

IMPACT ON VYDHYANADHAN COMMITTEE  
RECOMMENDATIONS OF WANGAPALLY PRIMARY  
AGRICULTURAL CO-OPERATIVE  
CREDIT SOCIETY

Dr. M. S. Ramananda\*

Dr. M. Jayaprakash\*\*

**Abstract**

Cooperatives as an institution in India are more than a century old. With more than a lakh grass root level cooperatives, their presence is formidable. Notwithstanding, impressive gains made by cooperatives in terms of their rural outreach and coverage of small and marginal farmers, their financial health has been a matter of concern. The study is an attempt made into the factors which impact financial health of cooperatives reflected through their recovery performance. The major findings of this study government should allow the cooperatives to evolve in a natural manner rather than through initial official encouragement and subsequent intervention. Government's contribution to share capital of cooperatives should be stopped. There is also a need to revisit the issue of appropriate member size for a base level cooperative so that cooperative principles are internalized amongst members. Very large cooperatives should be avoided both in principle and practice. The attempt should be either to completely dislodge government equity in the PACS or not to consider the PACS as cooperatives but to accept them as quasi government ventures for

\* Faculty Member, Regional Institute of Co-operative Management (RICM), Padmanabhanagar, BSK II Stage, Bangalore.

\*\* Faculty Member, Institute of Co-operative Management (ICM), Rajendranagar, Hyderabad, Andhra Pradesh.

which the parameters of performance needs to be revisited. The study also found that as deposits grow in proportion to borrowings, the recovery performance is adversely affected.

Prudential norms were applied to cooperatives after introduction of liberalization of economy, which were recognized as principal institutional agency for providing agricultural credit in India. The Cooperative sector was passing through a bad time. It continued to be fragile. It became imperative to assess the financial and other operational inputs required to revive them.

The National Federation of state cooperative banks and National cooperative Agricultural Rural Development banks federation have approached the Government of India to strengthen the Cooperative Credit System (CCCS) 'by infusion of additional capital as had been done for the weak nationalized commercial banks and Regional Rural Banks. The Government of India appointed a task force headed by Jagadish Kapoor Committee on revival and restructuring package on cooperative banks on the 9th April 1999. The terms I of this committee to review the functioning of the Cooperative Credit Structure and suggest measures to make them Member Driven, Professional Business Enterprises.

The Primary Agricultural Cooperative Credit Society Ltd., Wangapally has been registered with Registration No. 120/TH in the jurisdiction of the Deputy Registrar of Coop. Societies, Bhongir of Nalgonda District.

Prior to the restructurisation of the Credit Societies, there were totally (9) erstwhile PACSs in the Yadagirigutta Mandal, namely Yadagirigutta, Masaipet, Gowraipally, Mallapur, Kacharam, Wangapally, Motakandu, Chinna Kandukur and Pedda Kandukur. During the restructurisation, though all the societies were identified as non-viable societies, as such made focal points of (2) societies namely Yadagirigutta and Wangapally

and as per the availability of geographical possibility the other societies were merged with these (2) societies as focal point societies as on 27-05-2005.

### Vaidyanthan Committee

With the formation of UPA government at the centre the government of India set up a task force in August 2004, with the following terms of references

- To recommend an implementable action plan for reviving the rural cooperative Banking institutions taking in to consideration, the main recommendations made by various committees in this regard.
- To suggest an appropriate regulatory frame work and amendments needed in the relevant Laws.
- To make an assessment of financial assistance that the cooperative banking institutions will require for revival, and also the mode of such assistance, it's sharing pattern and phasing.
- To suggest any other measure for improving the efficiency.

The implementation of Vydhyanadhan recommendations were implemented as per the Accounts finalized with Financial Year closing with 31-03-2004 and as per the said recommendations, a Special Audit has been caused and conducted for arriving at factual position of the societies and to recommend the Financial Assistance under the Revival Package. Accordingly, a Special Audit has been conducted by the Auditors and as per which each society has got its own financial assistance as per the procedural formats mentioned in the revival package.

### Objectives of the Study

1. To study the impact of Vaidyanthan Committee recommendations about the Wangapally Primary Agricultural Co-operative Credit Society.
2. To examine the financial aspects of Wangapally Primary Agricultural Co-operative Credit Society.

## Methodology

The present analysis based on secondary data collected from sample Wangapally PACS for the year 2007-08 to 2010-11 and Journals, Periodicals and annual report of Wangapally Primary Co-operative Credit Society, Wangapally. Percentages have worked to selected variables like, Advances, Borrowings, Recovery and Profits/Losses of the Wangapally Primary agricultural Co-operative Credit Society for in depth study.

## Results and Discussions

In the instant case, PACS Wangapally have got eligible for financial Assistance under Revival Package and assessed an amount of rupees 2,44,58,626.00, of which the government of India share is rupees 2,15,83,301 and government of Andhra Pradesh share comes to rupees 28,75,325 and rupees 5,82,305 as the society share.

**Table 1 Re-Capital Assistance to Wangapally PACS from GOI and GOAP**

Name of Focal Society	Name of Erstwhile PACS	Re-capital Assistance assessed under Revival Package		
		GOI	GOAP	PACS
Wangapally	Wangapally	54,93,919	9,08,553	1,37,529
	Peddakadukur	49,15,374	8,11,103	57,140
	Motakondur	66,53,818	5,34,826	3,38,207
	Chinakandukur	45,20,190	6,20,843	49,429
<b>Total</b>		<b>2,15,83,301</b>	<b>28,75,325</b>	<b>5,82,305</b>

Source: Annual Reports of GOI and GOAP

The society Share of rupees 5,82,305 is due on account of difference in Books of Accounts and balance sheet, which has been assessed as Society Share. The society has to

review and collect the said amount as its own responsibility for strengthening the financial position of the society further. As on the date the society has collected majority of amounts leaving a balance of rupees 1,41,893.00 out of the total amount of rupees 5,82,305.00.

**Table 2 Component wise Breakup of Wangapally PACS Share Amount arrived as loss under Revival Package**

Name of Focal Society	Name of Erstwhile PACS	Component wise Breakup of PACS Share Amount arrived as loss under Revival Package			
		Difference in books of accounts and Balance Sheet	Total	Amount Recovered	Balance to be recovered
Wangapally	Wangapally	1,37,529	1,37,529	1,01,038	36,491
	Peddakadukur	57,140	57,140	17,410	39,730
	Motakondur	3,38,207	3,38,207	3,21,874	16,333
	Chinakandukur	49,429	49,429	NA	49,429
<b>Total</b>		<b>5,82,305</b>	<b>5,82,305</b>	<b>4,40,322</b>	<b>1,41,983</b>

Source: Annual Reports, Wangapally PACS

### Release of Funds & Utilization

The N.D.C.C.B. Ltd., Nalgonda through Advice Dated 31-03-2008 have given to the society that an amount of rupees 28,75,325.00 being the GOAP Share of Revival Package Financial Assistance has been sanctioned and released to the PACS Wangapally. The said amount has been credited to the Special Current Account of the society in the Branch. The society has taken the said transaction on 31-03-2008 in their books of accounts.

Further, the NDCCB Nalgonda through Advice Dated 22-04-2008 have given to the society that an amount of rupees 2,15,83,301.00 being the GOI Share of Revival Package Financial Assistance has been sanctioned and released to the PACS Wangapally. The said amount has been credited to the Current of the society. The society has taken the said transaction on 03-05-2008 in their books of accounts.

The consolidated amount of rupees 2,44,58,626 has been withdrawn from Special Current Account of the society on 07-06-2008 and the some portion of said financial assistance has been adjusted towards dues of the society to Bank and balance has been kept as Fixed Deposit and Flexi Deposit at Bank level.

**Table 3 Adjusted Head of Wangapally Primary Agricultural Co-operative Credit Society**

Sl. No.	Adjusted Head	Amount Adjusted
1.	S.T. Principal	75,21,809.24
2.	S.T. Interest	20,28,718.76
3.	L.T. Principal	4,87,985.00
4.	L.T. Interest	13,31,307.00
<b>Total Amount Adjusted to Borrowings Head</b>		<b>1,13,69,820.00</b>
1	Fixed Deposit (Societies)	5,82,305.00
2.	Flexi Deposit	1,25,06,501.00
<b>Total Adjusted to Society Assets</b>		<b>1,30,88,806.00</b>
<b>Grand Total</b>		<b>2,44,58,626.00</b>

Source: Annual Reports, Wangapally PACS

The Flexi Deposit amount of rupees 1,25,06,501.00 has been withdrawn and adjusted towards dues of the society at Bank level on 30-01-2010.

Therefore, entire financial assistance of rupees 2,44,58,626 has been adjusted towards borrowings at bank level leaving a balance of rupees 5,82,305 which is available with society as on date under Fixed Deposit at Bank.

### Impact of Financial Assistance

Though the Wangapally PACS received financial assistance of rupees 2,44,58,626 from the government of India and government of Andhra Pradesh, the financial status of the society as on date is seems to be nothing changed. But the Impact of financial assistance started working since its release and the society is earning profits through this financial assistance internally. The details are as follows;

The financial Position of the PACS Wangapally, prior to the Release of Financial Assistance and after the release of financial assistance especially effected head off accounts is brought to mirror here under;

### Imbalances Between Assets and Liabilities of Society

**Table 4.a Prior to the Financial Assistance : (As per FAR 2007-08)**

Sl. No.	Head of Account	Borrowings (Society to Bank)	Loans & Advances (Member to Soceity)	Difference Imbalances
1	S.T. Principle	2,77,37,199.24	1,44,20,639.00	1,33,16,560.24
3	L.T. Principle	2,18,70,935.20	2,01,95,979.00	16,74,956.20
4	ST & L.T. Interest	58,35,125.00	63,32,397.00	- 4,97,272.00
<b>Total</b>		<b>5,54,43,259.44</b>	<b>4,09,49,015.00</b>	<b>1,44,94,244.44</b>

Source: Annual Reports of Wangapally PACS

As such the society through the Financial Assistance have come out from the imbalance of rupees 1,44,94,244 to the self sustained rupees 19,07,566 in the Borrowings and Loans and Advances.

**Table 4.b After the Financial Assistance : (As per FAR 2010-11)**

Sl. No.	Head of Account	Borrowings (Society to Bank)	Loans & Advances (Member to Society)	Difference Imbalances
1	S.T. Principle	1,49,67,254.00	1,11,26,496.00	38,40,758.00
3	L.T. Principle		35,85,767.00	- 35,85,767.00
4	ST & L.T. Interest	26,087.00	21,88,644.00	- 21,62,557.00

<b>Total</b>	<b>1,49,93,341.00</b>	<b>1,69,00,907.00</b>	<b>- 19,07,566.00</b>
--------------	-----------------------	-----------------------	-----------------------

Source: Annual Reports of Wangapally PACS

On perusal of the above statistics of the society, it is learnt that there were huge imbalances between the Bank and Society in the S.T. Loans only among the L.T. Loans. The main object of the Credit Society is to get the loan from the financing Bank and to lend the same to the members on the marginal interest. The loan amount released at Financial Bank level is single account but whereas at society level the said amount will be divided into number of accounts / farmers. Since from beginning, there a custom at bank level that, any amount paid by the society to the bank will be taken to interest A/c. first then after the Principal portion latter. But, the said remitted amount by the society was collection of Principal and Interest of the individual farmers, there by the outstanding principal portion at society level has been low at society level, where the principal portion at Bank level remains same. Especially, while introduction of “KCC” by the Govt., it was instructed to follow the Shadow Register at Bank level and to appropriate both the society level and Bank level Accounts similar in advancement and repayment. But, whereas, the Bank has not followed this custom since from beginning, as such there was huge imbalance arose. Few examples regarding this society is submitted below especially in respect of CKCC drawls and payments;

Example during the year 2005-06 the society has collected an amount of rupees 55,00,860 under CKCC Principal and the same remitted to the Bank (as it is purely a adjustment of CKCC loans and only interest is collected members and principal will be re-advanced). Out of which the bank has adjusted an amount of rupees 46,49,254 towards CKCC Principal and the balance of rupees 8,51,606.00 has been adjusted towards interest due by Society. Due to which balance of CKCC Principal at Bank level exceeded than the Principal level at Society level. This is only one example shown here for ready reference.



Such practice is being followed by the Bank since beginning and it is not mechanically possible to identify such difference since beginning but however, through the Debt waiver and implementation of Revival Package, most of the imbalances were covered and a meager portion left in imbalances between the assets and liabilities of the society. But, so as to maintain the same situation, the DCCB Banks have to maintain shadow registers for the CKCC and the appropriation of the Principal and Interest portions at society level and Bank must be equal, in the interest of the Cooperative Principles. Otherwise, further any Assistances/ Grants / be granted by Govt. will be fruitless.

### **Major Reasons Effecting Profitability**

Everyone is in an opinion that, even though sanction of Revival Package amount and Debt waiver amount, the Societies are still in the losses and are not getting profits, In fact, the Revival Package amounts sanctioned and released to the society will not effect in the profit and loss account. Now, the amounts received from Revival Package were adjusted to the borrowings of DCCB simultaneously placed the amount under liabilities under separate head. Just like changing of money from one pocket to another pocket and there will not be net difference. As such, the net profit or loss position of the society may be ascertained by deducting the Revival Package amount from out of Accumulated Losses.

The cause of profitability through this Financial Assistance is nothing but, the society will be charged with interest for the portion of this Financial Assistance adjusted towards borrowings and where as the society will get the interest on whole portion towards loan due from members. Naturally the part of Accrued interest at Bank level and society level be effected by this Financial Assistance in a positive manner and the society gradually gets the net profits and self sustainability by simultaneous recouping of accumulated losses.

**Table 5 Borrowings, Advances, Net Profits and Accumulated Loss of Wangapally PACS**

Year	Accrued Interest on Borrowings (Society to Bank)	Accrued Interest on Loans & Advances (Member to Society)	Difference	Net Profit	Accumulated Loss
2007-08	23,16,025	42,00,020	(18,83,995.00)	22,60,581.85	2,40,76,399.71
2008-09	74,46,098	47,23,943	27,22,155.36	6,28,471.57	2,34,47,928.14
2009-10	48,45,913	35,08,570	13,37,343.00	7,49,659.99	2,26,98,268.15
2010-11	11,70,597	11,89,884	(19,287.00)	5,78,618.55	2,21,19,649.60

Source: Annual Reports of Wangapally PACS

From the above analysis, it may be taken note that, there is gradual decrease on the part of Accrued Interest year by year and there by getting net profits and recoup of accumulated losses. In the instant society, the Recapitalization Assistance Fund under Contribution from GOI is Rupees 2,15,83,301.00 and under Contribution from GOAP is Rupees 28,75,325.00, total Recapitalization Assistance Fund is Rupees. 2,44,58,626.00. Whereas the Accumulated Losses of the society as on 31-03-2011 is Rupees 2,29,12,526.15, as such the society is running under net profit of Rupees 23,38,976.40 as on 31-03-2011.

## Conclusion

This study was an attempt to decipher the factors, which contribute to the financial health of the PACS, which form the base of the short-term cooperative credit structure prevalent in India. The study considered recovery performance of the PACS as the most suitable indicator of their performance. The results indicate that as the PACS have drifted from some of the core principles of cooperation, their recovery performance has suffered. As membership size has grown over the years in case of the PACS, their recovery has taken a beating because peer pressure, which ensures recovery, has gradually weakened. Thus there is a need to relook into the issue of optimal member size of the cooperatives in the interest of their viability. In conformity with popular perception, government's contribution to the share capital is found to be detrimental for the recovery performance of the PACS. Government's contribution in share capital not only gives it a hand to meddle with the affairs of the PACS; it might also be inducing indulgence amongst members because of the comfort of government bail out in case of difficulty. The latest amendment in the Vaidyanthan Committee's recommendation that Government can retain 25 per cent of equity capital in case of PCAS needs to seriously given a second thought. The attempt should be either to completely dislodge government equity in the PACS or not to consider the PACS as cooperatives but to accept them as quasi government ventures for which the parameters of performance needs to be revisited. The study also found that as deposits grow in proportion to borrowings, the recovery performance is adversely affected.

## References

- Aiyar M.S. (1994), “Cooperatives and the Need for Constitutional Amendment”, *P.L.N. Raju Memorial Lecture*, Cooperative Development Foundation, mimeograph.
- Bhumali Anil (2003), “Rural Cooperative and Economic Development”, *Sarup and Sons*, New Delhi.
- Chalam, G.V. and Prasad, A. (2007), “An Evaluation of Financial Performance of Cooperative Societies in Andhra Pradesh (A Study of Selected PACS in West Godavari District)”, *Indian Cooperative Review* Vol. 45, No.1, pp.42-58.
- Datta Samar K.(2004), “Cooperatives in Agriculture” in *State of the Indian Farmer: A Millennium Study* (edited), Vol. 24, *Academic Foundation* New Delhi.
- Murugesan, P (2007), “Performance Indicators of PACS”, *Indian Cooperative Review*, Vol.45, No.2 pp. 110-116.
- Raikar, A.V. (2006), “Cooperative Credit Institutions in India-An Overview”, *Indian Cooperative Review*, Vol. 44, No.1, pp.1-20.
- Reserve Bank of India (2000), “Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its Strengthening”, Chairman: Jagdish Kapoor.
- Jalal RS (1992), *The Performance Behavior Long term Credit, Co-operative Movement in India*, Anmol publication, New Delhi, 92-112.

\*\*\*\*\*