

Session-01: Understanding the Concept and Dimensions of Cooperative Business Enterprise

Cooperative Society is a form of organization which is registered and regulated according to the provisions of the State Cooperative Societies Act and Rules. This is different from other form of business organizations like private proprietorship, partnership, joint stock company, corporation and public undertaking. The nature and features of cooperative enterprise are unique and distinct. It blends both the cooperative character and business enterprise principles, hence can be termed as a cooperative business enterprise.

The New Cooperative Identity

Cooperative character provides an independent identity to cooperative organization which emanates from the statements on definitions, values and principles approved by International Cooperative Alliance Congress held in Manchester in September, 1995. All countries of the world where cooperative form of organization is in operation have to ensure that these values and principles are being adhered to by cooperatives. Government of India and State Governments in right earnest and trust of cooperators and international agencies, always make attempts to amend cooperative laws to allow for developing sound cooperatives.

The statement of new cooperative identity containing definition, cooperative values and cooperative principles are described hereunder:

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Cooperative are based on the value of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Cooperative Principles

1st Principle: Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, political or religious discrimination.

2nd Principle: Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and Women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of the assets is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves part of which at least would be indivisible: benefiting members in proportion to their transactions with the cooperative: and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public- particularly young people and opinion leaders- about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structure.

7th Principle: Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Business Dimensions and Principles

A cooperative can fulfill its members' economic, social and cultural needs and aspirations if it is managed as a jointly owned democratically controlled business enterprise. It is the business or economic activity which generates income. Sustained efforts to increase income of members will ensure their economic development, at the first step, followed by social and cultural development. Thus, cooperative can genuinely serve the cause of members on long term basis if it operates as business institution geared to deal with competition and succeed. To operate as a business enterprise, it must follow the following principles and practices.

Entrepreneurship: Promoters and elected/nominated representatives of cooperative have to be entrepreneurs in true sense. Cooperative entrepreneur is one who organizes people and resources, identify feasible economic activity, take risk, motivate and lead production, marketing and other services to reap the benefits for cooperative in interest of members.

Business Planning: A plan developed on local area resources, potential and needs of different type of members ensuring viable business activities is the key. It is a prudent blue print for future business development in short or mid term and ensures optimal utilization of resources.

Investment: Members of cooperatives are its owners. As owners, they have to find opportunities for investment in such economic activities which yield monetary and non-monetary economic benefits for its members particularly and non-members in general. It will in a way satisfy the diversified needs and interests of various group of members.

Capital Mix: Owner's capital may not be sufficient for undertaking economic activity. Hence, cooperative may borrow capital. Even members may not be able to arrange minimum share capital to avail borrowings, hence they have to seek government participation in share capital. What will be capital mix has to be decided by considering various options as they have serious implications on decision making and management of cooperatives.

Integration of Production and Marketing: The services offered by society for increasing production of members has to be integrated with suitable efforts for marketing to complete the business cycle. Isolated efforts in respect of production or marketing will not create desired results to increase the members' income.

Managerial and Operational Efficiency: Cooperatives need to provide goods and services to their members at slightly less than market price but at the same time earn surplus. This calls for high efficiency in its operations. Business results may be achieved with minimum cost as far as practicable. Cost reduction is also a way to enhance income. Trained and competent manpower, use of technology and management may be more efficient in running the business operations.

Organization Structure: Cooperative society must function following suitable organization structure. Creation of suitable structure implies identification of work / tasks, grouping them, departmentation, creating authority-responsibility relationships, delegation, span of control and also rules and workshops process.

Size or Scale of Operation: Each of the profitable operation in a cooperative society has its minimum size or scale of operation. Hence, before going for any activity-production or marketing or any services, scale of operation must be ascertained. Further, minimum to higher size of business may be considered depending on the capacity of cooperative in terms of resources, managerial and technical know-how.

Diversification of Business to minimize risk: Cooperative society should gradually try to diversify its business to have larger activity mix to serve varied needs of all type of members. Besides it will enable cooperative to minimize risks and uncertainties by compensating loss in one activity with surplus in another activity.

Competent and Motivated Management: The paid manager and staff of cooperative should be motivated, dynamic and competent, able to plan and implement business activities, operate and use the system and infrastructure to help achieve its goal as an enterprise. The BoDs also must be oriented to professionally lead and direct the functioning of cooperative.

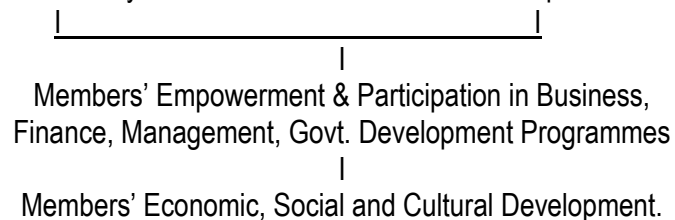
A cooperative must function by integrating cooperative institutional and business dimensions to facilitate accomplishing its objectives and contribute significantly in socio-economic development of its members.

Institutional Dimensions

- Coop Values
- Open and Voluntary Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training & Information
- Concern for Community

Business Dimensions

- Entrepreneurship
- Investment
- Capital Mix
- Integration of Production & Marketing
- Efficiency
- Organization Structure
- Size of Operation Scale.



There are several reasons why primary level cooperatives, particularly multi cooperatives fail to deliver the goods and accomplish their objectives. Some of the major reasons are:

- Lack of professional management-for so sophisticated an enterprise, a multi cooperative needs well qualified, trained personnel.
- Lack of integrated services-most multi cooperatives have confined their activities to organisation of crop loaning services, and without a package offer of integrated services, a farmer has little to thank his cooperative for.

- Cooperative legislation-in India, cooperation is a state subject and each state has its own cooperative laws, which may at times be restrictive to harness growth potential.
- Lack of democratic control by members-conduct of elections as per law is the responsibility of government, and not that of the cooperatives
- Over dependence on external funds-even shares in cooperatives are subscribed to by governments and financing banks. With little at stake, a member can hardly be expected to be committed.
- Lack of members' participation-A large number of members join but never participate, fail to take up responsibility and use their cooperatives.
- Low cost management-It takes the shape or effect of most expensive item for a cooperative
- Errors in financial policy-such as over extension of credit, too
- Management errors such as inadequate inventory, poor location and facilitates, efficient management etc.
- Little capital, lack of financial soundness etc.

A primary cooperative society, to be successful, must inbuilt and integrate the following elements / factors into their functioning:

1. Users only as members

Members are owners and patrons. Therefore, only patrons, that is, users should be encouraged to be members. User members active participation facilitate growth in business volumes.

2. Entire equity from members

Equity defines the owners of an enterprise, who after all shall make decisions. Since equity contribution by external agencies such as financing agencies, governments, etc., may affect in decision-making, such contribution should be considered after due thought. A cooperative must aim to mobilize entire equity from members.

3. High Members' Centrality

A cooperative formed by members to serve their interest must be member-driven, member-controlled and member-responsive organisation. A cooperative must reorient itself to function as a true democratic organisation.

4. High equity-debt ratio

The equity-debt ratio represents the quantum of risk that members are willing to take in their enterprise and their faith in and commitment to their organization. The financial stakes of members must be significant if they are to take the management of their own organization seriously.

5. Member-centric integrated services

All goods and services organized by a cooperative should keep members' needs in view and accordingly, the business activities be planned, implemented and diversified. Attempt to provide integrated and multiple services to members as included in byelaws. A cooperative must position aggressively for changes in members needs and markets.

6. Elect deserving members on Board

Where the ownership is wide-spread and large, management accountability can be at risk. Boards of Directors must consist of deserving individuals, elected by the owner members from amongst themselves. Boards consisting of government or financing agency or federation nominees may not feel accountable to the owners.

7. Professional management

Cooperatives must be professionally managed by competent, trained and qualified staff, so that the cooperative prospers as a business enterprise under supervision and control of democratically elected board of directors.

8. Employees accountable to cooperative

If employees are to work for attaining the objectives of an organization, they must be fully accountable to the organization, and their future must be linked with the future of the organization. Government officials and other deputationists from financing agencies may not serve as employees of cooperatives, and all those who do work for a cooperative must be fully accountable to the cooperative.

9. Adopt New Technology and Best Practices

Choose, assess and employ appropriate and advance technologies; and adopt best practices for business to be able to compete and succeed.

10. Good Governance and Leadership:

Cooperatives are open, ethical, caring and socially aware democratic business institutions. These must follow the basic tenets of good governance and should be led for business success, members and employees interest and community at large.

11. Establish strong forward and backward linkages

A cooperative must forge forward integration in order to gain competitive advantage in market-place and backward linkages to develop the production capacities and efficiencies.

12. Cooperative Education and Training

In order to enhance members' participation and empowerment and to imbibe professionalism in society's functioning, it is imperative that cooperative education and training in relevant areas are organized at regular intervals for all categories of cooperative personnel so as to upgrade their awareness, skills and competencies as essential for cooperative success.

Session-02: Identifying Business Opportunities

Assessing the Environment (Opportunities and Threats) and Analyzing the Present Performance and Resources (Strength and Weaknesses)

Primary level cooperatives, The PACS or other sectoral cooperatives, are always working in a changing environment to fulfill the members exiting and evolving needs. To cope up with the change, they have to understand the situation and formulate suitable strategies for business growth and profitability, keeping in view their cooperative objectives. To achieve the objectives set within the time frame and within the limited resources, the cooperative society needs to clearly plan its future course of action.

This is normally done through a combined process of organisational analysis (to understand what are the capabilities and weaknesses of the organisation) and an in-depth analysis of the environment in which the organisation is working (so as to identify the opportunities for growth and development that are available to the institution in the outside world and the threats/dangers that the organisation may have to face from outside). After undertaking this process, the organisation makes an attempt to match its strengths with the opportunities (for its development) weaknesses with the opportunities (for developing suitable capacities with in the organisation or overcoming the identified weakness so as to make it ready to encash the opportunities), strengths with threats (to ward off potential threats) and to tide over the dangers of survival posed by external environment. Thus, organisational analysis is an important step in planning process as it provides a direction to the organisation in achievement of its organisational goals.

“Strengths” are the advantages or factors which provide a cooperative society an edge in achievement of its objectives or goals. For example, a PACS which has mobilised sufficient deposits will be in a better position to meet the credit needs of the members in a cost effective manner. Hence, it is a strength. Similarly, having a storage godown could also be reckoned as strength; as the society will be able to provide storage and related credit facilities to the members. If the society has a history of making dividend payments, it could also be considered a strength as members will have confidence in keeping their money with the society. A good amount of accumulated profit will be a strength in facilitating new business with cost advantages.

“Weaknesses” are the inadequacies or the factors, which come in the way of achievement of the goals. For example, if the society has large amount of accumulated losses or NPA, it is a weakness as its ability to meet the credit and other requirements of its members, even non-defaulting members, will be limited. Creditors may hesitate to give fresh lines of credit to the society. New members may not like to join. The absence of computers with needed latest software may act as a barrier in taking up modern banking activities and compete.

The “Opportunities” and “Threats”, which form the other two components of the SWOT analysis, pertain to the environment of the society in which it is functioning, i.e., external to the society. In other words, they are external factors or capabilities, which influence the functioning of the society in positive or negative way. The word “environment” means the outside world in which the cooperative society is functioning. This outside environment could comprise of five category of factors, namely, “Political” “Economic” “Social”, “Technological”, “Legal” and “Environmental” factors (PESTLE analysis)

Social’ factors are the customs, beliefs and traditions of the communities living in the villages being served by the Primary Society. For example, members reluctant to repay the loan on Friday, saying it is inauspicious.

“Technological” factors comprise of introduction of new technology. e.g. Introduction of combined harvester in agricultural operations or computerisation of PACS.

“Legal” factors refer to current and future legislations for business, consumers and environment regulation etc. For example, mutual cooperative society act introduced parallel to existing State Cooperative Society act allowing to set up new cooperative society in the area.

“Environmental” factors refer to environment issues, market and customers values. etc.

“Economic” factors are those which affect the income and employment status of people living in the area. For example, introduction of contract farming by a private company in the operational area of the society, a local big factory being closed with adverse impact on employment.

“Political” factors are those which bring a change in the political system or a policy of a Government. For example loan waiver, subsidy, local political lobby etc.

The external factors also affect the functioning of the society either positively or negatively. Their impact has to be studied and understood carefully to know whether they will help or hinder the achievement of the desired goals. These external factors do not remain same but keeps on evolving with changing times. The nature and extent of changes have to be also understood clearly.

The “Opportunities” represent those factors or features of the external environment, which can be exploited by the primary cooperative society to its advantage. For example, if the external economic environment shows that farmers are switching over from traditional crops to cash crops, there is an opportunity for the cooperative society to increase its credit flow and other required support necessary for the new crops or setup value addition facilities in the interest of members.

The “Threats” are those factors which are present in the external environment and threaten the achievement of the goals of the primary cooperatives. For example, if private banks in the area have introduced internet and mobile banking services and the society has not done, it will be a threat to its business.

The “Opportunities” have to be exploited or taken advantage of by utilising the existing “Strengths” and reducing existing “Weaknesses”. The “Threats” have to be warded off by taking appropriate steps to minimise their impact. For example, if the society introduces similar credit or savings products as introduced by competitors, the chances of its members going over to the other institution for this reason are minimised. In case there is a threat of increased competition, the society can try to retain its members by improving the quality of its services – say, prompt and timely sanction of credit, helping them get necessary extension services/guidance, etc.

An illustrative of SWOT analysis of a PACS may be as under:

Opportunities	Threats
<ul style="list-style-type: none"> • Revitalization opportunity provided under government programme / scheme by VCR* • Scope to diversify operations • Large number of customers yet not having access to formal banking system 	<ul style="list-style-type: none"> • Commercial Banks taking away good customers, offering them better facilities • Vitiating business environment
Strengths	Weaknesses
<ul style="list-style-type: none"> • Good local knowledge of people and their needs • Customers are owners • Service at door step / neighbourhood 	<ul style="list-style-type: none"> • Inadequate resources • Dependency on DCCB for funds and guidance • Restricted knowledge and limited operations

It is not enough to identify the strengths, weaknesses, opportunities, and threats of a Primary Cooperative Society. In applying the SWOT analysis it is necessary to minimise or avoid both weaknesses and threats. Weaknesses should be looked at in order to convert them into strengths. Likewise, threats should be converted into opportunities. Lastly, strengths and opportunities should be matched to optimise the potential of the organisation. The general strategies arising from the SWOT table are illustrated in the table below.

	OPPORTUNITIES IN THE MARKET	THREATS FROM THE MARKET
STRENGTHS OF PACS:	Use the strengths to encash the opportunities (how to use the opportunity) Eg: Introducing new loan product to existing members. To how many members the society can give a loan for installation of drip irrigation system. (as government has introduced subsidy for drip irrigation)	Use the strengths to fight the threats from the market (how to face this challenge) E.g.: Raising additional resources in order to withstand the competition posed by neighbouring commercial bank branch (offering liberal credit limits to clientele).
WEAKNESSES OF PACS	Develop capabilities to take advantage of the opportunities (what to develop, in order to make best use of this opportunity) e.g.: A society going for installation of banking counter (earlier weakness: lack of banking infrastructure) and face lift of the premises for attracting new deposit resources from potential customers.	Develop skills and capabilities required to survive. (what to do to survive) e.g.: Member education and capacity building of staff on NPA and recovery management to combat the threats of loan waiver coupled with the weakness of low recoveries.

At the current juncture, despite weaknesses and threats, PACS have adequate strengths and the environment is full of opportunities. Each PACS needs to analyse its own environment (both internal and external) and come – up with suitable strategies to its advantage. Similarly for other type of primary cooperatives, particularly in agri allied sector, in view of changing eating and nutritional habits, immense potential is emerging to grow and diversify into various products.

Process to identify business opportunities

Primary level cooperatives are expected to meet their members need in context of their bye laws and earn reasonable profit necessary for their survival and growth. These need to hit at a new idea that would make right business sense for the cooperatives for the area of operation. It is important to think over and evaluate before deciding on a type of business that it will have less cost or expenditure than the income for the business to be sustainable. Any business should be able to produce sufficient surplus to justify the time and energy invested in the venture.

What is a business opportunity?

It's an opportunity involving need or wants which can be profitably exploited. It can also be seen as an activity which is prima facie feasible and promising and which merit further examination and appraisal. In context of a cooperative a good business is one which helps:

- to meet the members need or solve their problems
- is techno-economically and managerially feasible
- commercially viable and
- environmentally sustainable

Businesses can be classified into three types according to the nature of activity involved:-

- Trading or selling - It involves only selling, for example trading in milk, vegetables, clothes, grocery items, agricultural inputs etc.
- Manufacturing - it involves process of production, for example handloom weaving, biscuits/bread making, basket making etc.
- Service - It involves providing and charging users for service, for example banking, insurance, barber shop, beauty parlour etc.

A cooperative, however, can undertake one or all type of businesses to serve the varied needs of its members or customers at large.

In order to arrive at a right business idea the opportunity scanning of every aspect and process of the cooperative's business needs to be done. Here are a few examples of where one may look for opportunities:-

- a new product or service.
- enhance an existing product.
- a new market for existing product.
- a new application for an existing product.
- a source of grants or awards
- better arrangements with suppliers
- better promotion, advertising, publicity
- improve efficiency and speed of ordering
- new contact sources
- new and better ways of doing anything
- ways to leverage cooperatives' current resources

Data Needs for Identification

In agriculture cooperatives to identify business opportunities clues can be obtained from the following information / data sources

- Basic data- agriculture and allied sector
- Inventory of members' needs -through meetings
- Market, social, business and technological trends
- Existing scarcity and exploitation position
- Local consumption needs & surplus available or shortages / non- availability of products/ services
- Existing methods of disposal of surplus and alternatives available
- Existing methods of meeting demands

- Share of farm gate price in consumer price
- Availability of storage & processing possibilities
- Possibilities of value addition
- Reports of financial institutions
- District potential development linked plan (NABARD)
- SWOT analysis of the management of the society vis-a –vis the available opportunity

Preparing to Launch Business

To further firm up on selection of a business, the idea/opportunity should be assessed on these aspects:

- Needs of members-Their unmet /inadequately met production and consumption needs, aspirations for innovative product or services.
- Market-Where is the market? Inefficiencies existing in the present market. Who are the consumers? Who are competitors? What is the demand-supply scenario?
- Capital-How much capital is required for building, equipment, tools, raw materials and cash? What are the likely cash flows from business?
- Materials-What are material needed? Will the consumer bring their own material for processing? Is the adequate quantity of raw material available at reasonable cost?
- People-Are the required vocational skills to make a product or skills to manage the business are available? Do people have professional competencies?
- Profitability-What is the possibility of profitability of business? Whether economies of scale exists.
- Growing sector/industry-Is the business idea a part of growing sector or industry? How will business build up over the years?

Primary Agricultural Cooperative Societies (PACS), in particular have to increase and diversify their business activities beyond existing activity of mostly purveying agricultural credit as needed by various types of members to patronize and increase their members' involvement. There is a strong need to transform these village cooperatives into multi-purpose cooperative societies. Some of the possibilities of small businesses in view of emerging market scenario and priorities may be selected by the PACS out of the following:-

- Agro-Storage Centre: Upgradation of the existing storage facility for construction of new godown along with sorting/grading unit as per Negotiable Warehousing Receipt System. This will enable them to issue warehouse receipts.
- Agro-Service Centre: Purchase of hi-tech agri-implements like power tiller, land leveler, movers, seed driller, multi crop planter, paddy transplanter, sprayers, combine harvesters etc., depending upon the requirements of the members for rental/custom hiring of these equipment.
- Agro-Processing Centre: (i) Primary Processing – Sorting, grading unit, waxing/polishing unit, pre-cooling chambers, etc. (ii) Secondary Processing – Value addition to produce e.g. mini rice mill, atta chakki, horticulture produce processing etc. and the society will charge adequate processing cost from the farmers.
- Agri-Clinic Centre: Testing lab for soil and water, creating panel of experts for providing services on payment basis, knowledge dissemination centre, arrange training to farmers. The services of the testing lab and expert guidance will be provided to the farmers at a cost.
- Agri-Market Centres and Transportation: Procurement of agri produce, direct market linkage after aggregation and/or processing, setting up of rural mart, etc.
- Consumer store & other misc. activities: Primary cooperatives in villages can be supported for having 'one stop' where in they will sell/market all types of consumables besides the agriculture produce/agri inputs. These can also be supported to have the LPG agency or petrol pump provided they have the necessary license and adhere to the terms & conditions of the licensing authority.
- Agro-Production Facility: Production/manufacturing of cattle/fish/poultry feed, production of bio-pesticides, production of vermin-compost and bio-fertilizers, and supply of quality seeds, etc. Activities relating to enhancement of horticultural production and popularization of micro irrigation systems.
- Other Services: Outlet for sale of other items such as diesel, kerosene, grocery items, consumer durables, electronic goods, etc.

- Service Provider: Booking of tickets, internet facility, business correspondent for banks /RFIs, bills payments, recharge of mobile, search of land documents for loan purpose, agency for insurance products, etc., variety of e-governance services.

Similarly, sectoral cooperatives engaged in fishery, poultry, dairy, handloom, handicrafts, sericulture etc. can identify and develop viable business around any activity / service / stage of value chain to earn profit and strengthen socio-economic status of their members.

Session-03: Role of NCDC in Cooperative Development

About NCDC

The National Cooperative Development Corporation (NCDC) was established by an Act of Parliament in 1963 as a statutory Corporation under the Ministry of Agriculture & Farmers Welfare.

Details are available at NCDC website <http://www.ncdc.in/>

Functions

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilizers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfillment of stipulated conditions.

Purposes for which assistance is provided

- ❖ Margin money to raise working capital finance (100% loan)
- ❖ Strengthening of share capital base of societies (100% loan)
- ❖ Working capital to all level of cooperatives and cooperative banks (100% loan)

- ❖ Term loan for creation of infrastructural facilities like godowns, cold storages, modern banking units, purchase of transport vehicles, boats and other tangible assets
- ❖ Term and investment loan for establishment of new, modernization/ expansion/rehabilitation/diversification of agro-processing industries.
- ❖ Subsidy for preparation of project reports/feasibility studies etc.

Activities Funded by NCDC

a) Marketing

- ✚ Margin Money assistance to Marketing Federations
- ✚ Strengthening share capital base of primary / district marketing societies
- ✚ Marketing (Fruit & Vegetable)
- ✚ Working Capital Finance

b) Processing

- ✚ Setting up of new Sugar factories (Investment Loan) / Modernization and Expansion/ Diversification of existing Sugar Factories (Investment loan + term loan)
- ✚ Margin Money assistance to cooperative Spinning Mills / State Cooperative Cotton Federations / Share Capital participation in New Spinning Mills / Modernization/ Expansion of Spinning Mills / Modernization of Existing and Establishment of Modern Ginning & Pressing Units / Rehabilitation of Sick Spinning Mills / Cotton Development Programmers
- ✚ Other Processing Units: Food Grains / Oilseeds / Plantation Crops / Cotton Ginning and Pressing / Fruit & Vegetable / Maize Starch / Particle Board, etc.
- ✚ Power Loom Cooperatives covering pre and post loom facilities

c) Cooperative Storage

- ✚ Construction of godowns (Normal)
- ✚ Upgradation/renovation of existing godowns
- ✚ Construction of Cold Storages / Upgradation/ Rehabilitation of Cold storages

d) Distribution of essential articles through cooperatives

- ✚ Distribution of Consumer articles in rural/ urban/ semi urban areas.

e) Industrial Cooperatives

- ✚ All types of Industrial Cooperatives, Cottage & Village Industries, Handicrafts/rural crafts etc.

f) Service Cooperatives

- ✚ Agriculture Credit
- ✚ Agriculture Insurance
- ✚ Labour Cooperatives
- ✚ Water Conservation works/services
- ✚ Irrigation, micro irrigation in rural areas
- ✚ Animal care/health disease prevention
- ✚ Rural sanitation/ Drainage/ Sewage system through Cooperatives

g) Agricultural Services

- ✚ Cooperative Farmers' Service Centres
- ✚ Agro Service Centres for Custom hiring
- ✚ Establishment of Agricultural inputs manufacturing and allied units.
- ✚ Irrigation/ Water harvesting programmes.

h) District Plan Schemes

- ✚ Integrated Cooperative Development Projects in selected districts (ICDP)

i) Cooperatives for Weaker Sections

- ✚ Fisheries
- ✚ Dairy
- ✚ Poultry
- ✚ Tribal
- ✚ Handloom
- ✚ Coir & Sericulture

j) Assistance for Computerization

k) Promotional and Developmental Programmes

- ✚ Technical & Promotional Cells
- ✚ Consultancy for studies/project reports, management studies, market survey & evaluation of programmes, etc.
- ✚ Training and Education

l) Consultancy Services

The “NCDC Consultancy Services Division” (NCS) was set up in January 2004 to provide expertise developed by NCDC over the years. NCDC continues to provide Consultancy Services for the benefit of various type of cooperatives, other financial institutions, departments and organizations of various Ministries. Consultancy is offered on a very nominal fee and NCDC also considers financing of such projects as per its normal terms and conditions. NCDC’s consultancy is purpose oriented, efficient, time bound, cost effective and client friendly to help organizations in expansion/diversification of their activities, value-addition, human resource development etc., thereby enabling them to become of self sustaining. NCDC provides consultancy in the following areas:

- ✚ Project formulation and feasibility studies
- ✚ Appraisal of projects
- ✚ Monitoring of projects
- ✚ Investment potential surveys
- ✚ Financing arrangement and loan syndication
- ✚ Domestic marketing and import/export of agriculture produce
- ✚ Performance rating of cooperative societies
- ✚ Training and exposure visits

New Schemes and Schemes for Service Cooperatives

- ✚ Cooperative Enterprise Support and Innovation Scheme for all types of cooperatives with new, innovative and value chain enhancement intended projects with an incentive on rate of interest for term loan

- ✚ Financial assistance to Cooperatives for Tourism, Hospitality, Transport, Electricity (New/Non-Conventional) and Rural Housing programmes – Guidelines
- ✚ Financial assistance to Cooperatives for Hospital, Healthcare and Education – Guidelines
- ✚ Scheme for extending NCDC's Short Term Loan to Agricultural Credit Cooperatives towards Working Capital

SAHKAR 22 : An NCDC Mission 2022 for New India

- ✓ Cooperatives: A Formidable Force with Farmers
- ✓ India has 01 MILLION COOPERATIVES with 300 MILLION MEMBERS, mostly FARMERS
- ✓ NCDC reaches the FARMERS DIRECTLY
- ✓ NCDC has extended financial assistance to DIVERSE RANGE of COOPS:
- ✓ Credit and Non-Credit Coops.
- ✓ Small (supplying inputs like fertilizers) to Very Large (Dairy/ Sugar / Textiles)
- ✓ Small Coop Banks to Large Coop Banks- UCBs, DCCBs, STCBs
- ✓ Small fish pond based activity to Large Export Oriented Prawn Processing units
- ✓ Small Consumer Stores to Large Retail Chains / Malls
- ✓ Small Health Centres to Large Hospitals
- ✓ NCDC is almost a ZERO NPA statutory organization ONLY for COOPS
- ✓ NCDC aims at cost reduction of inputs through their purchase by Coops in wholesale and output value enhancement through scaled up sales
- ✓ NCDC advances more than Rs.20,000 crore to Coops annually
- ✓ Comprehensive value addition focus through infrastructure, processing and Competitive credit to farmer members of cooperatives.
- ✓ NCDC has assisted Coops in about 400 Districts and has offices in 18 States.
- ✓ NCDC works with States / UTs closely.
- ✓ NCDC brings in respite from rigid formal credit institutions and exploitation of money-lenders and traders.

To achieve the Mission of New India by 2022 in Cooperatives, through Doubling the Farmers Income, NCDC would launch a new Mission Mode activity, SAHKAR 22

SAHKAR 22 would include

- ❖ FOCUS 222- Converge NCDC assistance for Cooperatives in 222 Districts
- ❖ PACS HUB- Transform PACS and other Coops as APNA KISAN Resource Centre
- ❖ AENEC- ACT East and North East Coops
- ❖ CEMtC- Centres of Excellence to Market through Coops
- ❖ SAHAKAR PRAGYA: Laxmanrao Inamdar National Academy for Cooperative Research & Development as Capacity Development base for SAHKAR 22

Laxmanrao Inamdar National Academy for Cooperative Research and Development (LINAC)

NCDC had set up its own training institution in 1985 through a World Bank project. This Institution over time has become a major facility for developing competencies of cooperative sector professionals in India and abroad. Building upon the strength of the training Institution and to promote research and development in the cooperative sector, the Government of India in February, 2018 upgraded the institute with a broader mandate for training, research and consultancy and renamed it Laxmanrao Inamdar National Academy for Cooperative Research and Development (LINAC).

The Academy endeavors to develop its programmes and interventions with a strong client-orientation and inter-disciplinary perspective to strengthen institutional capabilities and human resources in cooperatives. The Academy organizes various kinds of training programmes throughout the year for the officials of NCDC assisted projects, State Cooperative Departments, Cooperative Federations / Societies and other organizations dealing with agriculture and allied sector. It also conducts training programmes for International participants.

Details regarding Functional Linkages of LINAC, Functions/ Activities, Training Calendar for the year 2019-20 etc. may be seen at NCDC website http://www.ncdc.in/Activities_files/Topic.htm

Procedure to Avail Financial Assistance from NCDC

Procedure of Sanction / Disbursal of Assistance

NCDC assistance is not individual beneficiary oriented but is meant for institutional development of Cooperatives. NCDC supplements the efforts of State Government. The State Governments recommend the proposal of individual society / project to NCDC in the prescribed schematic format. The Society may also avail direct funding of projects under various schemes of assistance on fulfillment of stipulated conditions. The proposals are examined in the concerned functional division and if need be on the spot field appraisal is undertaken. Thereafter, formal sanction of funds is conveyed to the State Govt. / Society. The release of funds depends on progress of implementation and is on reimbursement basis. The period of repayment of loan ranges from 3 to 8 years. The rate of interest varies from time to time.

[Application Forms, Pattern of Assistance, Rate of Interest, Guidelines for Direct Funding, Project Profiles, Schemes etc.](#) are available at NCDC website http://www.ncdc.in/index_files/Downloads.htm

Brining Producer Organisations (POs), Farmers Producer Organisations (FPOs) and Self Help Groups (SHGs) into cooperative fold

In recent past various forms of collectives have been organised by primary producers like farmers, milk producers, fishermen, weavers, rural artisans, craftsmen and the general public in rural areas for improving their production and access to credit for taking up income generating activities. These are working parallel to the registered cooperatives broadly on the cooperative principles.

PO is a generic name for the organisation of producers of any produce, be it agril., non-farm products, artisans etc. In case produce is a non-farm item for example handloom or handcraft than the POs is of a non-farmers while if the members are farmers when it is called FPO. These are basically constituted to provide the benefit of economies of scale and cut the long chain of intermediaries to provide better return and also to enhance bargaining power. POs are registered under Indian Companies Act.

Self-Help Groups (SHGs) are voluntary associations of people to attain a collective goal. People who are homogenous with respect to social background, heritage, caste or traditional occupations come together for a common cause to raise and manage resources for the benefit of the group members. Few important characteristics of SHGs are:-

- Voluntary and small organizations, mostly of members, homogenous in terms of caste/occupation/farm size/sex or income
- Posses an economic objective, frequently alongwith other social objectives.
- Members have equal status and elect their own leadership in democratic manner.
- Functioning is participatory in character.
- Work on the basic concept of savings first and credit later
- These are not adhoc associations but have rules and regulations, bye-laws or constitution which may be in writing.
- Some of the SHGs are formal, registered organizations while the other are unregistered and informal associations.

SHGs are largely functioning as savings and credit group ensuring local and easy accessibility of loan to members to undertake economic activities. SHGs work on their own initially but later in order to meet the higher demands of funds by the members operate under SHG-Bank Linkage Programme with PACS/DCCBs, RRBs or commercial banks.

POs, FPOs and SHGs, however, face various constraints when they have to grow and increase their reach and volume of business to provide better returns to the farmers by engaging in marketing and value addition activities. The cooperatives being a tried and tested model are highly patronised by the governments. Various kinds of schemes and programmes are available from the central and state governments for cooperative development. The machinery to guide, monitor, supervise and advice the cooperatives is in place and easily accessible. POs, FPOs and SHGs have limited access to funds while cooperatives can easily mobilise funds from the RFI's like DCCBs and other institutions like NCDC. The SHGs may not be registered and do not have legal status therefore find still difficult to mobilise funds. SHGs currently are only working as small credit groups and need to have a legal status like cooperatives to upscale and become an enterprise to serve their members better. The govt. / NGO support is also available only to few selected members in SHGs. Many of SHGs also fail due to interference from outside mostly political and also less of professionalism. It is also seen that SHGs when become large, sometimes become unmanageable. A large number of SHGs have saturated as credit group and needs to look beyond savings and credit services to provide end to end solution for sustainable livelihood in rural areas. There is an urgent need for the various kind of collectives to expand by adopting right kind of business, improvement of the skills, providing marketing linkages etc. which would be carried out effectively and efficiently if these register themselves as cooperatives in view of inherent advantages and available patronage from governments. As registered cooperatives, all type of collectives can have access to financial assistance (including subsidy) for business promotion and creating infrastructure and facilities besides professional guidance, training and promotional benefits from institution like NCDC.

Session-04: Preparation of Business Development Plans

1. Cooperatives, particularly the Primary Agricultural Cooperative Societies (PACS)/Multi-Purpose Cooperative Societies (MPCS), are expected to provide all production and consumption related services to their members by effectively mobilising and utilising its strength and resources in its area of operation. This calls for proper business planning and its prudent implementation to enable cooperative to be an efficient, effective and viable members' institutions.

2. Meaning of Business Development Planning (BDP) and its components

Planning is the most basic and crucial managerial function which precedes all other functions. It deals with fixation of objectives and coordinated efforts towards their attainment. It comprises of two aspects –improvement of the cooperative within the boundaries that are laid down, and questioning, evaluating and restructuring of boundaries themselves.

BDP of a cooperative society means the plan of business activities which the society is going to undertake for the benefit of members over a specific period of time in the coming years. The plan will indicate different business activities to be undertaken based on potentials in the area, the relative costs and margin of profit the society will earn from such activities. It also specifies when, how and by whom activities are to be carried out, over a time span.

In view of the activities likely to be undertaken by PACS under BDP and internalizing of this concept as a management function, the various components of BDP are:

- Basic Business Plan
- Functional/Activity Plan
 - Credit Business Plan
 - Non-Agricultural Credit Business Plan
 - Consumer Business Plan
 - Inputs Business Plan
 - Agricultural Marketing Business Plan etc.
 - Deposit and its utilization plan
- Preparation of Budgets
- Plan for Implementation
- Monitoring and Control

3. Business Development Planning (BDP) of each primary cooperative should look at the possibilities of:

- Increasing Existing Business
- Diversifying into new profitable areas of business based on potentials and members' needs

- Enhancing members' participation
- Promoting resource mobilization including members share capital and deposits
- Organizing dormant members into self-help groups (SHG)
- Strengthening business linkages with marketing and consumer coops.

4. Advantages of Planning

Planning for Business Development is the first step to overcome the deficiencies in working of Primary Cooperatives. It helps in following manners:-

- Promotes Institutional Element.
- Minimizes Risks and Uncertainties
- Optimizes Performance
- Provides a Basis of Control

5. Planning Process

The plan for each business activity in a primary cooperative involves assessing the targets for business and also the relative costs and margin of profit the society will earn from the activity. It has to be prepared well in advance for a period of one to five years.

This exercise may be carried out in two different ways (1) A plan may be prepared by covering the entire business activities of PACS in an aggregate manner for a certain period of time which is called Basic or Master Business Plan. From this, plans for each business activity are derived and implemented (2) A plan may be prepared for each of the business activity separately for one year, such as credit plan, agril. Inputs plans etc. (called operational or functional plans). These activity plans may be then integrated into one to constitute a Basic or Master Business Plan. It is the second approach which is mostly adopted by PACS.

The process of preparation of Business Development Planning consists of following phases and stages:-

- | | | | |
|----|-------------|----|---|
| 1. | INITIATION | A. | Awareness Creation and acceptance of concept by the members, Managing Committee members and Managers of PACS. |
| | | B. | Data Collection |
| | | - | Preparation of area profile |
| | | - | Preparation of survey report on current performance, strengths and weaknesses of PACS |
| 2. | PREPARATION | A. | Data Analysis |
| | | B. | Identification and Definition of problems |
| | | C. | Setting goals and objectives |
| | | D. | Preparation of draft operational/functional Plans. |

- Estimating business turnover
- Trade margin, total costs and net profit
- E. Integration of operational plans into basis plan.
- 3. FINALISATION A. Finalization of plans in consultation with members and obtaining their consent and commitments.
- 4. APPROVAL A. Approval of Plan by Managing Committee of PACS.
- 5. COMMENCEMENT OF IMPLEMENTATION A. Phasing of Targets
B. Mobilizing support of various agencies
C. Raising required resources
D. Establishing linkages at various levels
E. Activating Dormant Members

6. Information Needs for Business Planning

Preparation of plans by PACS for business development basically needs two types of information – the relevant information about (1) area of operation of the society, and (2) performance of the PACS for at least last 3 years. The important information needed under these 2 broad categories is indicated here:

A. Area Profile

- Geography
- Demographical Aspects
- Land Use and Distribution of Land Holding
- Occupational Distribution of Population
- Crops Grown and Agril. Production
- Cropping Pattern
- Irrigation Facilities
- Inputs Consumption Pattern
- Marketing Conditions & Facilities Available
- Crop-wise Marketable Surplus
- Market Outlets
- Economic Activities
- Population coverage by PACS
- Business Potentials & Problems
- Business competition

B. PACS Performance

- Name, Location and other Background
- Types of Membership (Individual, Govt. other coops. Etc.)
- Composition of Membership (Big, Medium, Small Farmers, Rural Artisans, Landless Labourers etc.)

- Financial Position
 - Share Capital
 - Reserve & other funds
 - Deposits
 - Borrowings
 - Investment
 - Advances
 - Fixed Assets
 - Working Capital
- Activity-wise Business Turnover
 - Agril. Advances
 - Non-Agril. Advances
 - Sales of Agril. Inputs
 - Marketing of outputs
 - Sales of Consumer goods
- Activitywise Income & Expenditure
- Demand & Collection of Loans
- Managerial Information
- Main Problems of the society
- Infrastructural facilities – godown, processing unit, working shed, shop, tractor other machinery etc.

Information, as in all other cases, is the basis of planning decisions. Proper analysis of data collected as part of area profile can help the manager to learn and understand the business prospects, problems of area, enabling and limiting factors and peoples' aspirations. On the other hand, analysis of data on performance of PACS would divulge the internal problems, strengths and weaknesses. Next, it would be studied as to how the problems of PACS can be overcome and aspiration of people/members be met by increasing the existing business volumes and adopting possible economic activities thrown open by the area. In light of this analysis, management can decide objectives for type of business which can be realized in a year or more years.

7. Preparation of Functional Plans and their Integration

Once the business-wise objectives have been decided, manager has to work out targets for every business by Primary Cooperatives for the next year. These targets after due approval of authorities, are entrusted to the respective staff to work on these and achieve them during the year.

For every business activity, the following targets are expected to be worked out for the next year:

1. **Estimation of Sales** – The external and internal factors/elements need to be considered for estimating sales for each of the functional plan (credit, input, consumer, agri. processing deposit mobilization-cum-utilization plan) These may vary for different functional plans but these should be identified separately and their effect and likely impact must be studied. For example, in case of Agri. Inputs

Plan, the important factors to be considered are – (i) Area under different crops (ii) Cropping Pattern (iii) Average Consumption of different fertilizers (iv) Agricultural Practices (v) Irrigation Facilities (vi) Eligible existing and new members (vii) Pattern of consumption of inputs (viii) Special events and their effect - like drought, shortfall of rains, floods, epidemics, pests, disease etc. (ix) Govt. Policies/subsidies (x) Recommended dosages by the Agril. Deptt. (xi) Competition (xii) Likely increase in share of market etc. Subsequent to this, the estimates in terms of quantity and value (i.e. selling price) are calculated for different inputs for a full year. The annual projections are broken-down into kharif and rabi season-wise targets.

- 2. Estimation of costs of inputs and running costs** – The estimation of cost of inputs can be made on the basis of trade margin. The trade margin is sub-tracted from the estimated sales for the next year to obtain cost of goods.

Thus cost of goods = Estimated sales next year – Trade margin

The running cost of agril. Inputs business would include apportioned salary of manager/staff, depreciation/rent, interest on borrowed capital and others costs like insurance, stationery, electricity, TA/DA etc.

- 3. Estimation of Net Surplus** – The gross surplus of the business activity is worked out by subtracting the cost of goods from the estimate of sales

Thus, Gross Surplus = Sales Estimate – Cost of goods

To arrive at net surplus, the estimated running costs are deducted out of the gross surplus.

Thus, Net Surplus = Gross Surplus – Estimated Running Costs

The trade margin in the business activity is likely to be reduced, if business is not properly managed, on account of leakages, price cuts and wastages. In a cooperative, these may be 0.5 percent to 1.00 percent of the sales. The net surplus, therefore, would further get reduced to this extent. The margin thus left will not be enough. The cooperative must have more capital, pay more dividend on capital to the members, must make investments in infrastructural facilities and have resources for further growth and diversification in its activities/services.

Thus it must endeavour to enhance the net surplus on the business activity. It can be achieved by increasing business, by reducing costs of inputs and/or by lowering the running cost and by reducing the leakages/wastages etc.

Once the above targets for each of the business activity are estimated, the financial requirements for each business need to be worked out. First, the expected rate of turnover of each business in a year is decided. Next, an estimated business volume of each business activity is divided by rate of turnover to get financial requirements. The different sources to raise there funds are identified then. Basically, the manager has to see how much funds can be raised through internal resources like share capital, reserve and other funds and deposits from members and non-members. The balance requirement of funds may have to be borrowed from banks and financial institutions. Once availability of funds is decided, the required amount may be allocated to different activity.

All the functional plans are then integrated into a total Business Development Plan (Master or Basic Plan) for a PACS.

The indicative formats for preparation of BDP, Projection of financial requirements and Availability of Funds are at Annexure-I and II.

Measures for effective implementation of Plan

A Business Development Plan, though prepared well would yield desired results only if operationalised and implemented properly. Some of the important measures and guidelines for this purpose are:

- Prepare plans well in advance to initiate/arrange timely implementation
- Communicate and explain the plans to all stakeholders
- Clarify the expected role and responsibilities to elected management and paid employees in successful implementation of plans
- Involve members, specially women and maintain close and continuous contact
- Obtain approvals and licenses and complete other legal formalities
- Provide timely, prompt and good services
- Introduce performance linked incentives at individual and group level
- Procure right quality and quantity of goods at right price and at right time
- Design a simple and effective system to review and monitor the implementation
- Take prompt and proper remedial measures/corrections for gaps/deviations
- Enrol new members and activate the existing sleepy members
- Keep track of utilisation of resources
- Build efficiencies in inventory management/stock planning
- Prepare budgets and cash flow
- Workout appropriate systems for operating, record keeping and financial management
- Develop mechanism for customer complaints and redressal
- Build spirit of cooperation and competition between operational units
- Train the personnel for their roles/jobs
- Coordinate activities for plan objectives
- Liaise with other agencies for mobilizing support
- Identify changes in environment and operational difficulties not visualized at the time of initial plan
- Mobilize financial resources
 - ✓ Plan ways to increase share contribution of members
 - ✓ Approach at appropriate time with sound proposal to Financial Institutions/Bank
- Fix work standards and control points to check wastage, pilferage, inventory use etc.

Business Development Planning in PACS – INDICATIVE FORMATS

	(Rs. In 000)			
Business Activity	Business Turnover	Trade Margin	Total Running Costs	Net Surplus
Credit				
Short Term				
- Kharif				
- Rabi				
Medium Term				
- Farm Sector				
- IRDP				
- Non-Farm Sector				
Long Term				
- Consumption				
Inputs				
- Seed				
- Fertilizers				
- Implements				
- Plant Protection				
- Others				
Marketing				
- Outright				
- Commission				
- Others				
Consumer				
- Controlled				
- Non-Controlled				
- Others				
Storage				
Deposit				
- Fixed				
- Others				
Any other Activity				

Note: On the same format PACS may prepare its projected business plan for one to five years

Annexure-II

Projected Financial Requirements

Business Activity	Business Volume	Number of Expected Turnover	Financial Requirements
<ul style="list-style-type: none">• Agri Credit• Marketing• Agri. Inputs• Consumer• Others			

Estimating the Availability of Funds

Sources	Period of Cash Flow				Total
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	
Increase in :					
Share Capital					
Deposits					
Loans					
Internal (from business operations)					
Total :					

Session-05: Management of Physical and Financial Assets

Assets Management

Assets are commonly known as anything with a value that represent economic resources or ownership that can be converted into something of value such as cash. Financial assets and physical assets, both represent such ownerships of value, even though they are very different to each other based on their features and characteristics.

Assets of the cooperative if managed well can save money and time. Asset management is the process of maximizing the upkeep and use of assets to provide the best returns and benefits to cooperative society. Asset management is important as it:

- Allows the cooperative to keep track of all assets-their location, how they are used and when changes are made to them. This will ensure also better returns from asset recovery.
- Make sure that regular assessments of the assets is done to ensure that the financial statements of the business are accurate.
- Asset recovery is automatically reflected in the records / system. Once assets are scrapped or sold, the said assets will be removed from the records and books of the business.
- Saves money on maintenance by keeping proper record and following prescribed schedules.
- Caters to more efficient operations. Asset management allows to understand the capabilities of its assets, and how they can be operated in the most effective manner.
- Allows the implementation of a risk management plan based on use, ownership of the assets and their insurance
- Removes ghost assets in your inventory. At times the items that have been lost or stolen are still in the inventory records. These are known as ghost assets.
- With the use of asset management system, incidents of thefts are lowered.

The common type of financial assets and physical assets are:

Financial Assets

Financial assets are intangible, meaning that they cannot be seen or felt and may not have a physical presence. It is important to note that the papers and certificates that represent these financial assets do not have any intrinsic value (the paper held is only a document certifying ownership and is of no value). The paper derives its value from the value of the asset that it represents. Examples of such financial assets include cash/funds held in a cooperative or bank, investments, accounts receivable, company goodwill, copyrights, patents, etc. They are still recorded in a firm's balance sheet, to represent the value that is held by them.

Physical Assets

Physical assets are tangible assets and can be seen and touched, with a very identifiable physical presence. The physical assets include land, buildings, shop machinery, plant, tools, equipment, vehicles, or any other form of tangible economic resource. Physical assets refer to the things that may be liquidated when the entity wound up its interest. Physical assets have a useful economic life, when it ascertains its age it may be disposed off. They usually experience a reduction in value due to wear and tear of the asset through continuous use known as depreciation, or may lose their value in becoming obsolete, or too old for use. Certain tangible assets are also perishable, such as a container of apples, or flowers that need to be sold soon in order to ensure that they do not perish and lose their value. For proper management of physical assets, a systematic record of individual assets e.g. acquisition cost, original service life, remaining useful life, physical condition, repair and maintenance consistency etc. must be maintained. The physical assets should be effectively kept and sustained through planned maintenance requirements as per the guidelines and requirements of model guidelines and insurance cover etc.

Inventory

Inventory or stock is the goods and materials that a [business](#) holds for the ultimate goal of resale (or repair) or use in processing etc.

Inventory management is a discipline primarily about specifying the type size and placement of stocked goods. Inventory may be required in a godown or shop or other locations for sale or in supply network to meet the demand of production unit.

Stocks are held to serve important motives of transaction, precaution and speculation. The first results from the general inability to synchronise inflow and outflow of goods which is the characteristic of any production-distribution system. Second motive operates in an environment of risk for which a safety margin is always maintained because replenishments may always not be exact and in time. The third one operates as a result of an expected rise in costs and to compete successfully.

Availability of right quantity and type of stocks helps in many ways, as it-

- ✓ Provides protection against uncertainties of demand and supply.
- ✓ Ensures smooth flow of materials through production processes.
- ✓ Ensures reasonable utilisation of manpower and equipments, etc., and
- ✓ Provides means to maintain good customer services.

Stocks are basically idle resources of some economic value. These entail high costs and investment, and thus their proper management is of great importance.

Proper Stock Control Procedures

Stock control systems based on 'units' or 'gross value' are applied in godowns/stores. 'Units' system incorporates stock entries in respect of quantity while 'gross value' system incorporates entries in respect of selling price of stocks.

In a situation where total stock items are many in number, selective controls are applied. The items are first classified according to their importance for control purposes and greater attention is paid to the more important items. The importance of an item is judged on the basis of consumption level, sales value, unit cost, criticality, problem in availability and supply etc. The common techniques applied for selective control are-

ABC Analysis

In this technique, the “vital few” items are separated from the “trivial many” on the basis of their annual usage/consumption value for selective control. The three categories made are-

- a. Normally 5 to 10% of the top number of items account for 70% of the total usage value. These are called ‘A’ items
- b. Next 15 to 20% of items account for 20% of the total usage value. These are called ‘B’ items.
- c. The remaining items (70-80%) account for balance 10% of the total usage value. These items are called ‘C’ items.

VED Analysis

It is largely applicable to spare parts. Spares are classified into vital, essential and desirable categories depending upon their criticality.

FSN Analysis

Items are classified as Fast Moving, Slow Moving and Non-Moving according to their consumption pattern. It helps to combat obsolete items whether spare parts or raw materials or components. Cut-off points of the three classes are usually in term of number of issues in the previous years.

Optimizing utilisation of funds and Infrastructural Facilities:-

The cooperative societies have created various kind of infrastructure or facilities of their own or with the financial support of NCDL. Some of the important ones are shops, godowns, office complex, processing units, modern banking units etc. However, many cooperative societies are not optimally using them.

The common reasons for poor utilisation of all type of assets including funds, human capital in primary cooperatives are:

- Not making business plan and budgets
- Wrong assessment of funds

- Lack of financial analysis & system of review
- Lack of expertise in critical areas
- Incorrect choice of business/facilities location
- Institutional problems-Authority, Responsibilities & working relationships not fully clarified
- Unprofessional & incompetent employees
- Not controlling the controllable
- Not using the cost reduction tools
- Poor space utilization
- Not keeping an eye on cost of funds & allowing for idling of funds
- Lack of proper time utilization
- Lack of talent recognition & appreciation
- Ignoring new ideas that can be of help
- Poor methods, resources and their application
- No sound supervision
- Poor interpersonal relationship/Non-cooperation
- Lack of governance & leadership

Each of the infrastructural facility in society is created with a purpose for example consumer shop or store can act as efficient business unit if it facilitates

- Effective Use of Space: Space needs to be used effectively, with all the areas planned properly to break up the store into logical and functional areas such as POS (point-of-sale), Working space, Store, Pantry, Toilets, etc.
- Inviting Customers: Layout is designed to attract the targeted audience. It should speak on its own and guide customers to all the areas of merchandise.
- Interior arrangements - appearance, walls, sections, and areas should be planned and positioned well. Lighting and Music arrangement needs to be taken into consideration while planning a layout.

A shop or consumer store must provide adequate space & arrangements for various activities likely to be performed, like

- Receipt of goods
- Unpacking / Packing
- Price marking
- Re-filling of shelves, display
- Arranging special displays
- Handling cash
- Serving customers
- Keeping records
- Cleaning the shop

Normally, various integral factors which makes a good shop are-

- Good overall looks
- Neat, clean and tidy
- Ample lighting & ventilation
- Enough space to move
- Wide counters
- Well displayed goods
- Enough working space behind the counter
- A passage at the side of the counter
- Sufficient shelf space
- Some space for special displays

Similarly a godown at PACS serves the following purposes:

- To provide physical/distinct identity
- To increase and diversify PACS' business
- To ensure better and assured economic services

- To maintain quality of stored stock
- To make the PACS viable

And if the godown is not optimally utilised, it may have consequences of-

- Wastage of space
- Loss of opportunities
- Higher operational costs
- Weakens the society

Payment of public duties and taxes:-

A Cooperative Society is a taxable entity [under the Income Tax Act, 1961](#). A Cooperative Society under the Act is to be treated as an association of persons (AOP), which is included in the definition of '[person](#)' under the Income Tax Act, 1961. There is no threshold limit for taxability of income in case of a cooperative society. It has to follow a slab rate for computing tax liability income upto Rs. 10,000 – tax @ 10%, income from Rs. 10,001 to Rs. 20,000 – tax @ 20% and income Rs. 20,001 onwards – tax @ 30%. The education cess @ 2% and secondary High Education Cess @ 1% are applicable to Co-operative Society moreover surcharge on income tax is payable @ 12% (AY 2016-17) if income exceeds Rs. 1 Crore subject to Marginal Relief. If a society has any taxable income, it has to file a return of income in Form ITR 5 by 30th September.

The Cooperative Societies are entitled to several concessions, in the computation of their taxable income. No wealth tax is charged in the case of cooperative society. Provisions for alternate minimum tax (AMT) are applicable. Registration under Central Excise, Service Tax, VAT and Import-Export is required since provisions of indirect taxes are applicable.

Also, Stamp duty is one of the duties paid by the cooperative society. It is a tax imposed by the government on the transfer of ownership of real estate/property. The extent of the stamp duty will be based on the value of the house/property at the time of registration.

Sources and mobilization of funds:-

The cooperative society may raise funds from two sources viz.,

- (i) Members by way of share capital & deposits and
- (ii) Higher financing agencies by way of borrowings.

Apart from these sources, they can generate resources by way of earning net profits and recycle the same in their business.

A cooperative society need to mobilise funds for the following reasons:-

- (i) Cooperative societies are under obligation to meet the credit requirement of its members for which they resources
- (ii) The cost paid by the cooperative societies on their borrowing from higher financing agencies is very high and the margin available to them is too low to meet their transaction cost.
- (iii) Heavy dependence on external funding is not only too expensive but also doesn't allow enough operational freedom to increase business volume and earn profits.
- (iv) Cooperative society has to take up new businesses/activities to effectively meet the unmet needs of members

Therefore, there is absolute need for cooperative societies to mobilize resources to overcome the above difficulties and reduce their dependence level on external agencies.

The assessment of requirement of funds by the society will depend on the targets of business turnover, working capital needs and the availability of internal funds to operationalise the business development planning. In addition, a cooperative may needs funds to set up new infrastructure or facilities in full or in part if loan or subsidy is available from outside sources like NCDC.

Profit and its Optimization

Profit is what sustains organizations to serve their objectives, consolidate on existing services/functions and grow to be more effective in meeting changing needs and expectations of their stakeholders. The cooperatives being peoples' business organizations run on cooperative principles must also legitimately be concerned about the profits it should earn. Cooperative society as a bank can improve profitability by prudent use of all assets and financing, timely recovery of dues/advances for effective recycling of funds, operational efficiency, controlling the costs and providing best of customer services. It should continuously safeguard and strengthen its health and strive to improve profitability within the limitations of social obligations expected of them.

Profit is the difference between total income earned and total expenditures incurred by a Cooperative Society during a particular period of time (accounting period i.e. say one year). The simple formula for understanding the profit is;

$$\text{Profit} = \text{Total Income} - \text{Total Expenditure}$$

A Cooperative Society should earn profit due to the following reasons:

- To become financially strong and to be always in a better position to serve its members.
- To make evident its efficiency and competitiveness.
- To receive better patronage and participation of members
- To survive and diversify in to serve all production and communication needs of members

Profits do not happen by accident. Profit comes through careful planning and management. A loss making Society should always plan to earn profit (i.e. achieve current viability) immediately and to wipe out the accumulated losses (i.e. attain sustainable viability) while a profit making society should continuously strive to increase its profit.

It is important to understand the sources of income and areas of expenditure while planning for profit.

Income in a primary cooperative societies may come from following sources:

- Income earned from non-credit/non-fund business including PDS,
- Interest earned on advances
- Interest earned from bank balances/ investments with DCCB, if any
- Agricultural inputs and non-PDS (consumer items), etc., if any.
- Income earned from agri-marketing and storage rentals etc.

On the other hand expenditure or costs are grouped under the following heads:

A. Financial costs

- Interest on deposits
- Interest on borrowings

B. Transaction costs

- Salary and payments to staff – known as wage bill or cost of management
- Other operating expenditure

C. Risk costs

- Incremental Provisions made towards Non Performing Assets (NPAs) during a year.

A Cooperative Society must always look for ways to increase income and to reduce or control costs to achieve a targeted profit level or maximize it further. Profit planning has to encompass such areas of business. To make it simple, there are six components of profit planning viz. resource planning and management, business development, funds management, non-credit business (miscellaneous income), control of income leakages and cost control and management.

Components of Profit Planning

- i. Resources Planning & Management
- ii. Resources Allocation and Business Development
- iii. Funds Management
- iv. Non-Credit Business (Misc. Income)
- v. Control of Income Leakages
- vi. Cost Control & Management

In general, the key steps and practices to improve profits in a PACS as cooperative banking unit are:

- Deployment of credit in variety of activities
- Look out for new business activities/new areas of business
- Improving customer service for better profitability
- Maintaining quality of credit appraisal
- Effective Cash Management to ensure Safety, Liquidity and Profitability. Preventing excessive cash, over and above insured limits, carrying risk.
- Carrying out revenue checking exercise for preventing revenue leakages on a regular basis.
- Regular follow up and monitoring of all loan accounts to reduce the possibility of diversion of funds. Timely recovery of loan dues and recycling of funds leads to better profitability.
- Check on accounts becoming NPAs. Once it is decided to recall an advance, there should be no delay in carrying out the decision. Ensure prompt legal proceedings/filing for Arbitration Award and thereafter for Execution Proceedings.
- Concentrate on increasing employee productivity which depends upon factors like:
 - Involving them in decision making
 - Motivating them to give their best for the bank
 - Creating conducive environment where the employee feels empowered
 - Providing the employees with the essential knowledge / skills of application of new technology and providing necessary training to equip themselves with latest techniques
 - Simplification of system and procedures

- Follow marketing approach for banking and efficient customer services
- Improve internal housekeeping

Risks and Alternatives

Primary level cooperatives, like other businesses, face all kinds of risks which can cause serious loss of profits or even bankruptcy. However, considering themselves as small business, these tend to ignore to look at the issue in a systematic way. The main type of business risk are:

- (i) Strategic Risk- A well-thought of business development plan doesn't work and society struggles to achieve its goals. It could be cause of technological changes, new competitors, change in customer demand, sudden increase in costs of raw material etc.
- (ii) Compliance Risk-A cooperative society may not comply with all applicable laws and regulations. With change in business, a cooperative may need to comply with new rules etc.
- (iii) Operational Risk-refers to unexpected faults or failure in day-today operations. It could be caused by people, processes or technology not working properly.
- (iv) Financial Risks-refers to the money flowing in and out of the business which may result into extra costs or lost revenue. For example society has extended consumer articles on credit of 60 days to large number of customers and they are unable to pay or delay the payment. Raising funds for business at higher rate of interest than expected is also a financial risk.
- (v) Reputational Risk-No matter what type of members and business a cooperative society deals with, its reputation is everything. If reputation is damaged, it will lead to loss of business and the related revenue. Members may loose faith and trust with long run adverse impact.

A cooperative society can apply the following three simple steps to risk management:

- i. Risk Identification: Identify the risks, how they come into play and their consequences. Use expertise and experience of your BoD members, team of staff and others by studying the issues and risks from previous and parallel businesses.

- ii. Risk Assessment: How big the identified risk are? Risk assessment is the process that tries to answer this question. The probability of happening of risk and the impact of consequences is to be estimated.
- iii. Risk Planning: Based on risk assessment, a way to avoid problems and issues arising from these risks has to be found out. Adopt the plan either for risk avoidance (i.e. decreasing the probability that there will be problem) or risk mitigation (i.e. lesser the impact of the problem)

Besides, the cooperative need to take up continuous monitoring of the risks and actions taken, follow-up and update assessment regularly.
