

# ***Study Report on Defunct Primary Agricultural Credit Societies (PACS) – Measure for their revival: Special reference to Assam, Meghalaya and Nagaland North Eastern Region***

## **1. EXECUTIVE SUMMARY**

Study Report on Defunct PACS undertaken by MDMI - Measures for their Revival: Special Reference to Assam, Nagaland & Meghalaya on the basis of NAFSCOB letter No /S-132/2022-23/69 dated 01-06-2022.

National Federation of State Cooperative Banks Ltd., an apex organization for the State Cooperative Banks of India, vide their communication under quoted above entrusted The Manpower Development and Management Institute (MDMI) for Cooperative Banks of North-East India to undertake the study on defunct PACS with special reference to Assam, Nagaland and Meghalaya with the following Terms of Reference:

1. Definition of Defunct PACS. Total number of state wise PACS.
2. Number of defunct PACS across the country and their regional profiling.
3. Reasons for non-viability, dormancy and defunctness of PACS.
4. Measures for revival of defunct PACS.
5. Role of State Cooperative Banks (SCBs) and District Central Cooperative Banks(DCCBs), State Government and other stakeholders in revival of defunct PACS.

### **• Introduction:**

Along with various financing institutions, rural cooperative credit institutions have always been an integral part in providing the growing credit needs of the rural populace of India. However, with the increase in demands, the role of these cooperative credit institutions has gradually started diminishing, mostly due to their poor financial health. To understand the reasons behind their poor performances, a number of committees were formed to study the situations and to suggest remedial measures, but there had been little or no improvement of the situation due to lackluster approach to implement the recommendations of these committees for various reasons. The last of these committees was the Task Force constituted by the Govt. of India under the Chairmanship of Prof. A. Vaidyanathan, vide its notification dated 05-08-2004 attributing high priority on revival and revitalization of the cooperative credit structure. The recommendations of this committee for infusion of funds for cleansing of balance sheets of the credit institutions was supposed to be last of the supports provided to revive the credit institutions after which they have either to be self-sustaining or perish from the market.

In this backdrop, a mere look at the report of the Vaidyanathan Committee and the latest position available with NAFSCOB as on March 2020 reveal that at the time of study the Vaidyanathan Committee put the number of PACS in India at 1,12,309 whereas this number has come down to 96,174 as per position available with NAFSCOB showing a decline of 16,135 numbers of PACS within a space of nearly 16 years. This position is obviously not accurate as real and reliable data is not readily available with any agencies. However, this is an indicative factor that even after infusion of huge fund by the Govt. of India and various State Governments revival of PACS did not succeed as desired. Since the implementation of recommendations of the Vaidyanathan Committee was the last outside assistance received by the PACS for their revival, further such assistance may not be available for the PACS which could not achieve sustainability even after the revival package.

As the financial package for revival of Cooperative is to be only one time measure not to be repeated again the next logical question that's come up is who will provide fund for business expansion and diversification. The answer is the members. PACS should open members deposit scheme and to create an enabling environment in which member feels comfortable to deposit his fund.

- **Defunct PACS- Definition:**

The word 'defunct' has not been defined anywhere in the Cooperative Societies Acts of North Eastern Region.

However defunct Cooperative society has been defined in the Central Cooperative Societies Act. as "a Cooperative society which has not carried on Business for three consecutive years or its have not been audited since three or more years."

In the Cooperative societies Act of Assam (Assam Cooperative societies Act, 2007) the situation of a defunct society is found in Sec 94 (2). In that section the provision has been given as to under what circumstances the Registration of a society may be cancelled. The circumstances under which the registration of a society can be cancelled are:

- 1) The society which has not commenced working
- 2) has ceased working
- 3) has ceased to comply materially with any condition as to registration of the Act, Rules or Bye laws and
- 4) In the opinion of the Registrar ought to be disclosed.

The States Meghalaya and Nagaland also follow same procedure as above to define a society as Defunct or cancellation of Registration.

We may term the above conditions are the conditions of a defunct Cooperative society In North East Region, no PACS has been defined as defunct Cooperative society.

- **Reasons for non-viability, dormancy or defunctness:**

Many factors are responsible for non-viability, dormancy or defunctness of these societies.

1. One major reason is the non-involvement of the office bearers in day to day functioning of the societies.
2. Credit function could not flourish as majority of members are defaulters and there is no visible or adequate recovery machinery available to the societies.
3. Dominance of an affluent section of members in the management of the society which cause loss of interest of other members in the affairs of the society.
4. Petty politics of small time local politicians interfering in the functioning of the society.
5. Lack of scopes for diversification of business.
6. Lack of market exposure for selling of produces.
7. Lack of trained manpower for the societies to venture into modern business tactics.
8. Inadequate power supply has left many cold storages and warehouses remain unutilized.
9. SHGs, JLGs etc. working in PACS area has minimized the scopes of the PACS as the beneficiaries can get direct financial assistance from financial institutions/banks.

- **Revival of Defunct PACS:**

1. Support from nodal cooperative institutes like NAFSCOB in arranging for funds or in assisting the institutions working in this line to arrange funds for providing doorstep trainings to the stakeholders on various business models for revival of the societies. Services of MDMI, ICM will be of great help in this regard.
2. Leadership development trainings should be conducted as frequently as possible.
3. Society should form the SHGs, JLGs and arrange their funds so as to keep the members loyal to the society.
4. Officials of State Cooperative Banks also need to be adequately trained to change their mindset so as to infuse the belief that the Bank prospers when the societies prosper.
5. The StCBs can be the bridge between societies and govt. departments to enable the societies to avail the benefits of different govt. schemes which may improve the economic conditions and the life style of the members of the societies.
6. Many societies have adequate tangible assets with them. Society can earn sufficient revenue with proper utilization of these assets.
7. From the experience gathered it is not recommendable to provide another financial package for revival of PACS. However in some selective cases assistance may be provided through soft loans on the basis of following criterion:
  - (i) Membership growth
  - (ii) Mobilisation of Deposits
  - (iii) Adoption of diversified business plan
  - (iv) Professionals in the management
  - (v) Payment of Dividend to their shareholder
  - (vi) Value of asset creates by the Societies in the shape of Building, Godown, and landed properties.