

CHAPTER V

AN ANALYSIS AND INTERPRETATION OF OPERATIONAL  
DIFFICULTIES OF THE PACS.

1. Management and Supervision of Loan  
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## CHAPTER V

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DIFFICULTIES OF THE PACS.

In conformity with the objectives and hypothesis laid down in the first chapter the researcher has gone in detail through the credit and non-credit operations of the thirteen selected PACS in Barshi taluka. Operational difficulties of PACS can be analysed in the light of this study. Difficulties of PACS which affect the operations of the PACS have been brought in the light of different study groups from time to time. But still this attempt has been made by the researcher due to the apparently weak financial conditions of PACS in Barshi taluka. In recent years the membership of PACS has been almost stagnant. Therefore, there is no contribution to the share capital of PACS. It is not possible for small societies to achieve all the objectives laid down in the bye-laws. Operational difficulties before the PACS can be explained as follows:

1. Management and Supervision of Loan Operations.

It is the most vital aspect of working of any financial institution. It has great influence on the successful working of the PACS. Hence, arrangements for supervision of credit for agricultural operations have been felt essential right

from the beginning. Earlier this responsibility was rested with the cooperative department of the States. But in course of time, it was found that this responsibility was not carefully performed by the cooperative department. The RBI, therefore, suggested that supervision should be segregated from the department and should be assigned to the financing agency to enable credit and supervision to go hand in hand with each other, so that efforts for recoveries could be sincere and earnest. Direct and indirect supervision of loan operations of PACS is done by the bank inspectors of DCC bank. But such supervision is not effective as it does not prevent the misutilisation of loans, it is only helpful in ascertaining the creditworthiness of the borrowing members. It is learnt through the questionnaire filled in by the secretaries of the selected PACS that utilisation of short and medium term loans has not been strictly supervised neither by the supervisors of DCC bank nor by the managing committee of the PACS. Due to lack of proper and effective management of loan operations it goes difficult for the PACS to recover the loans and to borrow from the DCC bank. It is also observed that PACS having educated members on managing committee have successfully managed their loan operations. Vairag PACS is very good example in this respect. But majority of the selected PACS donot have active managing committee. Managing committee members are not taking active part in the

work of recovery of loans. Managing committee does not dare to take action against the defaulters. Secretary himself has to tackle all such problems. He, therefore, has always to rely upon the supervisors of the DCC bank for the recovery of the overdues. Thus, eventhough the PACS have their own managing committee, societies have to look at DCC bank for managing its loan operations. All powers regarding sanction of loans, recovery of loans and action against defaulting members are vested with the DCC bank. PACS do not have any freedom of action in this regard. Therefore, now a days, PACS are remained only credit distribution agency. Eventhough the managing committee has right and powers in respect of loan operations, they are not exercised in actual practice. Thus, lack of efficient management of affairs of PACS increases the overdues and ultimately decreases the borrowing power of the PACS.

## 2. Influence of Irrigation Facilities on Loan Operations:

Working of the PACS is always affected by famine and draught. Lack of sufficient irrigation facilities and uncertainty of monsoon is one of the major agricultural problems in India. While studying the credit and non-credit operations of sample PACS it is observed that PACS having irrigation facilities in their area of operation have succeeded in lending and recovery of short term loans as compared

to other PACS. Pathari PACS has been purposely selected for studying the impact of irrigation facilities on its loan operations. Members of this society have been endowed with the irrigation facilities of Pathari Tank, as a result of which this society has distributed the highest amount of short term loan and showed highest percentage of distribution of loan (see Table 4.51). Recovery percentage of this society is also the highest (70%) among all the selected PACS. This society, eventhough, is small, has shown progressive trend in all respects in the last three years. From the study of these PACS we can conclude that unless and until agricultural income of the members increases it is not possible for the PACS to improve its operations and financial condition. Financial soundness of PACS depends upon the financial soundness of its members. Therefore, it is of vital importance to increase irrigation facilities in Barshi taluka wherever possible. But this taluka is unfortunate in this respect. Uptilnow efforts have not been made to create new irrigation facilities.

### 3. Influence of Socio-economic and Agro-climatic Conditions on Loan Operations.

As it is explained in the earlier chapter that scales of finance to agriculture through PACS, are fixed for compact areas, each covering one or more talukas, depending upon variations in natural conditions such as rainfall, irrigation

facilities, type of soil, level of improved agricultural practices in vogue etc. Separate scales are laid down for irrigated/unirrigated areas. It is general observation that failure of crop leads to failure of members to repay the crop loan in time. Therefore, they request the Government to give relief from overdues due to failure of crop. Uncertainty of monsoon, irregular agricultural income, poor crop yield etc. affect the loan repaying capacity of the borrowing members. Sometimes agricultural income is just enough to meet the family expenditure. In such a case members show their unwillingness to repay the society's loan. This ultimately increases the overdues of the PACS. Illiteracy among members, small land holdings of majority of the borrowing members and lack of irrigation facilities influence the repayment of cooperative dues. It is told by the secretaries of the selected PACS that borrowers with irrigated land holdings and growing cash crops default less than borrowers with unirrigated land holdings. It is also learnt that the number of defaulters in case of illiterate borrowers is higher than literate borrowers. Thus, this study reveals that the socio-economic factors have an important bearing on repayment of loans of cooperatives. Therefore, socio-economic factors as mentioned above and agro-climatic conditions like late monsoon, draught, traditional type of cropping pattern followed by majority of the farmers, affect the agri-

cultural income and ultimately creates operational difficulties before the PACS.

The current policy of the Government of India is to encourage the commercial banks to undertake direct financing to agriculture. Though this policy is not affecting the operations of PACS directly; but for an effective and successful agricultural credit policy it would be desirable, that finance coming from any agency, should reach the farmers only through the cooperative society. If such policy is followed PACS can get more and more loan business. But the PACS must have strong and efficient managing committee to manage its operations including recovery of loans.

The secretaries of selected PACS were asked with the help of questionnaire to give their views on various aspects of rural credit, viz. adequacy of and timely availability of loans, repayment of loans, cooperation of managing committee in recovery of loans, influence of local politics on operations of PACS, supervision and monitoring of loans etc. Their answers are notable from the point of view of operations of PACS. Majority of the secretaries responded that managing committee is inefficient; overdues are increasing year after year; low agricultural productivity affects recovery performance of PACS etc.

The proportion of non-borrowing membership is very high in all the sample PACS. On an average 85 percent of the total members are non-borrowing members. Though the purpose of this study was not to find out reasons for not borrowing, discussion with some non-borrowing members revealed that they were not sure about their ability to repay the loans, (i.e. their risk bearing capacity was low) and hence they did not borrow even if they wanted to experiment with new technology of production to increase their income. This aspect becomes more important when cooperative societies are managed inefficiently.

#### 4. Measures for Tackling Operational Difficulties.

Credit operations of PACS are closely associated with the agricultural finance. Therefore, for improving the operations and removing its operational difficulties it becomes necessary to improve agricultural practices and to uplift socio-economic conditions of the agriculturists.

Vigilant and close supervision of the utilisation of credit is the prime need to stop diversion of credit. The machinery for supervision of cooperative credit, though exists even today, has never been effective for variety of reasons. However a strict vigilance and effective supervision can certainly stop misutilisation of credit. But this should be



the joint responsibility of the following three bodies:

- a) Supervisory staff of DCC Bank,
- b) Managing Committee of the society, and
- c) Fellow Members.

Supervisory staff of DCC bank should conduct a survey to examine how the borrowers have utilised the credit. Further it would be better to disqualify the managing committee of the society if the amount of overdues or number of defaulters exceeds 70 percent of the total demand or 70 percent of total number of indebted members for a continuous period of two years; provided the society is having a full time paid secretary.

Prof.V.M.Dandekar has suggested that crop insurance scheme may be introduced to fight the problem of overdues. According to the scheme, farmers have to pay a premium every year determined by the crop insurance agency and in lieu thereof they receive protection by way of compensation in the event of losses due to crop failure and damage to agricultural yield. A major difficulty for a crop insurance scheme to become operational is the problem of collecting premiums. Therefore, it is suggested that the crop insurance scheme should be linked on a compulsory basis with the crop loan system. Premium should be deducted from the loan advances. Indemnities should be adjusted against recovery. Thus, ..

integrated with agricultural credit, the crop insurance will involve hardly any additional administration cost. On the other hand this scheme may be a 'good device', not only for the survival of the small and marginal farmers, but also for the stability and well being of the cooperative credit structure. The experiment of this scheme has been in operation in some parts of the State of Maharashtra in respect of some specified crops. At present scope of this scheme is limited due to its operational difficulties.