VI SUMMARY AND CONCLUSIONS

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CHAPTER VI

SUMMARY AND CONCLUSIONS

This chapter presents the brief summary and conclusions of the present study including the policy implications emanating from it. It also attempts to list the avenues for further research in the area. The chapter is organized as under.

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6.1 Summary

Cooperative credit plays a crucial role in the rural credit delivery system in India. The cooperative credit institutions are the prime institutional agencies for dispensation of credit for agricultural and rural development. The cooperative credit structure, however, continues to be crippled by numerous problems in spite of their physical strength, geographical spread and experience over the past many decades. The development of the primary sector depends mainly upon the timely, regular and adequate supply of necessary inputs. Credit is one of the vital inputs, which helps enhance agricultural production and raise the income of the farmers to extricate them from the vicious circle of poverty.
The Primary Agricultural Credit Societies (PACS) form the basic foundation on which the entire cooperative credit structure is built.

Ever since their inception in 1904 the PACS have been playing a significant role in making institutional credit accessible to the farmers. However, all is not well with the functioning of PACS. Several studies have generalized that majority of primaries are a liability to the economy rather than being the positive agents of rural development. It is against this backdrop that the present study was undertaken to analyze the economic performance of PACS in Karnataka with special reference to Bangalore rural and urban districts during the period 1986-2000.

Following are the specific objectives of the study.

1. To analyze the growth of PACS.
2. To evaluate the performance of PACS.
3. To examine the causes for economic non-viability of PACS.
4. To document the perceptions of members about the functioning of PACS.
5. To develop a Viability model for strengthening PACS.

The major objective of the study was to examine the causes for economic non-viability of PACS in the study area. Towards this end a non-viable PAC was defined as one which was incurring continuous losses for more than three consecutive years. The data for the study were collected at two levels. First, the secondary data relating to the growth and performance of PACS were collected from the Annual Reports.
of Department of Cooperation, Government of Karnataka, and also from the Government of Karnataka Directorate of Economics and Statistics. Secondly, primary data relating to the sample PACS in Bangalore Rural and Urban districts were collected by using the direct personal interview method with the help of a structured schedule of questions. The information relating to financial transactions was collected from balance sheets, profit & loss account and receipts & payments statements of select PACS. The variables indicative of the performance of PACS was also examined by using simple statistical methods. On the basis of analysis of the data a viability model was developed using simple regression analysis to identify the criteria determining the viability / non-viability of the PACS.

6.2 Major Findings

The major findings of the study are presented as under:

1. The number of PACS in the districts of Karnataka registered a decreasing trend during the period under study. This was mainly due to the reorganisation of the PACS effected through amalgamation of weaker societies.

2. The membership of PACS indicated an increasing trend during the period under study. The membership per society also increased in all the districts except Dharwad.

3. The total share capital of PACS as also the per-society share capital increased during the study period. Increase in the total share capital
over the years could be attributed mainly to the increase in membership as well as increased contributions by the government.

4. There has been a steady increase in growth of deposits in all the districts of the state except Bidar district where the rate of growth is rather low.

5. The percentage of deposits to working capital of PACS in the state has decreased during the period from 1986-87 to 1999-2000. The performance in terms of self-reliance in raising financial resources has worsened over the years although the membership, share capital, working capital and deposits have increased. Similar trend was observed with regard to the proportion of deposits to working capital.

6. There was an increase in the total working capital of PACS in all the districts of the state except Chitradurga district. Working capital per member for the state as a whole has increased. The deposit position and its growth were similar to that of working capital.

7. The amount of loans advanced, loans advanced per society as well as per member by PACS increased in all the districts of Karnataka during the study period.

8. The total loans recovered by PACS steadily increased recording a growth of 15.37 percent.

9. There has been continuous increase in the total PAC loans outstanding during the period under study.
10. The total over dues of PACS had increased from Rs. 131.09 crore in 1986 – 87 to Rs. 448.96 crore in 1999 – 2000.

11. The members of both viable and non-viable PACS had awareness about the services provided by the PACS.

12. Majority of the members expressed satisfaction regarding most of the performance indicators of PACS.

13. Improving gross margin (profitability) is the most important determinant of increasing the viability of PACS. This does not mean that the interest rate on advances has to be increased. Many activities of a PAC are more complementary and hence the profit margins derived from other services are as important as providing credit, for improving its viability.

14. Rural loan being generally interest elastic, any increase in the lending rate would reduce the volume of business which would damage the institution itself in addition to adversely affecting agricultural development.

15. The evidence on scale economies suggests that the PACS have not exploited the potential for expansion and viability fully. This is attributable to centralized and bureaucratic decision making in a vertically integrated three-tier cooperative structure. Decentralization and autonomy would help PACS to adopt more flexible operational procedures in their business thereby improving their viability.
16. The proportion of the government's contribution to the share capital was higher (38 per cent) in respect of non-viable PACS as against viable ones (21 per cent). This indicates that non-viable cooperatives have, over the years, made no efforts at expanding their capital base.

6.3 Policy Implications

Following are the important policy implications of the present study which can as well be construed as suggestions to improve the working efficiency of the PACS.

1. The owned funds of PACS are only marginal. So there is a need to augment them. For this purpose additional contributions may be sought from the members during appropriate time, like the harvest season.

2. The share of deposits in the total working capital of PACS needs to be raised further. The PACS need to inculcate thrift and banking habits among the farmers. They should introduce suitable and attractive deposit schemes instead of creating forced deposits by deducting a part of the amount of loan advanced.

3. The majority of the PACS have failed to deploy idle funds. The present service area approach may be monitored periodically so as to explore and expedite the new avenues of profitable lending. For this purpose the PACS may evolve a suitable strategy in the form of diversification of the lending / investment portfolio.
4. Loan recovery of PACS is very poor in the state. In order to improve the overall recovery performance particularly in respect of the overdues, case-by-case investigation of each member-borrower's overdues should be taken up and an effective follow-up action initiated.

5. The credit sanctioned is often not utilized for the purpose for which it was sanctioned. Sometimes the credit amount might not be adequate enough for the desired purpose. This coupled with delayed sanction disbursal of the loan would lead to unproductive use of the PAC credit.

6. The operational efficiency of PACS in general and credit efficiency in particular are far from satisfactory, whatever the yardstick used to measure them. In order to infuse the overall efficiency in the matter of credit, the credit management system on the lines of Management Information System (MIS) may be introduced by streamlining the credit affairs on scientific lines. Adequate and timely credit, pre-sanction appraisal, post-sanction monitoring, guidance on technical matters, assessment of income generated out of the credit amount disbursed by marketing-linked credit, building of personal rapport with the borrowing members, simplicity in credit procedures, thrust on kind component etc, would go a long way in making the functioning of the PACS effective.

7. The member-borrowers lack credit discipline which needs to be imbibed by the PAC management. The officials of PACS need to be formally trained in this regard. There should be an extensive borrower-
education through mass media and other publicity means. Success stories of hundred percent recoveries in different areas of the cooperative sector should be documented and propagated among weak recovery cooperatives.

8. The members / villages posing organized resistance for recovery with a defiant non-repayment attitude should be blacklisted for any credit support from institutional agencies. On a selective basis the PACS may identify NGO’s and other appropriate agencies for taking up collection drive particularly in a backward region.

9. Appropriate awareness and orientation programmes for the members of the elected management, and in–society training for the staff of PACS may be contemplated with a view to instilling requisite expertise and skills among the cooperative personnel on different dimensions of cooperative management.

10. Assistance in the form of infrastructure development and one-time financial bailout may be provided to the weak PACS by the government, subject to repayment later on when the financial position of the concerned PAC improves.

11. If the DCCBs are reluctant to refinance the non-agricultural medium term loans for house building, consumer durables etc, The State Cooperative Banks should come forward to advance loans to PACS directly.
12. A state level committee may be formed to assess the financial position of the societies for provision of assistance under Cooperative Development Fund (CDF) to enable them to attain viability. For this purpose a few PACS may be selected on a pilot basis for guidance and financial support.

13. Adequate measures may be taken to restore democratic functioning and reduce government interference. This calls for active participation by the managing committee on every aspect of functioning of business. With a view to keep the political forces and interference away from functioning of the PACS the NABARD should be armed with adequate laws to strengthen the shoulders of PACS for elimination of erring members. NABARD should be empowered to initiate such action, as the registrar of cooperatives is unable to enforce the various sections of the State Cooperative Act. The registrar should not ban the loan recovery proceedings, as it will affect the business proposition of the PACS.

14. The management committee should encourage implementation of the Business Development Plan (BDP) and exchange of ideas between it and the staff in the area

15. The present loan waiver schemes of central and state governments have vitiated the recovery climate and enhanced the number of willful defaulters. The governments should put an end for such populist and cheap political gimmick and thereby save PACS from becoming non-viable.
16. The principle of DAMDUPAT is in vogue. Under this principle the PAC is unable to recover the amount from the borrower. On the contrary the refinancing bank recovers the entire amount from the PAC. Taking advantage of this situation the willful defaulters keep waiting for their interest to exceed the principal amount.

17. The PACS need to structure the credit planning, allocation and disbursement in an efficient manner. A systematic implementation of these programmes requires computerization with networking facility on wide-area basis. So far only 6.5 per cent of the cooperatives are networked. Given the coverage and spread, it is imperative that the smaller cooperative institutions need to hook on to the cooperative network for increasing the volume of their business.

18. With the advent of the new economic regime based on globalization principle the vulnerable sections will be affected severely, more so in rural India due to severe competition from private / corporate sector. In this situation the PACS may be used as effective safety nets against the ill effects of market-driven development process.

19. The PACS should be made accountable. The staff of the society should be held personally responsible for overdues, by fixing monthly targets and by taking steps to improve the business. They should also be held responsible for frauds, for updating office records, audit compliance and balancing of accounts. In majority of PACS periodical and regular auditing is absent. The annual audit of accounts should be taken up
within three months of the closure of the financial year to instill public confidence. Wherever auditing is pending, the PACS should be permitted to get it done by qualified Chartered Accountants.

20. Weaker PACS are surviving at the cost of the *bona fide* members. They need to be merged with the stronger ones and the Coperative Development Fund (CDF) assistance may be extended directly instead of routing it through SCBs /DCCBs.

21. To strengthen the PACS as the grassroots-level credit institutions, all members should be covered under kissan credit card system, crop insurance scheme, deposit incentive scheme etc, to make credit mobilization attractive.

22. At present the PACS are deprived of reasonable margins on their business, it is therefore suggested that the sufficient margin may be provided in agro - business undertaken by them. In addition to this transport rebate on PDS activities should be revised with retrospective effect and benefits be passed on to the society. Shortages in weighment of PDS items received from the Civil Supplies Department should be checked as it affects the profit margins of the society in PDS business.

23. Additional share capital may be raised from the existing members to strengthen the capital base and improve the borrowing power of members of PACS and PACS themselves. Dividends should be declared during the year of profit. Dividends may be transferred to the share account of the concerned member to strengthen the individual share capital contribution.
24. Steps should be initiated to cancel the membership of inactive members of the society. For this purpose suitable amendments may be made to the existing Act. The defaulted members of the society should be declared ineligible to exercise their voting rights. Performance-linked voting rights may be considered for effective reduction of defaulters.

25. PACS at their end may organize Self Help Groups (SHG's) with the women members of the poorer strata of the society and collect deposits from them and such deposits should be linked to credit. This will help them building up their resources and also to provide a level-playing field for deploying funds.

26. The higher-tier cooperative institutions including NABARD should earmark a specified percentage of their profits for providing infrastructure facilities to PACS. NABARD should consider concessional refinance to non-defaulting societies.

27. Each SCB /DCCB should set up a separate cell to closely monitor the viability of PACS on individual society basis.

28. Participation of women members in the management of the PACS should be increased. This not only ensures gender equity in cooperative management but infuses greater amount of commitment on the board of directors.

6.4 Conclusions

1. While the state and federal cooperatives on their own initiative have been trying out exercises of turnaround of the non-viability of
PACS, the cooperative law is very much silent on the role of the state in case of non-viability of a cooperative. A suitable policy framework may be evolved on the part of the state and on its role in such instances. Since cooperatives are member-owned democratic organizations, the first step of board of management should be to present the facts before the members in the annual general meeting. Evaluating a cooperative on the basis of its performance is an important observation being done by the cooperative auditors. It would be worth while to add another component, viz., monitoring every activity of PACS so that any defect in the performance of a particular function could be diagnosed in time and necessary action initiated from the management. Keeping the democratic character of the cooperatives in view, it would be necessary for the cooperative concerned to draw up alternative plans of turnaround or liquidation and place it before the general body for the members to ratify the same.

2. Policy on rehabilitation would have to include a separate clause that requires the concurrence of the members in the turnaround activity. The policy will have to clearly lay down the extent of commitment the members have to express to bring the cooperatives back on the track. This is to ensure that the members are basically interested in promoting cooperatives. They should feel convinced of the need for the cooperative to exist and feel confident enough that further investment would translate itself into the turning around of the cooperative. Even a
rehabilitation plan initiated by the state or by any financing agency (NABARD) will have to be in accordance with the commitment from members in terms of usage of services and capital contribution. In essence this means that the members should be interested in such a turnaround.

The following aspects may be considered in the model viability package for PACS.

i) The viability package may be formulated by broadly concentrating on the indicators of non-viability. It would be worthwhile to examine some of these indicators and see on what lines the turnaround has to be formulated and what the nature of the alternative viable package could be.

ii) Viability of PACS depends on several factors and the weightage assigned to these variables in the study are to be examined as to what the contribution of these variables to the non-viability of PACS would be. A viable model would basically depend on the contribution of each of the components of the function to the score.

iii) The liability outstanding in both the viable and non-viable groups of PACS illustrates the financial stakes the members have in their institutions and therefore explain the interest of the members in the health of the cooperative. Once the members' stakes in the cooperative are made heavier, their interest in sustaining the cooperative and controlling its activities will increase. In view of this, it is essential that
any model viability plan will have to focus on the financial commitment from the members in the form of capital contribution.

iv) The other aspect that requires greater attention in the viable plan is poor recovery of loans. In view of the higher cost of recovery, interest waiver policy, delay in deciding cases and poor real income on the part of member–borrower, the financing bank may reschedule the short-term agricultural loans into medium term loans to ease the incidence of immediate liability. Inventory management may also be included in the package.

v) There exists a big difference in the costs of credit operations and gross margin on credit in PACS. So a cooperative which is already on the verge of becoming sick will have to streamline this line of business on top priority in its viable plan.

vi) Yet another aspect that needs closer attention is fund expenditure. Fund expenditure may be defined as all those expenses, which result in outflow from the cooperative. This would include a major chunk of the overheads, which may be one of the causes of non-viability. Reducing overheads is not that simple, especially, if it is in the form of salaries. A model plan may include all such elements of cost cutting exercise if the policy is favourable towards such an action.

vii) The cooperatives have equal voting right for members irrespective of their share contribution. Having such a principle, it is argued, would not address the issues of survival and business growth, although it
would be more democratic and equitable. The cooperative governance structure would derive its power from the members who do maximum business with the cooperative and would be driven by the desire to maximize the return to the members per unit of business done with the cooperative (Shah, 1990). While evolving a workable strategy for rehabilitating non-viable cooperatives, there is need to have a re-look at this rather outdated principle in order to encourage willing and able members to contribute more financially and in terms of management participation. The present study suggests that cooperatives should be accorded total autonomy and continuity in the democratic character of management to accomplish its envisaged objectives.

6.5 Avenues for further research

The following areas in the subject are suggested for further research.

The list is only indicative and not exhaustive.

* The present study was confined to the period 1986-2000, hence the impact of the new cooperative legislation called the "The Karnataka Souhardha Sahakari Act 1997" (came into force on 1st January 2001) on the PACS could not be dealt with in the study. The recent legislation will have far reaching implications for cooperatives in several matters including registration of societies, financial participation of the government, role of the registrar of cooperatives, elections, etc. These would provide prospective agenda for further research on cooperatives.
The present study has made an attempt to analyze some important physical and financial indicators determining the economic viability of PACS, however the other determinants like management, nature of membership, nature of cooperative rules and procedures, gender inequality, training of personnel, etc., could not be touched upon in the present study for want of time and resources. These aspects also have a decisive impact on the viability of PACS. Research is required to throw more light on their effect on PAC viability.

The cooperatives are considered as an engine of development at grassroots level. The all-round development of such institutions requires active and meaningful participation of its members. Unfortunately, the cooperatives at the grassroots have met with limited success in this endeavour. This may be due to several factors like behavioral pattern of the members, their perception towards the functioning of PACS, their expectations, exploitation by vested interests and realization of benefits, etc. However, the studies dealing with these aspects particularly in backward regions are very few and far between. Therefore, future research would do well to focus on these aspects through a multi-disciplinary approach.

A significant observation of the present study is that poor recovery and mounting overdues of loans affect the all-round performance of the PACS. However, the nature of recovery mechanism and factors
responsible for mounting overdues could not be dealt with as the they were outside the purview of this study. These aspects deserve detailed probe.

The question of how cooperatives are structurally different from other forms of organizations, also has to be addressed. It is shown in the present study that the nature of non-viability is reflected in financial terms. However, the argument that it is the management factors which are the real indicators and they show up first and later get translated into financial factors (Guptha and Sekhar, 1988) has to be inquired into. Given member-oriented organizational structure, which runs on the basis of a democratically elected management on the one hand and is expected to disburse its surpluses in accordance to the usage on the other, do the nature and style of management differ? Future research on cooperative management will have to address such questions.

* The data across the country shows that the large stakeholders are managing the successful cooperatives. The quality of the management that exists in such cooperatives (viable PACS) would have to be studied in this perspective. It was not possible to use such an approach in the present study because of the nature of data collected. Nevertheless several such success stories need to be studied in depth before generalizations could be drawn.