

CHAPTER - 5VIABILITY OF PACS IN BELGAUM DISTRICT5.1) VIABILITY CONCEPTUAL FOUNDATION:

The term viability broadly denotes the capacity of an organisation to live and grow. An organisation can become and remain viable if it satisfies the objectives of its members, by combining the technological efficiency, financial soundness and effectiveness of service.<sup>1</sup> A Co-operative organisation to be regarded as viable unit should successfully answer its members needs as well as the needs of surrounding and participant community<sup>2</sup>. An institution can be deemed to be viable if the income earned by it is sufficient to cover its operational expenditure and leaves a certain amount of surplus to pay a reasonable return on capital. But profitability cannot be the sole criterion of viability of an institution. Because several organisations with low turnover can earn the profit by economising the establishment and management expenditure. A more appropriate test of viability would be, therefore, to examine how far a unit is able to carry out the role assigned to it, effectively and efficiently. A primary Agricultural Co-operative Credit Society is expected to possess adequate membership, mobilise the rural savings in the form of capital, deposits and become self-reliant and to meet the credit-needs of its members. The factors governing the viability of PACS, therefore, should be membership, own resources, deposits, working capital, Loans, profit. Of all these

factors the volume of loans advanced is the most important factor governing the viability because more advances also means more number of members served, more profit, more reserves and surplus. For the determination of the viability of PACS, therefore, the computation of the volume of advances is sine-qua-non. It would certainly be a guiding stone for policy makers in determination of the norms of viability. An exercise into determination of volume of loans by PACS, sufficient to yield a revenue which may cover the operational expenses is made by the researcher. The Break-Even-Analysis has been used for the purpose.

#### 5.2) THE NEED TO SPELL OUT NORMS OF VIABILITY FOR PACS:

The economic viability is the fundamental requirement of any form of business organisation. But this important aspect remained, some what, neglected upto the end of fourth five-year plan. Untill this period the emphasis of the government was on mere quantitative expansion. The All India Rural Credit Review Committee (1969) in its report stressed the need viability at the primary stage of co-operative credit structure. As a result of this recommendation, the process of reorganisation of PACS got the momentum and it has already been completed in all states except Gujrath, Jammu-Kashmir and Maharashtra. The number of PACS, due to this process of reorganisation, in India as on 30th June, 1986 were 92,430 as against 1,16,125 in 1977-78.

In-spite of these unrelented endeavour to strengthen the PACS in most of the states, a bulk of societies continue to have

low membership, low business turnover and high level of overdues resulting in accumulation of losses. Thus many of them continue to be non-viable. The minimum level of loan business of Rs.2 lakhs which was considered adequate for viability in 1976, does not hold good in the present context due to numerous reasons such as revision of rates of interest, escalation in office and administrative overheads of PACS.

To review the norms of viability of PACS prescribed by RBI, a decade ago, the NABARD has recently undertaken studies in selected areas. The findings of the study Prima-facie revealed that there is an urgent need for upward revision of the viability norms of PACS<sup>3</sup>. On this background, the regional studies of the viability norms of PACS would be significant. An attempt is, therefore, made by the researcher to probe into the viability of PACS in the Belgaum district and ascertain the minimum level of loan business to be considered adequate for the viability of PACS.

### 5.3) NORMS OF VIABILITY OF PACS IN BELGAUM:

The norms set by the R.B.I. in 1976 in respect of viability of PACS were in force in Belgaum district for last several year. They were as follows<sup>4</sup>.

1) Each society should cover 5,000/- acres of gross cultivated area.

2) The area of operation should, as far as possible, not to exceed a radius of 8 kms. from the headquarters of the society.

- 3) The society should have a minimum short-term lending potential to the extent of Rs.2 lakhs.
- 4) There should normally be not more than one society in a village.
- 5) As far as may be, there should be no overlapping in the area of operation of the co-operative societies.
- 6) Each Society should be capable of serving at least 600 families.

The above norms, however, have been altered in the recent years. The minimum short-term lending limit of Rs.2 lakhs in condition no.(3) above has been raised upto Rs.5 lakhs for viable societies and Rs.2 lakh for potentially viable units. The PACS with S.T. advances of less than Rs.2 lakh are considered weak societies and those in continuous loss for more than 3 years and borrowings more than outstanding advances are deemed to be dormant societies.

#### 5.4) THE VALIDITY OF EXISTING NORMS:

The data pertaining to the viability and profitability of PACS in Belgaum during the years of reference clearly brings out the fact that though the percentage of viable PACS in Belgaum has been showing a step increase from 73 percent in 1984-85 to 81 percent in 1986-87 the percentage of profitable societies is declining from 58 percent in 1984-85 to 54 percent in 1986-87. The percentage of profitable societies to viable societies also

TABLE NO. 51  
TABLE SHOWING VIABILITY AND PROFITABILITY OF PACS  
IN BELGAUM

Items	1984-85	1985-86	1986-87
No. of viable PACS	356 (73)	356 (76)	378 (81)
No. of Profitable PACS	284 (58)	229 (49)	255 (54)
Total No. of PACS	489 (100)	468 (100)	468 (100)
Percentage of Profitable to viable societies	80	64	67

Note: Figures in the perentheses are percentages to the total No. of PACS.

has declined from 80 percent in 1984-85 to 67 percent in 1986-87. Thus all these trends reveal the fact that though the number of societies lending above the limit specified for viability (i.e. Rs.5 lakhs) is increasing the societies actually making the profits is declining. It means that the norms of viability set are becoming invalid with the lapse of time due to constant increase in operational expenses and there is a genuine need to revise the norms of viability.

#### 5.5) BREAK-EVEN ANALYSIS:

Break-even analysis also known as cost-volume-profit analysis is a technique used in cost accounting to determine

the profit at any level of activity. It establishes the relationship of cost, volume and profit. It also enables us to ascertain the break-even volume of business i.e. the volume of turnover to earn a revenue enough to cover all the expenses both fixed and variable. The break-even analysis may be made mathematically by establishing relationship between cost, volume and profit.

A break even point is the level of sales volume at which there is neither profit nor loss or it is the volume of turnover at which the revenue earned is sufficient to cover the variable as well as fixed costs of carrying the business. The algebraic equation to derive such volume of business is as under:

$$\text{Break-Even Sales Volume} = \frac{\text{Fixed Cost}}{\frac{\text{Sales per unit} - \text{variable cost per unit}}{\text{Sales per unit}}}$$

A turnover in excess of break-even sales volume results in profit whereas the turnover in short of it results in loss.

#### 5.6) COMPUTATION OF BREAK EVEN VOLUME OF ADVANCES FOR PACS IN BELGAUM:

The PACS in Belgaum district, normally called as Vyavasaya Seva Sahakari Sangh, have assumed multipurpose operations such as sales of inputs and consumer goods alongwith disbursement of credit. On persual of the Profit and Loss Account of an average PACS in Belgaum district for the year ended 30 June, 1987 it could be observed that income from trading business is the second major source of income in addition to the interest on advances and

PROFIT AND LOSS ACCOUNT OF AN AVERAGEPACS IN BELGAUM DISTRICT

for the year ended 30 June, 1987

Dr.			Cr.
Expenditure	Rs.	Income	Rs.
1. Interest paid on deposits and borrowings	83,907	1. Interest and discount on Loans and Advances	99,859
2. Salaries and allowances	15,825	2. Interest on Investment in Govt and other securities	7,512
3. Directors and Committee members fees.	202	3. Rent	242
4. Rent, Taxes, Insurance, and Lighting.	505	4. Subsidies & donations	223
5. Law charges	333	5. Income from trading business.	20,865
6. Postage & Telegrams etc.	642	6. Other Receipts	-
7. Auditors fees	1,507	7. Loss if any	841
8. Depreciation and Repairs to assets	480		
9. Stationery, Printing & Advertisement.	1,667		
10. Other expenditure	2,840		
11. Provisions for bad and doubtful debts	21,634		
<b>TOTAL</b>	<b>1,29,542</b>	<b>Total</b>	<b>1,29,542</b>

and investments. The margin of profit from such trading-business varies from item to item. Hence without entering into the details of their trading business, it is assumed that the net profit in such trading business will reduce the fixed expenses of PACS business.

Secondly, the margin of societies in the lending business has no uniformity. Hence it is assumed that Societies lend at  $11\frac{1}{2}$  percent interest, the funds which they borrow at 9 percent from D.C.C.Bank. Thus there remains a margin (contribution) of  $2\frac{1}{2}$  percent on advances recovered amounting to Rs.111 $\frac{1}{2}$ . If PACS borrows the amount of Rs.100 from central financing agencies it can advance the same and earn a sales revenue of Rs.111 $\frac{1}{2}$  out of which its variable cost will be Rs.109 to be paid to central financing agencies leaving a margin of Rs.2 $\frac{1}{2}$  ( i.e.

Sales revenue            -    Variable cost of sale  
Rs.111 $\frac{1}{2}$                     -            109                                    )

Break-Even Advances Volume =  $\frac{\text{Fixed Cost of Operation}}{\text{Advances Receivable} - \text{Cost of Advances}}$   
Advances Receivable.

Fixed Cost of Operation of PACS = Total of items 2 to 11 in the profit and loss Account Expenditure side.

= Rs.45,635    ..                    ...                    ..                    I

Miscellaneous Income = Total of items 2 to 5 on income side of Profit and Loss Account

= Rs.28,842    ..                    ...                    ..                    II

NET FIXED COST OF OPERATION

( i.e. I minus II)                    = 45,635 - 28,842  
= Rs.16,793.

∴ Break-even Advances Volume =  $\frac{16,793}{2\frac{1}{2}}$

$\frac{111\frac{1}{2}}{2\frac{1}{2}}$   
= Rs.7.50 lakh approximately.



### 5.7) CONCLUSION:

Despite the continuous efforts on the part of the government regulatory agencies to strengthen the PACS through the programme of reconstruction, bulk of the societies continue to be non-viable units. The minimum level of loan business of Rs.2 lakhs, which was deemed adequate for viability in 1976, does not hold good in the present circumstances due to several reasons such as revision of rates of interest, escalation in administrative overheads etc. The studies undertaken by the NABARD in the recent years, to review the norms of viability of PACS prescribed by R.B.I. a decade ago, have revealed that there is an urgent need for upward revision of the viability norms.

The analysis of viability and profitability of PACS in Belgaum show that the revised norms of viability (i.e. a loaning business of Rs.5 lakhs) are also becoming invalid with the passage of time.

Profit cannot be the sole criterion of viability of an institution. A most appropriate test of viability, therefore, would be to examine how far a unit is able to carry out the role assigned to it effectively and efficiently. The factors governing the viability of PACS, therefore, should be membership deposits, reserves and surplus, working capital, profits and advances of all these factors volume of loans advanced is the most significant. An exercise into determination of volume of loans by PACS, sufficient to yield a revenue which may cover

the operational expenses, is made by the researcher. The break-even analysis was used to do this.

A break-even point is a level of turnover at which the revenue earned is sufficient to cover the variable as well as fixed costs of operation. As per the results of the analysis the minimum level of advances for an average PACS in Belgaum district to break even is Rs.7.50 lakhs approximately.

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