outstanding. The district of Mysore registered negative CGR (-0.46 per cent) implies the decline in the loans outstanding.

5.1.10 Total Overdues

The overdues of PACS have not changed for the years as depicted by the insignificant growth rates. The growth of overdues of PACS was not uniform across districts and that at least ten districts did not show any growth in overdues except in the districts of Chikamagalur, Hassan, and Dharwad. The lowest growth rate was recorded in Bangalore Urban District with a CGR of -3.73 per cent. The overdues for the state as a whole grew at 8.4 percent. The growth rate was significant in the districts of Hassan, chikmagalur, Dharwad, Bidar, Tumkur, Chitradurga and not so significant in the remaining districts.

Thus, it may be concluded that though there has been an overall improvement in the rate of growth of certain key indicators of growth of PACS, their performance was marred by an alarming growth of overdues over the years, thereby causing serious concern to the cooperative system at primary level.

5.2 Factors influencing performance of PACS

The factors influencing the performance of PACS in Karnataka are analyzed and discussed through various indicators as below.
Physical factors

5.2.1 Number of PACS

The number of PACS in each district is one of the measures to evaluate the performance of PACS. During the early stages of the cooperative movement the policy of the government was to encourage the organization of PACS on the basis of 'one village one society' principle. As a result, the large number of PACS were established in the backward regions. However, the All India Rural Credit Survey Committee as well as the Committee on Cooperative Credit pointed out that even though the numerical strength of the societies increased in the initial years of cooperative movement, the quality of most of the societies was so poor that it resulted in the increase in number of defunct societies. For this reason, these committees recommended the reorganization and establishment of economically strong PACS. This resulted in a decline in the number of PACS in each district during the period under study.

It was observed that, during the period from 1986 – 87 to 1994 – 95 there was a decline in the number of PACS from 4732 to 4277. This was because the state government was armed with the necessary statutory powers for the early completion of the reorganization programme. Thus the reorganization of the PACS in all the districts of the state was effected in order to improve their economic performance and working conditions. Bhat and Rao (1981) and Vasudev (1984) have also reported a similar trend in the number of PACS in Karnataka.
5.2.2 Total membership

The performance of the PACS based on the criterion of average membership per society is a better indicator than the total membership. The average membership per society for the entire state increased from 883 in 1986–87 to 1222 members in 1999–2000. Dakshina Kannada, Bangalore Urban, Bangalore Rural and Tumkur topped the position in per society membership. There was an increasing trend in membership per society in all the districts over the years, though the magnitude of increase differed among the districts. The performance of the PACS was satisfactory in terms of membership per society in different districts. A large membership per society adds to the its strength of activities in addition to being organizationally open and democratic. Larger the number of members, larger will be the quantum of its own funds which gives more financial strength to function effectively by extending service to more members. Similar trend in membership per society was also reported by Das and Hanumappa (1967), Chamola and Hasija (1982), Gracy (1983) and Vasudev (1984), Subba Rao (1985). Increase in quality membership, it is inferred, leads to larger amount of lending, higher interest margins and greater profitability.

Financial factors

Financial resources such as share capital, working capital, deposits and own funds of PACS in different districts of the state during the study period were examined. Both physical and financial indicators
are considered as necessary prerequisites for the efficient and effective performance of the PACS. The capital structure of PACS consists of owned funds and borrowed funds. Owned funds include share capital and reserves, while borrowed funds include deposits and loans from outside. The sum total of owned funds and borrowed funds represents the working capital. The financial strength of a society is judged by the proportion of owned funds to working capital. The amount of owned funds decides the society’s borrowing power. It is a common rule for any type of cooperative organisation that every member on admission should subscribe to at least one share, there is a also ceiling that no member can subscribe to more than one-fifth of the total authorized share capital. Thus proper management of the financial resources is crucial for viable functioning of PACS.

5.2.3 Share Capital

Share capital is another important indicator which reflects the financial soundness of PACS. This indicator showed an increasing trend throughout the state. The share capital which was Rs. 62.27 crore in 1986-87 rose to Rs. 216.81 crore in 1999-2000. Belgaum district enjoyed the top position with Rs.35.39 crore while Bangalore district with Rs.2.04 crore occupied the least position with regard to the share capital. The districts of Belgaum, Dakshina Kannada, Mandya and Dharwad had relatively higher share capital than the other districts during the period under study.
The total amount of share capital in PACS depends upon the number of members which may be related to the size of district and other factors. Hence the trends in the membership per society as well as the per-member share capital were calculated to analyse the financial strength of the PACS. The per-society share capital which was Rs.1.49 lakh in 1986-87 increased four-fold to Rs.4.02 lakh in 1999-2000. Kodagu had the highest share capital per society (Rs. 10.12 lakh) and Gulbarga the least (Rs 1.72 lakh). The share capital per member also increased during the study period. Kodagu had the highest per-member share capital (Rs. 10.12 lakh) while Gulbarga had the least with Rs. 1.72 Lakh.

5.2.4 Government’s contribution to share capital

The participation of the government in the working of PACS through contribution to the share capital and its interference in their functioning are well known. The contribution of government towards the share capital has increased steadily during the period under study. It was Rs. 11.90 lakh in 1986-87 but increased to Rs. 40.84 lakh in 1999-2000, which amounted to 3.43 per cent increase per annum. Thus the increase in the share capital of PACS during the period under study can be attributed mainly to two factors: increase in the membership and the contribution of the government.

Share capital is the major component of owned funds. Higher the proportion of share capital in the working capital, higher will be the
financial strength of PACS. Thus the proportion of share capital to working capital determines the extent to which PACS are self-reliant. In 1986-87, 11.53 per cent of the working capital of PACS in the state was made-up of share capital. However in the terminal year of the study came down to 9.14 per cent thus reflecting a disturbing trend.

5.2.5 Deposits

Deposits showed an increasing trend during the study period. The deposit which was Rs.122.24 crore in 1986-87 increased to Rs. 687.04 crore in 1999-2000. The average deposit per member is a better indicator of the performance of PACS in different districts. Per-member deposit for the state increased to Rs.12.75 lakh in 1999-2000 from Rs.2.92 lakh in 1986-87. During the terminal year of the study the per-member deposit was highest for Dakshina Kannada (Rs.67.87 lakh) and least for Gulbarga (Rs. 1.18 lakh). The proportion of deposits to working capital can determine the level of self-reliance of a PAC. Higher the proportion of deposits to working capital, higher would be the financial strength and stability of the society. The growth of deposits helps societies to reduce their dependency on external resources, this was also stressed by Krishnaswamy (1973).

Mehta (1963) observed that the ratio of deposits to working capital is an effective measure to evaluate the functioning of PACS. The percentage of deposits to working capital of PACS in Karnataka which was 22.6 per cent in 1986-87, declined to 17. 7 per cent in 1986-
However, there was an improvement in subsequent years. It increased to 23.88 per cent in 1998-99 and to 28.99 per cent in 1999-2000. Dakshina Kannada topped the list in this respect in both the base and terminal years with the figures being 92.3 per cent and 69.45 per cent, respectively. Barring Bangalore Urban, Bijapur, Uttara Kannada, Chikmagalur, Kodagu and Mysore the percentage of deposits to working capital was below 15 in the remaining districts. This shows that the performance of PACS regarding deposit mobilisation was not satisfactory up till 1997-98 and their dependence on outside borrowings heavy during the period under study. Gracy (1983) and Vasudev (1984) observed similar results. Several factors have caused poor deposit mobilization, the most important of them being poor savings among rural people, indebtedness, illiteracy and the consequent lack of banking habit, and unattractive interest rates on deposits. PACS should make earnest efforts to increase deposit mobilisation as this will strengthen their lending capacity and thereby their viability in the business.

5.2.6 Working Capital

The working capital determines the volume of credit and other service activities that PAC can undertake. The working capital of PACS includes share capital, reserve funds, deposits and borrowed funds. Changes in the working capital over the years also reflect the financial strength of the societies, particularly the per-member working capital. All the districts of the state registered a moderate increase in the total
working capital between 1986-87 to 1999-2000. Patwardhan and Dharmaraj (1966), Tiwari (1969), Gracy (1983), and Vasudev (1984) also reported similar findings. The increase in working capital can be attributed to the increase in the share capital and deposits. Working capital per member also increased during the period under study.

5.2.7 Loans Advanced

The credit activity based on the amount of loans advanced is another important financial indicator to evaluate the performance of PACS. Total advances by PACS comprise both short-term and medium-term loans. The short-term loan is advanced for a period of one year for the purpose of meeting the expenditure towards current agricultural operations including purchase of fertiliser, seeds, pesticides, payment of land revenue, etc. Medium-term loans are advanced for the purpose of purchase agricultural implements and equipment, purchase of cattle, digging or repairing of wells, and for construction of small irrigation facilities including installing pumpsets. The duration of medium-term loans ranges from 3 to 5 years. In the present study the term classification of loans has not been made while considering the total loan advances.

There has been an impressive growth in the amount of loans advanced by PACS in Karnataka state during the period 1986-87 to 1999-2000. Total loans advanced by PACS for the state as a whole increased from Rs. 1999.90 crore in 1986-87 to 1522.26 crore for the
5.2.9 Loans Outstanding

The increase in total loans outstanding is an important indicator of the poor of performance of PACS. The total loan outstanding increased from Rs. 314.89 crore in 1986-87 to Rs. 1516.53 crore in the terminal year. Loan outstanding per member increased from Rs. 753.3 in 1986-87 to Rs. 2815.06 in 1999-2000. This increase in outstanding may be attributed to crop failure, inefficient recovery mechanism at PAC level, govt. loan waiver scheme, etc.

The total overdues, per member overdues and percentage of overdues to loans outstanding are the three important parameters that help analyze the performance of the PACS. The overdues in PACS are posing a serious threat for the very survival of the primaries. Although concerted efforts have been made by the Government and the institutions concerned, there has not been much impact in reducing the quantum of overdues. This is evident from the mounting overdues of PACS in all the districts of Karnataka over the years. This is the most important factor for the dormant condition of a large number of PACS in different districts of Karnataka. The increase in overdues in different states of India over the years was also reported by Rangachar (1969), Winfred (1972), Bhuyan and Mohanthy (1973) and Gracy (1983). The increase in overdues in different districts in the state over the years was also reported by Vasudev (1984) and Reddy (1981).
The amount of overdues in the PACS in all districts of Karnataka rose from Rs. 131.09 crore in 1986-87 to Rs. 448.96 crore in 1999-2000. Loan overdue per member has increased steadily from Rs. 313.70 to 833.39. During the terminal year of the study period, loans overdue per society were around Rs. 10.18 lakh in the terminal year while in the base year it was Rs. 6.18 lakh.

There was a decline in overdues per member from the base year to the terminal year in Bangalore Urban, Belgaum, Kodugu and Mysore districts. The reasons for this situation are that the above mentioned districts have good irrigation facilities, orientation towards commercial crops, improved infrastructure and access to market and thus the borrowers had better scope for the full utilization of credit, which helped in obtaining additional income. Thus they were able to repay the loans in time.

The percentage of overdues to outstanding loans is an important indicator of effectiveness of agricultural credit (RBI, 1966 and Mehta, 1969). The percentage of overdues to outstanding loans had steadily increased from 41.63 per cent in 1986-87 to 64.10 per cent in 1991-92 and thereafter decreased to 29.60 per cent in 1999-2000.

The performance analysis of the PACS in various districts of Karnataka shows that PACS in some districts are on the verge of total failure. In 1986-87, the percentage of overdues to outstanding loans in the district of Gulbarga was as high as 70.73 per cent followed by other
districts like Dharwad, Bijapur and Shimoga. The position is satisfactory only in a few districts like Dakahina Kannada and Uttara Kannada. This shows that a large number of societies are not in a position to recover the loans advanced resulting in overdues. In spite of decline in the percentage of overdues to liability outstanding, the total overdues are quite alarming in absolute terms, causing a great concern.

Despite this precarious situation, they continue advancing fresh loans every year. The problem of overdues is acute and requires greater attention on the part of government in formulating future policy guidelines. Both primary and secondary data on PACS substantiate this position. This also calls for greater skills on part of the cooperative administration to tackle the situation effectively and thereby improve the viability of PACS.

5.3 Causes for economic non-viability of PACS

Ten PACS in the area under study were selected for studying the viability criteria for PACS. Eleven variables were considered for comparison of viable and non-viable PACS. The results of the analysis are discussed below.

5.3.1 Membership

Membership is one of the important physical variables, for, a larger membership would strengthen the overall functioning of a PAC. Large membership also signifies, at least in theory, a better member participation which will have decisive impact on the quality of working of
A viable PAC has an average membership of 1548 against 2330 in the case of non-viable PAC. However it should be noted here that the membership in non-viable PACS under study was higher because the average for six PACS has been considered against the average for four PACS in viable category. It is inferred that the membership is not always comparable between viable and non-viable PACS. This finding is rather unconventional since a viable PAC usually attracts more members to its fold. Nevertheless, it may be mentioned that all members in the non-viable PACS are not necessarily active members.

5.3.2 Share Capital

The share capital is another important factor which influences the business performance of PACS. It is observed that there is not much difference in the average value of share capital between viable and non-viable PACS in the study region. The mean difference between them was -1.04 indicating negative influence on the overall performance among both the groups.

5.3.3 Deposit mobilisation

Deposit mobilization is one of crucial variables determining the viability of PACS. On an average the viable PACS could mobilize around Rs. 20.01 lakh per PAC as against mere Rs. 4.77 lakh in the case of non-viable PACS. And the mean difference between them was also as high as Rs. 51.48 lakh. This indicates that better working PACS could mobilise deposits from among members through its various schemes.
can also be inferred that viable PACS earn credibility of the general public and thus are able to mobilize large amounts of deposits. Poor deposit mobilisation in case of non-viable PACS could be attributed to their malfunctioning/dysfunctioning. In one of the interviews, the researcher herself came across a member of a non-viable PAC who admitted that he does not have faith in the PAC, and he expressed the desire to deposit his hard-earned money in a nationalised bank situated a place far-off from his village, than depositing it in the PAC located close his doors! This shows that the PACS have to regain the confidence of the public as well as of their own members in order to be viable.

5.3.4 Working Capital

The viable PAC had on an average a working capital of Rs. 54 lakh while the non-viable PAC had Rs. 35 lakh. This implies that, a viable PAC has many portfolio lending opportunities to serve its members better than a non-viable PAC. In fact, non-viable PACS have gone past many such opportunities especially in utilizing their working capital to their advantage for non-banking business like trading (PDS) etc., due to low working capital resources. The low working capital position of non-viable PACS could be attributed to poor deposit mobilisation, mounting overdues and lack of proper implementation of business development plans.
5.3.5 Total Advances

The per-PAC advance by the viable PACS category was around Rs. 40.50 lakh as against Rs. 14.03 lakh by the non-viable PACS category. Advances are considered as the most important determinant of promoting business at the grass root level. However, it is pathetic to note that the percentage of advances to working capital in the non-viable PACS was very low (39.50%) compared to (75.18%) in viable PACS indicating low advancing capability and lack of productive avenues on the part of non-viable PACS. This finding prompts one to raise pertinent questions as to whether advances by non-viable PACS are not attractive to the members, or whether advances were not being sanctioned in time to suit the member's demand for it. On this point, perhaps a time series analysis on actual advances sanctioned by non-viable PACS on society basis would better reveal the constraints of advancing capabilities of non-viable PACS in totality.

5.3.6 Liability Outstanding

The liability outstanding was marginally lower (Rs. 158.91 lakh) in viable PACS as compared to that in the non-viable category (Rs. 161.25 lakh). This position can be attributed to the better advancing capacity of the viable PACS. However, there is no rule as such that a viable PAC should not have more outstanding liability against its members. Liability outstanding is a temporary phenomenon applicable to both viable and non-viable PACS. It may be noted here that the high
volume of liability outstanding during a given period should not be viewed as a negative aspect of the functioning of a PAC, if the recovery performance is satisfactory. Members of both the categories of PACS in the area under study expressed similar views.

5.3.7 Total Demand for Recovery

Total demand for recovery of loans from borrowers is another variable used to between viable and non-viable PACS. It can be observed from the comparative analysis that a viable PAC had Rs. 31.40 lakh demand for recovery of loans as against Rs. 26.30 lakh per PAC in the non-viable category, indicating that the capacity of a viable PAC for grant of advance is more than that of a in non-viable PAC. The action and the policy followed by viable PAC are logical and justified to the extent that the demand for recovery will be converted into furthering loan prospects.

5.3.8 Loan Recovered

In so far as the loan recovery position of viable and non-viable PACS is concerned, it is better in the viable PACS, as it is an indicator of a progressive policy being pursued by their management and staff. In the non-viable group the recovery position was very poor. The better recovery position in respect of viable PACS can be attributed to committed leadership, efficient management, active participation of members, efficient staff. The recovery position among non-viable units is weak due to poor recovery mechanism, lack of committed membership,
etc. Similar findings were observed in a number of studies conducted by NGOs across the country.

5.3.9 Total Overdues

The immediate cause for bad performance of PACS has been the mounting up of dues over a period of time. In fact, the increase in overdues at the grass-root level has a cascading effect on the rural economy. The average overdues per viable PAC were Rs. 3.54 lakh against Rs. 12.71 lakh per non-viable PAC. Heavier the overdues, the worse is the performance of a PAC and extremely large overdues will push the PACS to the brink of closure. The heavy overdues in non-viable PACS are due to crop failure, government's loan waiver policy, increase in the number of defaulters often influenced by other defaulters, lack of effective measures for recovery, lethargic attitude on part of the management and staff, etc.

5.3.10 Total Loss

The loss incurred per PAC in the viable category was Rs. 0.34 lakh as compared to Rs. 1.71 lakh per PAC in non-viable category, indicating the non-viable PACS have been incurring much heavier losses than the viable ones. Further, the loss amount incurred by non-viable PACS far exceeded the profits earned through PDS, implying that banking activity was not so attractive/remunerative to them. It was observed that many of the non-viable PACS lacked the basic banking infrastructure.
5.3.11 Total Profits

Profit is the major determinant of the performance of PACS. The study has revealed that the viable PACS earn more profits than the non-viable ones. High profits in viable PACS are attributable to the adherence to cooperative principles, dynamic and result-oriented leadership, imaginative business propositions without compromising the values of cooperation and better recovery position. The researcher has observed that some non-viable PACS had earned negligible profits in the initial years of the present study, however, this meager profit was eroded by mounting losses during subsequent years of the study pushing them into non-viability trap.

This finding drives one to raise an important question: Should a PAC earn profits? Traditional cooperators opine that PACS are not motivated by profit; to them is the motto behind its creation. But modern cooperators argue that profit is the index of good governance and performance excellence, so the PAC is mandated to earn profit on every activity that it conducts. Profit motive is not bad and in fact it acts as a catalyst in accomplishing the objectives for which the PACS are established. Incurring loss is neither advisable nor desirable for PACS as they have greater responsibility to shoulder at grass root level.

5.4 Perceptions about functioning of PACS

The perception of members helps ascertain the way in which a PAC is functioning and whether it is able to accomplish its objectives. A large
majority of the members admitted that the PAC credit is cheaper than that extended by other rural financial institutions. This perception on the part of members would go a long way in inspiring the fellow members to go in for PAC credit. Also the cheap and easy credit would act as catalyst in the development of the farm sector. This would also promote and strengthen the linkage between credit and marketing which is essential for developing primary sector. Majority of members has opined that availing a loan from PACS is easier than getting from other credit institutions. Rural people believe that PAC is a more convenient institution where they can meet their credit requirements without going through the cumbersome process followed by other institutional agencies.

More than 80 percent of the member—beneficiaries opined that prompt repayment of loan would assure them another loan. This finding is in line with those arrived at by several other researchers. Members still feel that non-repayment or delayed repayment of loan will not only make them un-creditworthy in the eyes of other members. The tendency of non-repayment of loan along with interest amounts to betrayal and cheating other members’ claims for first loans. Many members view regular repayment of loan as very crucial for positive and healthy growth of PACS.
More than one third of the members under study felt that the duration of sanctioning loan was bit longer. This view can be examined from two angles. Firstly, the active members who enjoy intimacy with the PAC office bearers, would get the loan facility within a reasonable time, say within a month. Secondly, those who do not enjoy intimacy and are occasional visitors to PAC would tend to get loan sanctioned rather belatedly. Many feel that the sanctioning deadline should be reduced to a week so that they can make quick decisions relating to their business.

Regarding repayment of loan in instalments, majority of the members (72 percent) have endorsed that the present instalment scheme being followed by PAC is quite easy and convenient. Particularly, the members with small means felt it as most convenient to repay the loan at regular intervals instead of having to pay up in one go instalment.

For 51 percent of members, frequent visits to PAC would affect their day-to-day work. Members need not pay a visit to PAC daily. Even if they visit once a day (the PAC with easy accessibility and being close to the members' residence), it will no way affect their normal duties. Farming is a seasonal occupation and as such the farmer's presence is required during the on-season only and he becomes relatively free during the off-season. Moreover, if one takes a look from other angle like paying a visit to the PAC everyday would only show that their commitment and in turn would induce increasing participation in the PAC's activities. It is
also observed that for many, PAC is a common meeting place especially
during the busy hours. Members make it a point to discuss several farm
issues and would exchange a lot of ideas. Therefore it is rightly pointed
out that visit to PAC is not without purpose.

The other side of the argument is that daily visits to PAC in
connection with follow-up of the loan application are construed as a
negative point against the PAC. This casts doubts on the efficient
functioning of office bearers / managers. In fact, many members in the
sample PACs have expressed this view on the condition of anonymity.
Looking from this angle, the view that visiting PAC daily would affect the
members’ day-to-day working is not without reason and as such it needs
to be assessed under what circumstances these members visit the PAC
and what the reason for their visit is.

More than half of the total members (56 percent) expressed that
the practice of waiver of loan or interest is bad. According to them this
would weaken the economic position of the PAC. They are of the view
that if the policy of waiver continues, it would shake the entire
foundation of sound principles of banking.

As for disbursement of dividend by PACs, 88 percent of the sample
respondents opined that the rate of dividend is low. Their contention is
that a high rate of dividend would attract non-members to become
members of PACs. When the researcher clarified that the rate of
dividend depends upon the profitability of PACs, the members’ reaction
became totally different. For instance, they attributed non-declaration or low rate of dividends to mis-management of funds, low turnover and failure to disburse loans on time.

5.5 Viability Model

The results of the study reveal that all the three important product/service portfolios of a PAC, viz., income from lending business (ILB), income from input sales (SAl), income from sale of consumer goods (SCG) had positive signs. This means that increase in the share of these portfolios in the total business will have a positive impact on the profit as compared to the corresponding increase in the share of deposit mobilisation. This is because the share of the latter is taken as a reference and the impact of other portfolios is relative to this reference portfolio. This may be because PACS are ill equipped to mobilise deposits in the absence of cash counters, safety vaults, etc. Moreover, these three product/service portfolios constitute a significant proportion of the total activity of the PACS and probably have a greater bearing on their profitability, and hence on their viability.

Further, a comparison of the impact of the product/service portfolios provides two important revelations. Firstly, the level of sale of consumer goods has the highest impact followed by lending and sale of agricultural inputs as determined by the standardised coefficients. Secondly, income from lending indicates the highest profitability followed by sale of consumer goods and then the sale of agricultural inputs. This
suggests that the cooperatives would do well to concentrate on the credit portfolio among other activities. This is because production activity in agriculture facilitated by credit-linked input sales will augment the demand for consumer goods through higher incomes of the members.

The positive effect of the delinquency ratio is contrary to the expected behaviour. But it is one of the least important variables explaining the profitability as shown by the standardised coefficient and elasticity. As the data used in the study coincided with the period when the policy of loan waiver was announced, the PACS may have received funds from the DCCBs, which they may have deployed to improve profitability. This could be the reason for this result being the contrary to the expected result.

The gross margin is the most important variable explaining profitability as is exhibited by the standardised coefficient. Indeed, it has the highest impact as can be seen from the elasticity. But this margin is obtained from the total business operations of PACS and not from any single product / service portfolio like loan or input service. This implies that the increase in interest rate is not the only route for improving the total margin. In fact the margins from other services are also equally important particularly because they are complementary and entail some resources such as establishment expenses underlying transaction costs.

The transaction costs and cost on funds expectedly have an inverse relationship with profit. In other words, as the economies of
scale in transaction and financial costs emerge, the profitability of PACS improves and thereby their viability. These economies have greater impact on the gross margin than on the product / service portfolios as can be seen from both the standard coefficients and elasticities. Hence, reaping these economies through judicious expansion of product / service component of their operations is essential for improving the viability of PACS.

Conclusions

The following inferences may be drawn from the viability model.

Firstly, improving gross margin (profitability) is the most important determinant for increasing the viability of PACS. This does not however, imply that interest rate chargeable on advances has to be increased.

Secondly, many of the operations at the PACS level are more complementary and hence the margins derived from other services are equally important for improving the viability.

Thirdly, rural loan being interest elastic and as such any increase in lending rate would reduce the volume of business which would damage the institution itself in addition to adversely affecting agricultural growth.

Fourthly, the evidence on scale economies suggests that the PACS have not exploited the potential for expansion and viability fully. This may be due to centralised and bureaucratic decision making, that is
vertically integrated into three-tier structure. Thus, what is required is more decentralised autonomous and accountable operations of PACS, and

**Finally,** restraint on increases in both lending and deposit interest rates are required so that the PACS can expand to fully exploit the scale economies in costs that they do have.