

Report of the Study on Defunct PACS and Measures for their Revival

Executive Summary

1. Primary Agriculture Credit Societies (PACS) are the foundation on which the entire edifice of the Short Term Cooperative Credit Structure (STCCS) is built.
2. PACS are established by members belonging largely to the farming community especially small and marginal farmers to meet primarily their credit needs and to access other services required by them.
3. While majority of the PACS are extending only crop loans, there are shining examples of PACS which are providing other loans and all other services required by their members including term loans for agriculture, gold loans, safe deposit lockers, input supply, marketing, crop advisory, technical support, custom hiring centres, petrol pumps, super bazaars, Public Distribution System (PDS) etc. Some of the PACS are also engaged in procurement on behalf of the governments and government agencies, providing warehouse facilities, marketing of agri-equipment etc. Some of the PACS in states like Telangana are extending other financial services like RTGS and NEFT etc.
4. More than 12,000 societies were categorized as dormant, defunct and others. Credit needs and other services required by the members in the area of operation of these societies are either unserved or underserved.
5. The Ministry of Cooperation, GoI setup with the mandate of “Sahkar Se Samriddhi” has entrusted the NAFSCOB to study the status of defunct PACS in the country and suggest measures for their revival.
6. Questionnaires were designed to obtain data regarding the status of defunct PACS including the details such as since when the PACS were categorized as defunct, completion

of audit, audit classification, existing assets and liabilities, staff if any, and reasons for PACS being dormant & defunct and circulated amongst all stakeholders.

7. There is no authentic source of information on the status of PACS, leave alone the defunct PACS in the country. NAFSCOB is the only agency which compiles information on the entire STCCS in the country including PACS. As on 31st March, 2021, out of 1 lakh plus PACS, 47,297 PACS were in profit, 37,419 PACS were in losses and no information about the profitability of remaining PACS was available.
8. It is a matter of concern that the PACS which disburse loans more than Rs.2.17 lakh Cr., to about 5.37 Cr., plus small and marginal farmers every year and depend largely on borrowings from higher financing agencies, there is no authentic source of information about their operations. Further, there is no information about the status of their audit, audit classification etc.
9. Although PACS are generally categorized as viable, potentially viable, dormant and defunct, there are no standard or uniform definitions. The State Cooperative Societies Acts and also the Multi State Cooperative Societies Act have not defined dormant or defunct PACS.
10. PACS may be defined as Dormant PACS
 - when it does not start the business within 6 months after its registration.
 - when it is inactive / inoperative / ceased working for more than 6 months i.e., not conducting meetings of general body and board of directors / management committee; not opening the society office; and no member transactions etc.
 - when the number of members is reduced to less than the required minimum number of members as provided in the Act / Rules.
11. PACS may be defined as Defunct PACS
 - when the PACS does not do any business for more than 3 years after its registration.

- when the PACS is inactive / inoperative / ceased working for more than 3 years i.e., not conducting meetings of general body and board of directors / management committee; and no member transactions etc.
- when the number of members is reduced to less than the required minimum number of members as provided in the Act / Rules.
- when the PACS is not audited for more than 3 years or classified as 'D' class society by the Chief Auditor.
- When the doubtful unsecured advances and loss assets and / or when the imbalances exceed the paid-up share capital and reserves of a PACS as per the audit / inspection report.

12. Although all the regions had dormant and defunct PACS, their number was considerably large in Northern, Southern and Eastern Regions. The data in respect of NER was incomplete due to lack of information about PACS in Nagaland.

13. 36.49% PACS were in losses at all India level. Eastern Region had 52.87% of PACS in losses, followed by 45.56% in Western Region. The North Eastern Region seems to be an aberration as there was no information on 7,601 PACS in Nagaland regarding their profitability.

14. Reasons for PACS becoming dormant and defunct include both internal and external reasons.

Internal Reasons

- Lack of participation and involvement in the affairs of a society by the members.
- Lack of participation and involvement of the office bearers / management in the affairs of the society.
- Lack of adequate number of staff and in some societies no staff at all.
- Lack of proper training, capacity building for the staff.
- Lack of motivation amongst the staff and also other personal engagements.
- Lack of focus on business development and business diversification.

- No Standard Operating Procedures (SOPs) for deposits, advances and other services.
- Lack of focus on deposit mobilization.
- Lack of product innovation in deposits, advances and other services.
- Insufficient area of operation to generate sufficient business for viability.
- Lack of adequate infrastructure / under utilization of existing infrastructure.
- Poor loan recoveries and high defaults.
- Continuous Losses.
- Misappropriation of funds/frauds by the management/staff.
- Board Meetings and AGMs not conducted regularly as per the bylaws.
- Over-dues to higher financing agencies.

External Reasons

- Lack of Member Education.
- Lack of orientation / capacity building of office bearers of the society.
- Disconnect between higher financing agencies and PACS.
- Delays in conducting of audit and no follow-up on submission of compliance.
- Delays in conducting of elections.
- Lack of guidance and support from the cooperative department.
- External interference in the affairs of the society particularly in the business of the society.
- Change of incumbency of state governments.
- Lack of proper MIS and lack of structured reviews on the performance of PACS.
- Non-adoption of technology / lack of computerization.

15. Dormancy is the first stage of ailment and if not addressed in time, the societies will eventually become defunct. As prevention is better than cure, efforts should be made to identify the reasons for dormancy as stated earlier in the report and initiate corrective measures soon thereafter to avoid society becoming defunct.

16. Measures for reviving the dormant and defunct PACS:

- Revival of membership and enrolment of new members.
- Member education and awareness.
- Conducting of elections and constitution of Board of Management.
- Capacity building of members of Board of Management, create awareness about their roles and responsibilities.
- Appointment of requisite number of staff as per the business norms, implementation of HR Policy for staff.
- Preparing proper inventory of assets and taking control of the same.
- Financial support for equity, necessary infrastructure, administrative expenses etc., till the society becomes viable.
- Evolving and ensuring implementation of SOPs in respect of deposits, advances and other services.
- Computerization of all the activities of the societies as an ERP solution and not merely for accounting purposes.
- Insulating the PACS and the STCCS from the external interference.
- Introduce a proper MIS to monitor the performance of PACS and institutionalize regular reviews by the higher financing agencies.

17. Revival of the defunct PACS and prevention of PACS from becoming defunct should be the joint responsibility of all the stakeholders right from the GoI to the field functionaries of the DCCB and the cooperation department.

18. GoI should formulate an appropriate Central Sector Scheme to mitigate financial impairment of PACS and extend technical support for capacity building, infrastructure development etc., to facilitate revival of defunct PACS in a given time frame. The scheme should contain a vibrant review mechanism at different levels with the well defined mile stones and active involvement of various stakeholders.

19. As NABARD has the mandate for strengthening of the Cooperative Credit Structure (CCS), it should be identified as the Implementing Agency for the proposed Central Sector Scheme.

20. NABARD should continue to extend support through its ongoing schemes to defunct PACS in addition to the Central Sector Scheme and also extend support for setting up of BDPIs in all the StCBs and PDCs in all DCCBs and StCBs in 2-tier structure.
21. The state governments should participate in the implementation of the Central Sector Scheme and take lead in extending necessary support to PACS through their line departments viz., agriculture, horticulture, fisheries, hand looms etc.
22. StCBs are the leaders of the cooperative movement in states and should play an important role in the implementation of the Central Sector Scheme. StCBs should create an exclusive department / cell to guide and oversee the implementation of the Scheme.
23. DCCBs are the leaders of the cooperative movement in districts. Hence, they should own up the Scheme and ensure proper implementation.
24. If PACS remain dormant or defunct, large number of small and marginal farmers will be unserved or underserved for their credit requirements.
25. The revival process should not be an one time affair. There is a need to put in place an institutionalized arrangement for monitoring, mentoring and extend guidance to the PACS at periodical intervals so that they do not slip back.
26. A 360° survey of PACS including their area of operation, membership, board of management, assets and liabilities, audit position etc., should be caused in respect of all the PACS in the country. And in respect of dormant and defunct societies the survey should also cover how the credit needs of the members are being met after PACS have turned defunct.
27. Based on the survey, defunct PACS and borderline PACS should be identified and PACS specific Strategic Business Development Plans should be prepared and implemented for

them to turn around and become viable within a period of 5 years. Where the revival is not possible, new PACS may be set up to serve the credit needs of farmers.

28. Ministry of Cooperation, GoI, NABARD, NAFSCOB, State Governments and other stakeholders should collaborate and design the Central Sector Scheme for the revival of defunct PACS with an institutionalized review mechanism at different levels for monitoring and guiding the process.

29. With an unmatched outreach and network in the rural areas PACS could be considered as sleeping giants with potential for increasing its business by at least 5 times in the next 5 years and make a difference in the economic development and prosperity of rural areas ushering in an era of 'Sahakar Se Samriddhi'. To realize this objective, there is a need to formulate and implement a Comprehensive Transformation Package suggested as CSS.