CHAPTER - III
A Historical Resume and Growth of SWCCDS in AP
Andhra Pradesh (AP) is regarded as one of the advanced states in the field of cooperation in the country. The cooperative structure has been playing a vital role in the integrated rural development of the state by catering to the credit needs of farmers as well as others. Besides providing credit, cooperatives have been assisting agriculturists in storing, processing and marketing their farm produce. The cooperative agricultural credit societies supply inputs like seeds, chemical fertilisers, pesticides etc. The main focus of attention is to help the weaker sections of the society. During the last few years due to recurrent droughts and also to a certain slackness in credit discipline, there has been some slippage in the strength and vitality of cooperative institutions in the state. To strengthen the cooperative agricultural credit structure in the state, the Government of AP has introduced the single window cooperative credit delivery system (SWCCDS) in 1987. Therefore, in this chapter, an attempt is made to examine the historical background, genesis, objectives, trend and progress of SWCCDS. A comparative analysis of performance of Primary Agricultural Credit Societies (PACSs) and District Cooperative Central Banks (DCCBs) before and after the inception of SWCCDS is proposed. Since the state level apex institutions such as Andhra Pradesh State Cooperative Bank (APSCB) and Andhra Pradesh Cooperative Central Agricultural Development Bank (APCCADB) functioned independently as earlier till July, 1994, the analysis is not presented in terms of prior to SWCCDS and the prevailing system.
1. Need for SWCCDS

Following the national pattern, cooperative credit in AP was made available through two parallel wings viz., one exclusively for short-term (ST) and medium-term (MT) and the other for long-term (LT). During 1975-76, there were 14627 PACSs financed by 26 DCCBs and APSCB for providing ST and MT loans and 201 Primary Agricultural Development Banks (PADDs) financed by APCCADB for providing LT credit. Over the last few decades, the views of Governmental agencies about the size of PACS and its location have varied over a wide range. Soon after independence, opinion was in favour of having one PACS for each village instead of the large sized multi-purpose cooperative society, which covered more than one village. Subsequently, opinion veered round to the view that the PACS should be viable and should have adequate volume of business to be able to make available all the services required by villagers and also engage the services of a paid secretary.

In AP, during 1977, a comprehensive viability programme as envisaged by the Government of India/Reserve Bank of India (RBI) was introduced to reorganise and restructure the existing PACSs into viable units with a view that the reorganised PACSs would make available a package of services to farmers not limited to purveying credit but also providing linkages between finance and other inputs. The criteria followed in identifying viable societies are: a society which has a ST loan business of two lakh rupees and
above for agricultural operations; and a society which has a ST loan business of not less than one lakh rupees for agricultural operations may be treated as potentially viable provided that there is a credit potential of the order of two lakh rupees and over in the area of operation of the society or after adjustment of area of the society with other societies.

The guidelines given by the Government indicated that normally a gross cropped area of 2,000 hectares, whether irrigated or not, may be taken as adequate to provide a minimum ST credit potential of two lakh rupees for a potentially viable society. Under this programme, in 1977, 6,562 viable PACSs were carved out of the pre-existing 15,000. This was done by merger of non-viable societies and liquidation of certain other societies. To enable the reorganised PACSs to function effectively, a programme was drawn up in 1978 to recruit secretaries. After providing due training etc., paid secretaries were appointed to as many as 5,000 PACSs. The annual ST loans picked up from Rs.88.68 crores in 1977 to Rs.151.08 crores in 1983. In spite of significant increase in loaning operations, the functioning of PACSs leaves much to be desired. It was observed that 85 per cent of PACSs which were originally conceived of as being potentially viable on the then existing norms, did not become viable even after five years from the implementation of the viability programme. As many as 5,444 PACSs were unable to meet establishment expenses of a paid secretary without resort to contributions from
higher financing agencies. A large majority of PACSs still were uni-functional in the sense that the range of their services was limited to disbursement of crop loans only. The success of a credit agency would also depend on its linkages with marketing and provision of agro-services. This has to be developed at the PACS level. It was noticed that even relatively simple services like distribution of agro-inputs and essential commodities were undertaken by only 10 per cent of PACSs.

The cooperative marketing structure with 396 Primary Cooperative Marketing Societies (PCMSs) at taluk level, 21 District Cooperative Marketing Societies (DCMSs) at the district level and the Marketing Federation (MARKFED) at the apex level had not grown to the extent desired for helping, developing and protecting the farmers' interest and recurring fair and remunerative prices for their produce, by taking up grading, storage, processing and marketing of agricultural produce. About 2/3rds of the PCMSs were found dormant and most of the remaining 1/3rd were dealing only in distribution of fertilisers and essential consumer articles. Their total turnover was a mere Rs.11.49 crores while their gross accumulated losses totalled to Rs.1.56 crores. The societies were virtually non-functioning in rendering processing services as just 4 societies have undertaken such service. Even in DCMSs, almost the entire turnover was realised from the sale of fertilisers and consumer goods. Only 4 DCMSs had undertaken marketing of agricultural
produce valued at a mere Rs.70 lakhs. Marketing undertaken by the AP MARKfed was only Rs.6.75 crores. Even the little marketing activity undertaken was not necessarily of the members' produce. Most of the rice mills and processing units were lying unutilised or grossly underutilised. There was hardly any linkage of credit with marketing. Thus, input supplies, consumer service and marketing did not make any headway. The limit of 2,000 hectares of cropped area, whether irrigated or not, and even Rs.2 lakhs business has had the effect of restructuring the area of operation of PACSs too narrowly. What was worse is the acceptance of potentially viable societies with 2 or 3 villages which have not been able to have the minimum capital base required to undertake significant credit business, not to talk of non-credit activities. It may be noted that, among the comparable states, the paid-up share capital plus deposits per member is the lowest in AP. Of the states in the country, percentage of borrowing members to total members is relatively lower in AP.

Whatever be the rationale for a separate credit structure for investment credit in the early fifties, with the progressive decline in the demand for investment credit for minor irrigation purposes which constitutes as much as 75 per cent of lending of LT cooperative credit structure, for purposes of continued viability, LT credit institutions have been encouraged to take up MT lending which had so far been within the purview of ST credit structure. This was done primarily because of appropriateness of the resources
raised by such institutions for lendings of MT nature. This has resulted in an unhealthy competition between the two structures. Application of investment credit demands a package deal by which ST credit must go hand in hand with LT credit. For example, schemes of farm forestry, soil and water conservation, command area development etc., though essentially are LT in nature, ST credit support is required to implement effectively and derive maximum advantage.

The MT loaning did not pick up as fast as ST loaning, problems relating to the same were identified and solutions worked out. Nevertheless, the impact on MT lendings is insignificant. In this connection, it is also relevant to point out that as against the performance of PACSs, 64 Farmers Service Societies (FSSs) with a much wider territorial jurisdictions were much better either in terms of traditional credit disbursement or even in the matter of distribution of agricultural inputs and consumer goods.

Yet there is another important factor which calls for a relook and reexamination of the original programme of reorganisation. After the introduction of multi-agency approach and grounding of FSS and Regional Rural Banks (RRBs) apart from direct financing by Commercial Banks (CBs), farmers are finding it more convenient to avail their services at a single contact point from FSSs and RRBs than through a PACS which is only unifunctional (in respect of credit) and almost non-functional (in respect of other services) barring a few here and there.² This growing trend
had caused erosion of legitimate business due to PACSs. It is felt that the PACSs should provide all the required services to farmers at the local level itself. This one window concept envisages that the farmers should be able to obtain all their requirements of LT, MT and ST credit from a single window, which should also be able to extend services like supply of inputs, storage, marketing and processing of produce. Such a system would eliminate the exploitation of farmers by middlemen and would help farmers to realise better prices for their produce. Any consequent sickness on account of extended non-viable situation may create more problems than it may be possible to solve. For this reason as well, the size and effectiveness of the PACSs have to be ensured.

There are a few DCCBs whose jurisdiction is not still co-terminous with the revenue jurisdiction of the district concerned. The RBI has been calling upon such banks to fall in line with others. It will be some what difficult to tackle this problem in isolation. By integration of ST and LT systems, this long standing problem also can be simultaneously solved. The continued inefficiency, financial weakness and mounting overdues of PACSs in many districts have gradually resulted in the weakening of DCCBs. In addition, due to both internal and external factors relating to employees of DCCBs, many lost the financial strength. Out of the 27 DCCBs, as many as 10 were rehabilitated. While in some districts, the flow of ST and MT credit almost got choked, in the remaining it is not upto the desired extent.
Even in the case of the so called good banks, they are not able to play any effective role in government sponsored poverty amelioration programmes. Over a period of years, the performance of PADB's deteriorated considerably. Of the 218 PADB's, as many as 163 have been classified as weak and most of the banks are working in losses with mounting overdues. The eligibility of these banks to borrow funds had eroded significantly. The flow of LT credit also got choked up.

The dichotomy in the cooperative credit structure resulted in certain imbalances and it was observed that the ST and LT credit structures have not built up requisite liaison and coordination between themselves. Consequently the borrowers of PADB's were not assured of crop loans and the services of LT credit structure were not within the easy reach of the farmers at the village level. The loaning to the same farmer was done by both the units without the knowledge of each other, and perhaps in some cases exceeding the repaying capacity of the farmer and without adequate supervision over the end use of credit. The lack of coordination between the structures resulted in lack of working capital to the LT loan borrowers, which had denied them the opportunity to realise the fruits of their investment to the fullest extent. The recovery procedures have been distinct and each institution is only vying with the other for maximising its recovery without reference to the limited repaying capacity of the farmer. The borrower also generally felt isolated from the LT institutions once the loan was disbursed as this organisation did not render
any other service thereafter except demanding yearly repayment of the loan. This had affected the loyalty of members and increased the default. The farmer had to approach different institutions within the cooperative structure, though his ultimate objective was the same. Much of his time, energy and money were wasted only in going from one institution to other. In view of the above weaknesses, much emphasis was laid on the integration of ST and LT credit structures. 3

The aforesaid was the background in which a need was felt for reorganising and integrating the cooperative credit structure and diversifying the activities of PACSs with a view to strengthen the cooperative institutions, activise them and make them viable and operate profitably. It is, therefore, necessary to ensure that every PACS undertakes integrated credit services for providing a package of services to farmers and other rural families. If primary level cooperatives are to fulfil the role of a single window service agency catering to all the essential requirements of the farmer-member, this is possible only with the reorganisation of the existing PACSs. The long felt reform is overdue and no time should be lost in bringing it immediately.

2. State Government efforts

There has been a growing feeling that the existing cooperative rural credit delivery system has not been
adequate to the tasks set before it as the principal and potent instrument serving the needs of farmers in general and rural development in particular. The suggestion that cooperative structure should be reorganised and restructured has been engaging the attention of AP Government for some time past. Therefore, during March, 1983, the state government constituted a Committee to study the existing rural cooperative credit delivery set up keeping in view the objectives of being a single window service unit catering to the essential requirements of farmers. The objectives inter alia include: (i) taking a second look and bringing about further reorganisation of PACSs to enable them handle multi-term credit and multi-purpose services; (ii) integration of ST and LT credit structures; and (iii) revamping of marketing and if necessary, consumer sectors, so as to make the services available to rural population in an effective manner at one contact point. The Committee made the following recommendations: (i) if primary level cooperatives are to fulfil the role of a single window service agency catering to all the essential requirements of farmer member, this is possible only with the reorganisation of the existing PACSs. The reorganised societies would have a compact area of 5 to 10 villages and a population of 10 to 20 thousands with an eventual business potential of Rs.30 to Rs.50 lakhs to be reached within a period of three years. On this basis, the existing number of 6,562 societies will be reorganised to over 3,000 really viable PACSs; (ii) it is high time that the ST and LT cooperative credit structures
are merged in the larger interests of the farming community and the cooperative movement itself. Legislative action will have to be initiated for this purpose on the lines of the model law proposed by the Hazari Committee. The financial implications of this proposal would be that about Rs.30 crores will have to be made available to PACSs as share capital contribution. This could be phased out over a period of three years at the rate of Rs.10 crores each. Managerial subsidy would also have to be given to PACSs initially for a period of three years on a tapering off basis. This would be about Rs.11.25 lakhs in the first year, Rs.7.50 lakhs in the second year and Rs.3.75 lakhs in the third year; (iii) there should be a major overhaul in the present system of manning the PACSs by full time professional executives. For this purpose, while the recruitment and training of the managers would be done by the district level agency, the appointment of the manager of the society would be by the society itself. The secretary will have to be fully accountable to the society; (iv) The principle of one DCCB for one district could be implemented by amalgamating the surplus DCCBs and by so adjusting the jurisdictions of the DCCBs as to be coterminous with the revenue districts; (v) There was no need for a three-tier marketing structure and a two-tier structure would be adequate with MARKPED at the apex level and DCMSs at the district level while the PACSs could themselves undertake the functions being attended by the PCMSs. The DCMS has to ensure tie up of credit with marketing and undertake storage and complex processing and
marketing at terminal markets on behalf of PACSs. The MARKFSD was to be assigned a more vital role in the two-tier structure. However, the Single Commodity Marketing Societies for oil seeds, tobacco etc., were excluded from the purview of reorganisation. For revitalisation of DCMSs, about Rs.1.50 crores had to be made available, besides writing off Rs.4.50 crores overdues of DCMSs to the Government; and (vi) concurrent changes in the Cooperative Law would also be necessary to free the cooperatives from undue Government interference, attract investments in cooperatives through a system of incentives and also simplify and rationalise the regulatory measures relating to enquiries, surcharge, audit etc. Thus the Committee recommended that the long awaited reform for integrating ST and LT structures as suggested by a Committee should be brought about up to the apex level immediately.

3. Genesis of SWCCDS

The Government accepted in principle the recommendations of the aforesaid Committee for the introduction of the SWCCDS and formulated a scheme report for the reorganisation and sent it to the National Bank for Agriculture and Rural Development (NABARD), RBI and Government of India in June, 1983. The integration of ST and LT structures proposed was total in nature involving all the ST and LT institutions covering the state as a whole. The main features of the proposal were as under: (i) the PACSs would be reorganised to make them viable units, each PACS covering
about 10 to 20 villages and satisfying other criteria relating to population, cropped area and loaning operations; (ii) at the intermediate level, the DCCHs numbering 27 at present, would be merged to have 22, each co-terminous with a district. All the existing PADBs would be amalgamated at the revenue district level with the DCCHs and called as District Cooperative Bank for Agricultural and Rural Development. This bank would take over the functions of providing ST, MT and LT credit to borrowers through reorganised PACSs; (iii) at the state level, a new institution called the Andhra Pradesh State Cooperative Bank for Agriculture and Rural Development would be set up and the assets and liabilities of both the APJCB and the APCCADB would be transferred to it. The state Government was agreeable to meet the financial commitments for absorbing overdues in excess of owned funds and to cover the deficits in the bad and doubtful debts reserves of the existing institutions; and (iv) the existing three-tier cooperative marketing structure in the state would be changed into a two-tier structure with the MARKFED at the state level and the DCMSs at the district level. All the 396 existing PCMSs would be liquidated/amalgamated with the proposed reorganised PACSs or DCMSs.

The scheme report sent by the State Government was under examination for quite some time. Both the RBI and NABARD were not agreeable to complete integration of ST and LT wings of the cooperative credit system as envisaged in the state Governments' proposal. However, at the primary level, the need for single window approach was recognised.
It was suggested that PACSs may be reorganised so that those which are already viable with loans outstanding of Rs. 5 lakhs and above could be allowed to continue while others having lower level of business may be reorganised so that they could be strengthened and equipped to take up LT finance, on an agency basis. At the intermediate level, NABARD had no objection to having a DCCB co-terminous with a revenue district. As regards PADDs, viable ones could be retained as such and weak PADDs, which may be identified with reference to specific norms, could be eliminated. Subsequently, it was observed that the number of weak PADDs was hardly 15 to 20 out of 218 PADDs in the state. In the circumstances, it was felt that other measures could be thought of, instead of resorting to integration because the LT structure in the state was doing well on the whole. Thus NABARD was inclined to recognise the need for the SWCCDS only at the PACSs level and was not for complete integration at the higher levels.

After sometime, Government of India took the initiative in June, 1985 and placed the matter before the Committee of Secretaries. The following conclusions were arrived at. (i) there were advantages in having a single window approach to institutional credit from the stand point of the borrower. But it may not be advisable to attempt to implement the concept in a single stroke in view of the financial, organisational and administrative complications; (ii) the marketing operations should be distinct and separate from credit operations; and (iii) a pilot project
could be attempted in a small area in one or two states including AP. The working of the pilot project could be studied and in the light of experience gathered in its implementation, a decision could be taken about extension of the scheme to other parts of the country. Thereupon, the Government of India constituted a Committee with the following terms of reference: (i) to look into the legal aspects of integration of institutions particularly at the district level in the context of provisions of the Banking Regulation Act, Cooperative Societies Act, etc., (ii) to work out, on the basis of an in-depth study of selected areas, the problems in regard to resource management both in the context of resource mobilization and deployment within the overall framework of the financial disciplines prescribed by the RBI/NABARD and also other problems emanating from the requirements of maintaining liquid assets, etc., (iii) to work out the cost of funds of the newly contemplated institutions and also the viability of the same in terms of credit dispensation to different sectors including investment credit and the margins available; (iv) to redefine the role of PACSs as affiliates of the newly created bank, especially in the context of undertaking investment credit functions and make recommendations in the matter of manpower planning, training, etc., (v) to examine the financial system and procedures, especially in the context of credit dispensation and appraisal as also raising resources including those in the capital market; (vi) to look into the problems of
management of the newly created banks and its affiliates including the problems of deployment of possible surplus manpower of the merged institutions; and (vii) to consider any other operational and organisational matter relevant to merger.

For the purpose of field study, the Committee selected three districts in AP viz., Guntur, Nizamabad and Annantapur. For conducting field studies and working out the dimensions of problems of implementing the scheme, the Committee constituted a State Level Task Force, one each for the aforesaid districts. The Task Force studied the cooperative credit institutions in the three selected districts and submitted the report with the following recommendations: (i) at the base level, reorganisation of PACSs on the basis of a minimum loan business of Rs.10 lakhs, distance from headquarters, level of overdues etc. The number of PACSs might be reduced to two-thirds of the existing number. At the intermediate level, PADDs will be merged with DCCBs. After merger, the erstwhile PADDs would function as branches of DCCBs attending to the recovery of old outstanding LT loans. At the apex level, proposed the merger of the APCCADD with the APSCB; (ii) the existing assets and liabilities of PADDs be transferred to the DCCBs, which would assume the responsibilities of collection of old LT loans through their special recovery wings. The existing members of PADDs would be admitted as 'B' class members of DCCBs. The reorganised PACSs would not take over any of the assets of PADDs but would issue only fresh LT loans. As PACSs will be the new
units for disbursing LT loans, revised criteria for eligibility be prescribed at the level of PACSs; (iii) in view of the expected adverse effects of integration on the financial position of the emerging institutions, the suggestions include managerial subsidy to societies with loan outstanding of less than Rs.10 lakh for a period of three years and at the intermediate level, assistance to the proposed district level banks in the form of grants (a) to cover bad debts exceeding bad debts reserves; and (b) to the extent of overdues exceeding owned funds of PADBs. As regards margin in the rate of interest on LT loans, the margin hitherto shared would after integration be shared by three institutions (SCB, DCCBs and PACSs). Since after taking over LT loans business, DCCBs would be incurring losses every year, managerial subsidy might be provided to them; (iv) the surplus staff may be absorbed as and when the vacancies arose. The Committee suggested that the question of equation of posts, unification of pay scales etc., might be examined by a separate committee; and (v) for giving effect to the proposed integration, the following changes in the existing legal frame work were suggested: (a) incorporation of a new section in the AP Cooperative Societies Act, 1964 to empower the Registrar of Cooperative Societies to bring about compulsory amalgamation and division of existing societies; (b) amendments to the Cooperative Societies Act, Rules and By-laws of PACSs, DCCBs and SCB which might be necessary on account of PADBs ceasing to exist and transfer of their LT loan business to ST credit structure; and (c)
amendment to Section 42 of RBI Act and Section 24 of Banking Regulation Act, 1949 for excluding borrowings of SCB, NABARD, State and Central Governments and other notified banks in the form of debentures constituting resources for LT lending. The Task Force suggested that the question whether the amounts raised by issue of debentures would be treated as loans and straight away excluded from the provisions of the Acts will have to be examined. Section 14(a) of the Banking Regulation Act precludes the banking companies from creating the floating charge on their undertaking or any property unless creation of charge is certified, in writing, by RBI not to be detrimental to the interests of their depositors. After integration at the apex bank level, the transfer of debentures, liabilities to the APSCB will result in creation of floating charge on the assets of the APSCB in favour of the debenture holders. It will, therefore, be necessary for the bank to obtain requisite clearance from the RBI. It may be concluded that the Task Force pleaded for integration of the two cooperative credit structures throughout the state.

The Ardhanaareeswaran Committee gave its report in February, 1986. The Committee narrated the conflicting views of RBI and NABARD on the one hand and the views of the state Government on the other hand and concluded that since there was unanimity in regard to integration at the primary level, this could be done straight away in the whole state, while integration at the higher level could be phased over a period of time. The Government of India examined the report
of Ardhanaareeswaran Committee by constituting a Group of Officers from RBI, NABARD and the Ministries of Agriculture and Finance (Banking). This Group called for a project report from the Government of AP with a tentative frame for implementation. The Government of India in a meeting held during November, 1986 considered the AP Government project report and recommended the issue of clearance to the scheme subject to certain conditions. Based on this, Ministry of Agriculture (Department of Agriculture and Cooperation) intimated Government of AP on 5-12-1986 that after consultation with NABARD, RBI and Ministry of Finance, Government of India had no objection to the proposal for integration of ST and LT credit structures in AP for implementation at the level of PACSs, DCCBs and PLDBs in the first phase. The Government of AP amended the AP Cooperative Societies Act on 9-1-1987 in order to implement the SWCCDS. It also issued guidelines for implementation covering the following: reorganisation of PACSs on the criteria of economic viability; reorganisation of DCCBs on the criterion of one bank for one district; abolition of PAMs and devolving their assets and liabilities on the DCCBs; and reorganising cooperative marketing structure from three-tier to two-tier by eliminating PCMSs.

4. Reorganisation and integration

For the purpose of clearing the way for implementation of SWCCDS, the credit and marketing structures are reorganised. The 6500 PACSs were reorganised according to
parameters approved by Government of India and 4500 resultant viable societies emerged. The massive operation of reorganisation was completed in April, 1987. In this process, certain villages of the societies were also transferred to other societies to ensure that the area of operations of the societies do not overlap the mandal boundaries. This process of reorganisation prohibited either liquidation of societies or organisation of new societies. Certain big societies and FSSs which fulfilled all the criteria of single window service units were retained undisturbed even though their jurisdictions crossed the boundaries of revenue mandals. Elections were held to the managing committees of reorganised PACSs in June, 1987. The main functions of the reorganised PACSs include purveying ST, MT and LT credit, distribution of agro inputs, essential commodities, agro processing and marketing. In respect of LT loans, the PACSs would receive applications from individual members in the prescribed form and after preliminary scrutiny and on approval by the managing committee of the society, send it to the concerned branch of the district bank for sanction. The apex bank would formulate and communicate guidelines for assessing the eligibility of a borrower etc. After the loan is sanctioned by the branch, which will be in the name of the society, the society would disburse the loan including subsequent instalments. Verification regarding utilisation would be the responsibility of the society which would also be incharge of collection of the loan instalments. The society would be
responsible for maintaining individual demands against loanees and also for recovery of loans including setting in motion recovery proceedings. In view of the additional functions devolving on reorganised PACSs, the staff at the executive level would be strengthened suitably.

Prior to 1987, there were 27 DCCBs, of which 17 DCCBs were having jurisdictions coterminous with the revenue districts. Three districts had more than one DCCB (East Godavari four, Krishna and Nalgonda two each). While the areas of operation of some of the DCCBs like Khammam, East Godavari, West Godavari, Krishna and Vijayawada were less than one revenue district, some DCCBs covered certain areas of neighbouring revenue districts also. In the reorganisation of the DCCBs on the criterion of one bank for one district, in April, 1987, while most of the aforementioned anomalies were set right, Hyderabad DCCB located in Hyderabad (Urban) district was allowed to cover the Hanaja Reddy district (rural area) in its area of operations. Till bifurcation in 1978, these two districts were together in the old Hyderabad district. Thus the number of DCCBs was reduced from 27 to 22 with effect from 14-4-1987. The elections were held in July, 1987.

In pursuance of the special amendment to the Andhra Pradesh Cooperative Societies Act on 9-3-1987 and the notification issued by Government on the same date, the 218 PADBs were abolished with effect from 1-4-1987 and their assets and liabilities devolved on the respective DCCBs. The
individual members of the PADBs were made automatically 'B' class members of the UCCHs to enable recovery of old LT loans, as the fresh LT loans were to be issued by the PACSs from 1-4-1987. These persons were also given the option to become members of the PACSs in whose jurisdiction their lands were situated. The Andhra Pradesh Cooperative Societies Act and Rules were also amended enabling all the employees of the erstwhile PADBs to work under the control of UCCHs.

In the original scheme report sent to the Government of India, it was proposed for integration of ST and LT credit structures right from PACSs level upto apex level. However, the Government of India gave clearance to integration of ST and LT credit structures upto district level only in the first phase. The programme of integration at the apex level was not taken up in the first phase for the following reasons: (i) the integration of apex bank requires specific permission of RBI as APSCH is a scheduled bank; (ii) before the matter can be taken up with the Government of India, the terms and conditions already stipulated by Government of India for implementation of the first phase, i.e., release of financial assistance have to be complied with; and (iii) some aspects of integration upto district level such as integration of services is pending. During April, 1994, the two apex level institutions were integrated consequent on the receipt of approval from the Government of India.
The three-tier cooperative marketing structure was reorganised into a two-tier structure by eliminating the general purpose PCMSs at taluk level. The single commodity marketing societies exclusively for cotton/tobacco etc., were left undisturbed in view of their specialisation. The good working PCMSs were merged with the DCMSs. About 140 DCMSs which were not functioning were liquidated. The state Government would continue to repay the assistance provided by the NCDC for DCMSs which ceased to exist. In this process, 5 DCMSs, which were not working well were liquidated and in their place, five new ones were organised to see that the good working PCMSs do not get merged with bad working DCMSs. Presently, 22 DCMSs exist in the state. Thus SWCCDS came into being in AP from 1-4-1987. This is first of its kind in the nation itself.

5. Objectives of SWCCDS

Before we review the functioning of the SWCCDS since its inception, the objectives and advantages which were to accrue need to be briefly discussed. The stated objectives of the SWCCDS in relation to PACSs and DCMSs include the following: Firstly, to make PACSs potent economic instruments of rural development. Finally, to enable PACSs to (i) provide ST, MT and LT credit; (ii) undertake distribution of various agricultural inputs like seeds, fertilisers and pesticides and consumer articles such as rice, sugar, oil etc.; (iii) provide facilities and services to farmers like storage, processing and marketing.
and (iv) extend economic support programs and to provide services in the secondary and tertiary sectors for the benefit of rural artisans, agricultural laborers and other weaker sections of the society. In short, the PACSs were expected to provide multi-term credit and multi-functional services to members at one contact point.

It was envisaged that the SWCCDS would result in the following advantages to the cooperative credit system and farmers in the state. The cooperatives will be able to acquire a competitive edge over the CBs and RRBs which are already providing the full package of credit. The SWCCDS would make available to the member farmer all his agricultural and allied requirements at one contact point i.e., PACSs level. There has been a progressive increase in LT loans for purposes such as animal husbandry. Since these were already undertaken by ST credit system, the unhealthy competition between the structures could be avoided. Investment credit (LT) could be integrated with and backed up by production credit (ST) to optimise the benefits from investment in schemes such as farm forestry, soil and water conservation, command area development, integrated rural development etc. The PACSs would facilitate better supervision over the end use of credit in view of their proximity to borrowers. Unification of functions (ST and LT) would also contribute to the PACS attaining viability quickly and thus developing into a strong and effective unit at the base level. The integrated PACS with better
infrastructure, resources and coverage of rural population would be in a command position to undertake resource mobilisation through deposits. The integrated credit unit was expected to promote agricultural development more rapidly than hitherto.

The reorganisation of PACSs on the revised criteria of viability under the SWCCDS was envisaged to make them viable even without adding new LT business. Addition of LT loan business was expected to further improve their viability and also strengthen the PACSs and make them effective retail outlets of multi-term credit. Prior to the SWCCDS, a farmer had to go various agencies to meet his credit and other service requirements. For example, PACSs for ST credit, PADAs for LT credit, PCMSs for fertilisers, cooperative stores for consumer requirements and a cooperative processing unit for processing agricultural produce etc. The PACS under the SWCCDS is expected to provide the entire package of services needed by the farmer at one contact point. It was expected that the PACSs under the SWCCDS would be able to assess the total economic requirements of farmers for various types of credit and also compute their repaying capacity in a comprehensive manner and thus avoid double financing or over financing under the compartmental approach. Integrated credit was expected to take care of the composite needs of farmers duly taking into account the repaying capacity. The SWCCDS was also expected to facilitate a comprehensive view of the credit needs of
Farmers and avoid splitting of security between two agencies and also competition between them in the realisation of dues.

Instead of separate ST and LT staff visiting the same farmer, processing separate loans and facing problems in recovery etc., it was expected that under the SWCCDS, the services of the supervisors of integrated credit could be better utilised for quick and correct assessment of loan requirements and repayment capacity without splitting or diluting the security and also enable close watch being kept on the utilisation of loans to improve loan recovery. It was also expected that the staff would be deployed and utilised better by integrating the available staff and by eliminating duplication of functions. This was expected to result in a qualitative improvement in loaning, supervision and recovery. It was expected that in the SWCCDS the surpluses with the DCGBs and their branches could be profitably utilised for the initial disbursement of LT loans, to be replenished by reimbursement of the amounts from the NABARD as and when funds are actually needed. This was expected to lead to a greater degree of flexibility in the operations of DCGBs in providing ST, MT and LT credit. The integrated DCGB, it was hoped, would be in a position to plan and execute loaning programmes for agriculture and rural development in a comprehensive and coordinated manner and thus provide essentially an advantage and strength to the entire cooperative credit structure at the district level.
Therefore, an integrated ST and LT cooperative credit structure was created to develop a strong monolithic structure in place of the present weak and dichotomous one to ensure provision of needs of farmers in an effective and efficient manner. Then cooperative credit institutions play a key role in lending support to agriculture and rural development. It also ensures a proper linkage between production and investment credit. Hence, a single institution caters all the requirements of a farmer member at a single contact point.

6. Performance of SWCCDS

The reorganised credit and marketing structures under the SWCCDS started functioning in right earnest and substantial progress has been achieved in the advancement of ST, MT and LT loans through DCCBs and PACSs. The policies and procedures have been streamlined for the issue of LT loans. There is now complete fusion of ST, MT and LT credit structures up to the district level legally, financially and operationally. The personnel of both the streams are now working under one roof in the integrated DCCBs. Now a modest attempt is made in the following pages to review the progress and performance of PACSs and DCCBs subsequent to the introduction of SWCCDS as compared to their operations under the previously existing system. Since the two apex institutions viz., APSCD and APCCADB have functioned independently as earlier till April, 1994, the analysis is not presented in terms of before and after the introduction of
SWCCDS. However, in order to ensure a greater degree of coordination and effective monitoring, both the apex institutions have a common Board of Management and common Managing Director.

6.1 Primary Agricultural Credit Societies

The PACSs are the vital rural financial institutions in meeting the credit requirements of farmers for agriculture and allied activities. Before the introduction of SWCCDS in the state, the number of PACSs were 7000 in 1983 and 6500 in 1987 (see Table 3.1). Consequent upon the adoption of SWCCDS, these were reduced, on the basis of viability criteria, to 4500 in 1988. It has resulted in 117 cases where the entire mandal is served by a single PACS. Some reorganised PACSs are having 10 to 30 villages within their area of operations while some are covering distances of more than 10 to 20 kms. In these cases, it is desirable to moderate the criterion of economic viability by assigning suitable weightage to proximity and accessibility of villages to the headquarters of the PACS. By 1992, the number of PACSs was increased to 4600. The reorganisation, on an average, resulted in 33.43 per cent decline in the number of PACSs following the SWCCDS. In the pre SWCCDS, the membership in the PACSs has gradually increased from 71.59 lakhs in 1983 to 74.46 lakhs in 1987. While in the post SWCCDS, it has shot up from 87.85 lakhs to 90.36 lakhs with fluctuations during 1988-92. On an average, the membership before SWCCDS was 73.01 lakhs as against 93.77 lakhs after
<table>
<thead>
<tr>
<th>Item</th>
<th>Prior to SWCCDS</th>
<th>After SWCCDS</th>
<th>% of change in col. (13) over col. (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) No. of societies</td>
<td>7000 7000 6800 6500 6500 6820</td>
<td>4500 4500 4500 4500 4600 4600</td>
<td>-4540 -33.43</td>
</tr>
<tr>
<td>Membership (000's)</td>
<td>7159 7184 7250 7467 7446 7301</td>
<td>8785 7529 10693 9841 9036 9377</td>
<td>25.43</td>
</tr>
<tr>
<td>Share capital</td>
<td>36.42 40.30 44.27 48.40 48.06 43.49</td>
<td>56.98 70.85 106.33 111.62 97.81</td>
<td>33.72 101.00</td>
</tr>
<tr>
<td>Deposits</td>
<td>9.94 11.51 17.20 18.37 18.95 15.23</td>
<td>26.33 24.69 38.24 65.88 62.30</td>
<td>43.49 185.55</td>
</tr>
<tr>
<td>Borrowings</td>
<td>191.60 219.70 216.03 265.10 320.41 242.57</td>
<td>320.96 339.61 654.41 447.93 684.47</td>
<td>489.48 101.79</td>
</tr>
<tr>
<td>Working capital</td>
<td>324.83 383.36 447.38 447.08 407.22 381.99</td>
<td>447.13 483.62 955.00 696.75 899.70</td>
<td>507.35 32.82</td>
</tr>
<tr>
<td>Advances outstanding</td>
<td>222.70 264.24 318.32 356.91 395.80 311.59</td>
<td>414.72 428.09 923.60 786.31 752.78</td>
<td>661.10 112.17</td>
</tr>
<tr>
<td>Overtakes</td>
<td>111.27 142.58 146.52 171.86 158.30 146.11</td>
<td>180.01 202.82 490.71 376.92 364.61</td>
<td>323.01 121.07</td>
</tr>
<tr>
<td>% of recovery to demand</td>
<td>55.20 58.06 48.86 37.55 48.58 48.05</td>
<td>60.11 61.60 23.95 33.19 34.98</td>
<td>42.68 -5.17</td>
</tr>
</tbody>
</table>

Source: For 1983 to 1986 see the relevant issues of Govt. of AP, Statistical Abstract of AP, Hyderabad, Directorate of Economics and Statistics and the remaining is collected from the Office of Commissioner for Cooperation and Registrar of Cooperative Societies, AP, Hyderabad.
the SWCCDS. The rate of growth in the latter over the former was 28.43 per cent. There has been a rapid increase in membership in 1988 and 1990 over the respective previous years. As a result, the percentage of passive members rose in the period. Many ineligible members were admitted on the eve of elections. A member is eligible for admission if he is having landed property or is residing in the area or is a voter in the area, besides having qualifications as prescribed in the Andhra Pradesh Cooperative Societies Act and does not have any disqualifications. It is necessary to restrict the scope for unhealthy trend in membership drive in future to ensure proper functioning of societies.

On an average, share capital was Rs.43.49 crores before the introduction of SWCCDS vis-a-vis Rs.88.72 crores after the SWCCDS. In other words, it has more than doubled. Though there is an increase of 104 per cent, it continues to be inadequate. The proportion of share capital in the working capital was 11.39 per cent before the introduction of the present system as compared to 17.49 per cent in the new system. At present, share value is only Rs.10 and only one share is allocated at the time of admission. There is an imperative need to strengthen the share capital base of PACSs and also increase the stakes of individual members. Additional share capital mobilisation through increased lending would be possible only if the PACSs are in a position to service the credit needs of a large number of members and enhance the volume of credit significantly. Because of heavy overdues and limitations on funds, it is
unlikely that the volume of credit would expand considerably in the near future. The PACSs have to invest 10 per cent of their total borrowings as share capital in the DCBUs even though they themselves collect only 5 per cent from farmers. As a result, the PACSs do not have sufficient liquidity for their loan operations. Besides, they are required to make share capital contribution from out of recoveries. This in turn contributes to imbalance between outstandings and borrowings, affecting their viability adversely. Therefore, there is an urgent need to revise the share capital.

Deposit mobilisation is utmost important for gaining financial strength including the habit of thrift among the members and improving members involvement in the society. Deposits in PACSs are particularly vital for improving their financial health because unlike in the case of apex bank and DCBUs, the PACSs do not have to follow any cash reserve and statutory liquidity requirements; and there is no interest rate restriction except for specified purpose. The interest payments on deposits in PACSs are also exempt from income tax deduction at source, unlike the banking institutions. At present, non-credit business is very small and PACSs are compelled to borrow at high rates of interest for non-credit purposes also. Therefore, a prudently managed PACS with a good deposit base should be able to direct more of its funds to non-credit business which yields good returns. In the post SWCCBS, deposits grew nearly 186 per cent. The deposits in the working capital constituted 3.57 per cent after the SWCCBS as compared to
3.89 per cent before the SWCCDS. In view of this, PACSs should improve their get up for attracting clientele for deposits. By attracting more and more deposits, the PACSs can deploy the funds in non-agricultural loans. Such deposits can also be utilised for providing produce pledge loans. Borrowings were Rs.242.57 crores before the SWCCDS whilst Rs.489.48 crores after the SWCCDS, registering an increase of approximately 102 per cent. Borrowings in the working capital formed 63.5 per cent in the former vis-a-vis 96.48 per cent in the latter. The borrowing capacity of PACSs has improved after reorganisation. On an average, working capital was Rs.381.99 crores before SWCCDS whereas Rs.507.35 crores after SWCCDS. The rate of increase in the latter over the former was 32.82 per cent.

As the secretaries of the PACSs were not exposed to LT loaning operations earlier, all of them were imparted training in a week's orientation course. Keeping in view the complexities of LT loaning, the PACSs were entrusted with simple functions in the matter of processing loan applications. Loan appraisal, verification of revenue records and other title documents and field inspections are entrusted to the DCCHs staff. The reorganised PACSs disbursed fresh LT loans after the new system. Prior to SWCCDS, PACSs and DCCHs used to deal with ST advances only. Following the SWCCDS, PACSs and DCCHs advance ST as well as LT loans. As a result, outstanding advances before the present system include ST loans while in the post SWCCDS,
outstanding advances include both the ST and LT loans. In view of this, the researcher tried his best to collect the information relating to ST loans after the inception of SWCCDS so as to compare the change in the volume of ST loans before and after the SWCCDS. However, due to non-availability of disaggregate data concerning ST loans in the post SWCCDS, the analysis has to be necessarily made at the level of aggregate outstandings before and after the present system. Hence, the comparison of outstanding advances without LT component before SWCCDS and outstanding advances with LT component after SWCCDS is imminent. This is one of the limitations of the present study as already stated in the design and methodology chapter. This deficiency is inevitable in the studies of this nature at the present state of affairs in the state. On an average, outstanding loans were Rs. 311.59 crores prior to the inception of SWCCDS vis-a-vis Rs. 661.10 crores after the SWCCDS, establishing a growth of 112.17 per cent. Of the 4,600 PACSs in AP during 1992, the outstanding advances were less than Rs. 2 lakhs in 1.95 per cent of societies, Rs. 2-5 lakhs in 10.07 per cent of societies and Rs. 5-10 lakhs in 27.59 per cent of societies. In other words, the outstanding advances were less than Rs. 10 lakhs in 39.61 per cent of societies and over Rs. 10 lakhs in the rest of the cases. It may be summed up that, on account of reorganisation and reduction in the number of PACSs coupled with increase in the volume of lending, there has been a significant increase in the outstanding advances.
The share of recovery to demand was 48.85 per cent prior to the introduction of SWCCDS as against 42.68 per cent in the post SWCCDS, on an average basis. In other words, recovery efficiency decreased a little over 6 per cent. The recovery rate was the highest in 1988 because of the interest waiver concession given by the Government of AP. Contrary to the aforesaid, it was an all time low in 1990 because of vitiated recovery environment in the aftermath of Agricultural and Rural Debt Relief Scheme (ARDRS) of 1990. Afterwards, collection showed an increasing trend and therefore, the share of recovery to demand stood at nearly 35 per cent in 1992. It may be concluded that the performance of PACSs in terms of membership drive, share capital, deposit mobilisation, borrowings, working capital and advances outstanding in the post SWCCDS is comparatively better than that of the pre SWCCDS. However, recovery efficiency is unsatisfactory and in fact declined after the SWCCDS. This is due to the after effects of ARDRS.

A close examination of the aforesaid table reveals that the recovery of loans has been adversely affected by the ARDRS introduced by the then National Front Government. The avowed objective of the scheme was to save the rural poor from the debt trap. But from the economic point of view, the scheme was widely criticised as merely a populist one that would do a lot of disservice to the commercial banks, regional rural banks and cooperatives in the long
run. The salient features of the scheme are as follows: (i) Coverage: it covers an individual farmer or artisan whose total borrowings (principal amount) from one or more banks/cooperatives do not exceed Rs.10000 for any activity of agriculture or artisan and who is a non-wilful defaulter; (ii) eligible loans: (a) that part of the short-term loans including converted/rescheduled medium-term loans availed on or after 1-4-1986; (b) instalments of long-term loans falling due after 2-10-1986; (c) loans taken by borrower who is dead; (d) overdue loan of an insolvent borrower or a borrower whose insolvency petition is pending in the court on or after 2-10-1989; (e) chronic overdue accounts (aged more than three years); (iii) quantum of relief: sum of relief to an individual borrower not to exceed Rs.10000; (iv) adjustment of the accounts: (a) in cases where the principal and interest exceeds Rs.10000 after crediting the waiver amount to the loan account, the borrower should repay the balance amount; (b) interest amount will be adjusted first and the balance to the principal; (v) eligibility for fresh loans: all borrowers whose loan accounts are closed under this scheme are eligible for fresh loans and borrowers who fail to repay any loan or loan instalments falling due after 2-10-1989 are to be considered as defaulters.

The rationale behind the 1990 loan waiver proposal was simply political one. From the point of view of prosperity of credit institutions, the proposal was
completely ill-founded. A generalised form of waiver backed by political expediency may choke the recycling of funds to a point, where it hits the genuine credit activity. The habit and psychology of non-repayment of loans, thus created would die hard. Cooperatives were found it more difficult to go confidently forward to their clients for recovery of loans.

The borrowers may not repay the principal and interest in future. Instead, eagerly await for another bout of ARDRS. As a result, wilful defaulters increase in the years to come. The ARDRS has generated a general psychology of non-repayment, totally vitiating the recovery climate, which, in the long run, jeopardises the working of credit agencies. Another and probably a far reaching fall out of this measure has resulted in burdening the central budget with further deficits, leading to a growing inflationary potential in the economy.

The principle of waiving loan is not new to Indian situation. As a matter of policy, loans have been waived in a selective manner to help the peasantry facing the grim situation caused by adverse whether and crop conditions. But 1990 loan waiver has encompassed almost all the strata of borrowers which ultimately has led to the utter destabilisation of financial position of credit institutions. The wilful defaulters have derived undue benefit out of this scheme to the dis-advantage of regular
payers. If loan-waiver scheme is necessitated by the growing impoverishment of small farmers, certain well meant additional steps have to be thought of and implemented. The Government may borrow a part of immobilised deposits from the Reserve Bank of India against the issue of debt relief bonds at a very low rate of interest and having a sufficiently long maturity. This may be a conversion type of loan with repayment spreading over 50 years or more. This exercise will not burden the budget with undue deficit. Simultaneously, the administrative structure to percolate the debt relief will have to be provided with adequate checks and balances, so as to avoid the possibilities of misuse. The Reserve Bank of India should have fine-tune in its credit policies so as to bring it in line with the measure without prejudicing its anti-inflationary drive even while meeting the genuine credit needs of the economy.

The working results of PACSs in AP during 1983-92, on an average basis per member, are presented in Table 3.2. The share capital per member has increased from Rs.60 prior to SWCCDS to Rs.94 after the SWCCDS, registering a growth of 56.67 per cent. The deposits mobilised per member went up from Rs.21 to Rs.46 between before and after SWCCDS, recording a progress of 119.05 per cent. In the rest of the
## Table 3.2: Operations of PACSs per Member before and after SWCCDS in AP

<table>
<thead>
<tr>
<th>Item</th>
<th>Before</th>
<th>SWCCDS</th>
<th>After SWCCDS</th>
<th>% of col. (13) to col. (7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>51</td>
<td>56</td>
<td>61</td>
<td>65</td>
</tr>
<tr>
<td>Deposits</td>
<td>14</td>
<td>16</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Borrowings</td>
<td>258</td>
<td>306</td>
<td>298</td>
<td>355</td>
</tr>
<tr>
<td>Working capital</td>
<td>434</td>
<td>534</td>
<td>617</td>
<td>465</td>
</tr>
<tr>
<td>Advances outstanding</td>
<td>311</td>
<td>363</td>
<td>439</td>
<td>478</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>155</td>
<td>192</td>
<td>202</td>
<td>230</td>
</tr>
<tr>
<td>% of recovery to demand</td>
<td>55.12</td>
<td>58.12</td>
<td>48.25</td>
<td>37.66</td>
</tr>
</tbody>
</table>

Source: Table 3.1.
indicators, the increase following the SWCCDS was less than 75 per cent. The increment in borrowings, outstanding advances and overdues was above 50 per cent in the new system over the old one. It was 3.44 per cent in working capital. As against the aforesaid indicators, the proportion of recovery to demand submerged to 6.18 per cent in the existing system. The recovery percentage was 48.86 before SWCCDS whilst 42.68 after the SWCCDS. The primary reasons are after effects of write offs and concessions offered by the state and central governments after the new system came into force. The borrower members had expected concessions in the years to come and therefore, defaulted wilfully. It may be summed up that there is a significant growth in share capital, deposits, borrowings, advances outstanding and overdues. The progress in working capital is meagre. Notwithstanding the above mentioned facts, there is a decline in the share of recovery to demand.

The non-credit activities of the PACSs in AP during 1987 and 1992 are furnished in Table 3.3. The number of PACSs which have rendered multi-functional services was 1256 in 1987 as compared to 2752 in 1992. The rate of increase after the SWCCDS over prior to SWCCDS was 119.11 per cent. It can be observed that 10 societies have undertaken marketing in the post SWCCDS. Before the new system came into being, none of the PACSs had involved in marketing. Societies which have distributed agricultural inputs grew by 128.89 per cent and consumer goods 109.29 per cent. There is an improvement in the business of the
Table 3.3: Non-credit Services of PACS in AP during 1997 and 1992

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Activity</th>
<th>No. of PACS</th>
<th>Business (Rs. lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Before SNCDS</td>
<td>After SCDCS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Before SCDCS</td>
<td>After SNCDS</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td><strong>1. Agricultural inputs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Fertilisers</td>
<td>416</td>
<td>797</td>
</tr>
<tr>
<td>(b)</td>
<td>Seeds</td>
<td>87</td>
<td>232</td>
</tr>
<tr>
<td>(c)</td>
<td>Pesticides</td>
<td>67</td>
<td>213</td>
</tr>
<tr>
<td>(d)</td>
<td>Hiring of implements</td>
<td>8</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>578</td>
<td>1323</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td><strong>2. Consumer distribution</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>Essential commodities</td>
<td>351</td>
<td>505</td>
</tr>
<tr>
<td>(b)</td>
<td>General consumer items</td>
<td>59</td>
<td>337</td>
</tr>
<tr>
<td>(c)</td>
<td>Stationery</td>
<td>151</td>
<td>249</td>
</tr>
<tr>
<td>(d)</td>
<td>Cloth</td>
<td>117</td>
<td>328</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>678</td>
<td>1419</td>
</tr>
<tr>
<td>-------</td>
<td>------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td></td>
<td><strong>3. Marketing</strong></td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td><strong>Grand total</strong></td>
<td>1256</td>
<td>2752</td>
</tr>
</tbody>
</table>

Source: Collected from the Office of the Commissioner for Cooperation and Registrar of Cooperative Societies, Hyderabad.
aforesaid categories of societies along with their number. For example, Rs.1301.81 lakhs worth of agricultural inputs were handled before the inception of SWCCDS and Rs.3034.54 lakhs after the SWCCDS, registering an increase of 133.10 per cent. Thus, compared to the situation obtaining prior to the SWCCDS, many PACSs have taken up the distribution of seeds, fertilizers, pesticides, essential consumer articles, text books and note books to school children in rural areas. Though there is an improvement in the number of PACSs which have taken up multi-functional services, the objective of providing improved facilities like storage, processing and marketing of agricultural produce has not been much of a success so far. There is a greater scope to undertake multi-functional services on a large scale in the years to come. Then it contributes to economic viability of PACSs.

Profits are the indicators of the overall efficiency in private enterprises. A doubt may arise in the case of cooperatives whether profit making is an acceptable parameter of efficiency. Though PACSs do not directly operate to make profits, profits are necessary even to them in order to stabilise the organisation and to ensure future expansion. The rules of AP Cooperative Societies Act and the RBI also deal extensively about the profits and their appropriations. As much, profits are examined as indicators of success of PACSs. To measure the efficiency of PACSs, it is essential to examine the profits earned by them. Owing to non-availability of details of profit levels of societies,
only the data of the number of profit making PACSs has been observed as an indicator. The profit and loss details of PACSs in AP during 1987 and 1992 are shown in Table 3.4. Following the SWCCDS, the number of PACSs which have earned profit declined from 3622 or 55.72 per cent in 1987 to 1783 or 38.76 per cent in 1992. Simultaneously, societies which have incurred loss just submerged from 2876 in 1987 to 2817 in 1992. In percentage terms, these PACSs formed 44.28 per cent.

<table>
<thead>
<tr>
<th>Table 3.4: Profitability Performance of PACSs in AP during 1987 and 1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>No. of PACSs earned profit</td>
</tr>
<tr>
<td>No. of PACSs incurred loss</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses indicate the percentage to total.

Source: As in Table 3.3.

cent in the former whilst 61.24 per cent in the latter. Despite growth in loan operations as observed earlier and undertaking multi-functional services, the proportion of societies which run to loss increased from 44.28 per cent in 1987 to 61.24 per cent in 1992. The main reason for this situation is reduction in the number of societies after the SWCCDS. It may be noted that, in absolute terms, there is not a much difference in the number of societies running on loss before and after the SWCCDS. However, in the post
SWCCDS, the profit earning societies are less than half of the pre SWCCDS.

6.2 District Cooperative Central Banks

The DCCBs provide the key linkage in the three-tier cooperative credit structure in the state. The success of PACSs and the apex banks depends on the strength and the efficiency of operations of DCCBs. A sound and strong DCCB is capable of providing the required financial assistance to PACSs and also support the apex bank in ensuring greater flow of credit from the NABARD. As federating institutions of PACSs, the DCCBs have an important role to play in guiding, supervising and even directing the financial operations of PACSs. The responsibility of providing timely and adequate credit to members through PACSs, both crop and investment loans and promoting and funding for storage and marketing facilities rests with DCCBs. The flow of the NABARD funds depends primarily on the fulfilment of financial discipline by the DCCH and its capacity to absorb at least a certain amount of overdues from its own resources. The demand for credit from non-credit cooperatives and non-farm sector is growing. Under the multi-agency system of financing, the DCCBs in AP have to face keen competition from CBs and RRBs. As the success of cooperative credit in a district depends on the success of the DCCH, it is essential to ensure that its financial base is strong and the operations are efficient. 27 DCCBs existing prior to the inception of SWCCDS were reduced to 22 based on the
criterion of establishing one bank for each district (see Table 3.5). All the 22 DCCBs have become members of the APCCADB and constitute the general body. On an average, share capital was Rs.51.30 crores before SWCCDS has come into force as compared to Rs.113.54 crores after the introduction of SWCCDS. This has registered an addition of 121 per cent during the SWCCDS. The proportion of share capital to working capital was 9.04 per cent prior to SWCCDS vis-a-vis 7.95 per cent after SWCCDS. The reserve fund has reported an increase of 102 per cent in post SWCCDS over pre SWCCDS. The reserve fund in working capital constituted 6.96 per cent before SWCCDS as against 7.84 per cent after SWCCDS.

Deposit mobilisation is an important indicator of growth of a banking institution. In order to enable DCCBs to attract deposits, RMI has provided certain facilities/concessions permitting them to open branches without the need for obtaining licenses as required by commercial and urban cooperative banks and also permitting them to offer half per cent more interest on their deposits. The DCCBs have expanded their branch network over the study period. The branch expansion was, inter alia, facilitated by the availability of staff and infrastructure of the erstwhile merged PADBs which devolved on the DCCBs. All the DCCBs put together have mobilised deposits worth of Rs.169.53 crores before SWCCDS whereas these rose to Rs.256.77 crores after SWCCDS. The deposits registered an
Table 3.5: Growth of District Cooperative Central Banks in AP for the period 1983-92 (Rs. crores)

<table>
<thead>
<tr>
<th>Item</th>
<th>Prior to SWCCDS</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>After SWCCDS</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Banks</td>
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<td>27</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td>22</td>
<td>22</td>
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<td>Share capital</td>
<td>38.45</td>
<td>41.38</td>
<td>44.10</td>
<td>46.59</td>
<td>86.39</td>
<td>51.38</td>
<td>95.08</td>
<td>102.26</td>
<td>111.92</td>
<td>124.11</td>
<td>134.54</td>
</tr>
<tr>
<td>Reserve fund</td>
<td>11.87</td>
<td>19.87</td>
<td>32.08</td>
<td>36.56</td>
<td>97.26</td>
<td>39.53</td>
<td>122.38</td>
<td>135.61</td>
<td>152.75</td>
<td>83.79</td>
<td>37.97</td>
</tr>
<tr>
<td>Deposits</td>
<td>128.64</td>
<td>159.38</td>
<td>176.20</td>
<td>180.52</td>
<td>202.55</td>
<td>169.53</td>
<td>138.03</td>
<td>176.25</td>
<td>189.68</td>
<td>335.53</td>
<td>344.25</td>
</tr>
<tr>
<td>Borrowings</td>
<td>191.79</td>
<td>192.12</td>
<td>231.91</td>
<td>249.39</td>
<td>593.20</td>
<td>291.62</td>
<td>704.48</td>
<td>830.34</td>
<td>1038.96</td>
<td>1187.35</td>
<td>1220.35</td>
</tr>
<tr>
<td>Working capital</td>
<td>426.99</td>
<td>458.25</td>
<td>486.65</td>
<td>512.87</td>
<td>957.70</td>
<td>568.29</td>
<td>1159.97</td>
<td>1327.77</td>
<td>1593.31</td>
<td>1242.36</td>
<td>1789.46</td>
</tr>
<tr>
<td>Outstanding advances</td>
<td>236.54</td>
<td>326.17</td>
<td>388.68</td>
<td>359.12</td>
<td>664.61</td>
<td>414.90</td>
<td>866.62</td>
<td>902.60</td>
<td>1212.30</td>
<td>1286.31</td>
<td>1395.58</td>
</tr>
<tr>
<td>Overdues</td>
<td>114.87</td>
<td>112.58</td>
<td>154.74</td>
<td>187.42</td>
<td>178.04</td>
<td>149.33</td>
<td>235.82</td>
<td>244.79</td>
<td>611.06</td>
<td>328.85</td>
<td>451.51</td>
</tr>
<tr>
<td>% of recovery to demand</td>
<td>68.96</td>
<td>74.90</td>
<td>55.37</td>
<td>60.57</td>
<td>47.51</td>
<td>59.15</td>
<td>59.90</td>
<td>63.63</td>
<td>13.83</td>
<td>27.50</td>
<td>51.83</td>
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</table>

Source: As in Table 3.1.
increment of 175.05 per cent in the latter upon the former. The proportion of deposits to working capital was 29.83 per cent in pre SWCCBS while 20.86 per cent in post SWCCBS. Reserve fund and the other surplus funds of PACSs and other cooperative institutions constitute the largest chunk of term deposits. The surplus funds invested by the different district level development organisations also account for a significant part of ST deposits. Deposits from individuals continue to be secondary in quantitative terms. Considering the fact that the deposits from individuals are comparatively more stable, it should be the endeavour of the DCCBs to augment deposits from this source to the maximum extent possible. ST deposits, being low cost funds, will be immensely useful to the DCCBs to enhance profitability, provided they are managed judiciously. There should, therefore, be an adequate accent on attracting these deposits.

Growth of deposits depends not only on public confidence and the attractive rates of interest but also on the quality of services rendered by the DCCBs to their clientele. The Branch Managers of DCCBs play a pivotal role in this respect. They have to inspire confidence in the general public and attract business. It would be desirable to model them on the lines of the branches of CBs to attract more deposits. There must be better communication and interaction with customers. Innovative promotional campaigns and response to consumers' needs and views are essential for sustained growth in deposits. Additional facilities like
safe deposit lockers etc., should be provided by all branches wherever possible.

The borrowings prior to SWCCDS were Rs. 291.62 crores vis-a-vis Rs. 843.95 crores after the SWCCDS. The rate of progress was remarkable at 203.12 per cent. The working capital was Rs. 560.29 crores in Pre SWCCDS as compared to Rs. 1422.57 crores in post SWCCDS, recording a growth of 150.32 per cent. The DCCBs, after the coming of SWCCDS, are providing integrated credit through PACSs. The outstanding advances were Rs. 414.90 crores and Rs. 1132.82 crores before and after SWCCDS respectively, registering a progress of 273.03 per cent. The increase was not only due to additional loaning for ST, MT and LT purposes under SWCCDS but also due to accumulation of heavy overdues anticipating loan waiver. The overdues registered an increase of 150.38 per cent in the same period. The proportion of recovery to demand, on an average, was 59.15 per cent before SWCCDS whilst 41.22 per cent after the SWCCDS. It indicates that the recovery performance has declined sharply in the later period as compared to the earlier one. This was on account of after effects of loan waiver scheme. Apparently it is disheartening to observe that the SWCCDS has contributed to mounting overdues instead of better recovery of loans. It may be inferred that after the SWCCDS, the efficiency of DCCBs in relation to share capital, reserve fund, deposits, borrowings and outstanding advances is noteworthy. However, decline in the percentage of recovery to demand is a matter
of great concern. The Governments are partly responsible for this situation.

6.3 Andhra Pradesh State Cooperative Bank

Prior to the formation of AP state, there were two apex banks in AP, namely, the Andhra State Cooperative Bank with its headquarters at Vijayawada with 15 DCCBs in Andhra area (Rayalaseema and Cincar areas) affiliated to it and the Hyderabad Cooperative Apex Bank with its headquarters at Hyderabad with 11 DCCBs affiliated to it in Telangana area. In pursuance of the recommendations of the Informal Conference held by the RBI to consider the effect of the States Reorganisation Act, 1956 on the jurisdiction of the apex societies, it was decided to have only one apex bank for each reorganised state. Accordingly, the aforesaid banks were amalgamated on 4th August, 1961 and formed into the Andhra Pradesh State Cooperative Bank with its headquarters at Hyderabad. The APSCB is the apex cooperative credit institution in the ST structure. It is an 'A' class scheduled bank. It is servicing the needs of the DCCBs, MARKFed, sugar factories, spinning mills etc. Apart from the responsibility of providing banking facilities, exercising control and supervision over the affiliated banks and societies, the APSCB is expected to provide leadership to the cooperative movement in the state. The APSCB is also taking up developmental activities in cooperatives. For instance, the World Bank aided NCDC projects including Rural Storage Project, Spinning mills etc., are implemented
through it. It is coordinating the implementation of Integrated Cooperative Development Project in select districts and Business Development Plans of PACSs. It is also executing the World Bank assisted Cyclone Emergency Rehabilitation Project. The share capital of the APSCB has gradually gone up from Rs.12.94 crores in 1983 to Rs.34.32 crores in 1992, recording a compound growth rate (CGR) of 12.79 per cent, which is significant at one per cent level (see Table 3.6). The reserve fund has progressively increased from Rs.4.51 to Rs.67.93 crores during 1983-92, registering a CGR of 44.11 per cent, which is significant at one per cent level. The deposits which have stood at Rs.117.76 crores in 1983 have shot up steadily to Rs.330.68 crores in 1992. However, there is a marginal decline in 1988. The deposit base is somewhat narrow considering the potential and reach of the Bank. The progress during the aforesaid period was 11.95 per cent, which is significant at one per cent level. The working capital was Rs.291.35 crores in 1983 vis-a-vis Rs.957.71 crores in 1992, establishing a CGR of 15.73 per cent, which is significant at one per cent level. The APSCB is continuing to function as the apex banking institution of the state and is providing ST and MF credit to cooperative credit institutions with refinance from the NABARD. The outstanding advances were Rs.545.37 crores in 1992 as compared to Rs.231.82 crores in 1983. The CGR was 14.63 per cent, which is significant at one per cent level. However, year to year fluctuations are noteworthy. The overdues were Rs.13.32 crores in 1983 as against
Table 3.6: Performance of APSCB during 1983-92

<table>
<thead>
<tr>
<th>Year</th>
<th>Share capital (Rs. crores)</th>
<th>Reserve fund</th>
<th>Deposits (Rs. crores)</th>
<th>Borrowings (Rs. crores)</th>
<th>Working capital (Rs. crores)</th>
<th>Advances outstanding (Rs. crores)</th>
<th>Over-dues (Rs. crores)</th>
<th>% of recovery to demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>12.94</td>
<td>4.51</td>
<td>117.76</td>
<td>124.88</td>
<td>291.35</td>
<td>231.82</td>
<td>13.32</td>
<td>93.37</td>
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<tr>
<td>1984</td>
<td>13.92</td>
<td>4.91</td>
<td>133.10</td>
<td>114.98</td>
<td>305.19</td>
<td>187.03</td>
<td>18.87</td>
<td>92.98</td>
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<tr>
<td>1985</td>
<td>15.41</td>
<td>5.19</td>
<td>136.13</td>
<td>135.75</td>
<td>338.25</td>
<td>251.26</td>
<td>35.67</td>
<td>88.60</td>
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<tr>
<td>1986</td>
<td>16.36</td>
<td>5.28</td>
<td>154.72</td>
<td>138.03</td>
<td>394.43</td>
<td>284.48</td>
<td>61.27</td>
<td>80.87</td>
</tr>
<tr>
<td>1987</td>
<td>17.47</td>
<td>5.77</td>
<td>172.06</td>
<td>162.59</td>
<td>378.76</td>
<td>300.06</td>
<td>83.57</td>
<td>72.86</td>
</tr>
<tr>
<td>1988</td>
<td>21.48</td>
<td>36.33</td>
<td>162.36</td>
<td>284.19</td>
<td>504.30</td>
<td>306.09</td>
<td>74.71</td>
<td>75.59</td>
</tr>
<tr>
<td>1989</td>
<td>25.91</td>
<td>40.80</td>
<td>206.24</td>
<td>303.49</td>
<td>650.43</td>
<td>390.81</td>
<td>72.32</td>
<td>81.49</td>
</tr>
<tr>
<td>1990</td>
<td>30.13</td>
<td>46.22</td>
<td>224.69</td>
<td>507.02</td>
<td>808.07</td>
<td>527.91</td>
<td>292.81</td>
<td>44.45</td>
</tr>
<tr>
<td>1991</td>
<td>33.50</td>
<td>55.20</td>
<td>274.58</td>
<td>505.75</td>
<td>856.67</td>
<td>796.46</td>
<td>197.95</td>
<td>60.45</td>
</tr>
<tr>
<td>1992</td>
<td>34.32</td>
<td>67.93</td>
<td>330.68</td>
<td>544.80</td>
<td>957.71</td>
<td>545.37</td>
<td>171.19</td>
<td>65.41</td>
</tr>
<tr>
<td>CGR(%)</td>
<td>12.79*</td>
<td>44.11*</td>
<td>11.32*</td>
<td>22.76*</td>
<td>15.73*</td>
<td>14.63*</td>
<td>35.68*</td>
<td>-</td>
</tr>
<tr>
<td>'t' cal</td>
<td>6.86</td>
<td>9.93</td>
<td>11.95</td>
<td>9.38</td>
<td>6.41</td>
<td>6.72</td>
<td>7.08</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: * Indicates significant at one per cent level.

Source: For 1983 to 1988, see the relevant issues of Govt. of AP, Statistical Abstract of AP, Hyderabad, Directorate of Economics & Statistics and for the remaining years see the relevant issues of Govt. of AP, Annual Report of APSCB, Hyderabad, APSCB.
Rs.171.19 crores in 1992, recording a CCR of 35.68 per cent, which is significant at one per cent level. The overdues were very high at Rs.292.81 crores in 1990. The share of recovery to demand was 93.37 per cent in 1983 whilst it was 65.41 per cent in 1992. The recovery performance has remarkably declined in the reference period. This was mainly due to waiving of loans in the earlier period and the consequent vitiated atmosphere among the borrower members as already pointed out. It may be concluded that there is a phenomenal progress in the capital base of APSCB in the recent decade. As a result, loan operations record an upward trend. However, the declining trend of recovery affects the future growth of the APSCB.

6.4 Andhra Pradesh Cooperative Central Agricultural Development Bank

Consequent upon the formation of the Andhra state, the Andhra Cooperative Central Land Mortgage Bank was started in September, 1953 by trifurcation of the Madras Cooperative Central Land Mortgage Bank. For Telangana region, the Hyderabad Cooperative Central Land Mortgage Bank was registered in 1953 and started working from June, 1953. The two aforesaid banks were amalgamated into the Andhra Pradesh Cooperative Central Land Mortgage Bank in 1962. Later, it was named as Andhra Pradesh Cooperative Central Agricultural Development Bank. The APCCADB is the apex bank for LT credit. The lending activities were diversified to cover MT purposes like sheep, dairy, poultry and pisciculture.
The share capital of the APCCADB has gone up gradually from Rs.12.23 crores in 1983 to Rs.24.90 crores in 1992, registering a CGR of 7.73 per cent, which is significant at one per cent level (see Table 3.7). Similarly, borrowings which stood at Rs.293.67 crores have increased without any decline to Rs.679.85 crores in the aforesaid period, recording a CGR of 8.62 per cent, which is significant at one per cent level. The growth in borrowings is more than that of share capital. It shows that the APCCADB heavily depends on funds from external sources. The working capital was Rs.416.84 crores and Rs.684.85 crores during 1983-92, establishing a CGR of 5.89 per cent, which is significant at one per cent level. The APCCADB is continuing to provide LT credit with refinance from the NABARD through DCCBs and PACSas. The outstanding advances have progressively increased from Rs.315.99 crores to Rs.670.89 crores during 1983-92. The CGR worked out to be 8.86 per cent, which is significant at one per cent level. Along with the loans outstanding, overdues have also remarkably gone up indicating a very poor recycling of funds. Overdues were Rs.33.82 crores in 1983 whereas Rs.91.90 crores in 1992. Overdues were the highest at Rs.122.95 crores in 1990, which is a consequence of debt relief effect. The CGR in the reference period was 10.43 per cent, which is significant at 5 per cent level. The proportion of recovery to demand was 52.45 per cent in 1983 as compared to 36.53 per cent in 1992. Meanwhile, to and fro fluctuations are indicative. The growth in overdues is much more than the corresponding
Table 3.7: Progress of AP Cooperative Central Development Bank during 1983-92 (Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Share capital</th>
<th>Borrowings</th>
<th>Working capital</th>
<th>Outstanding advances</th>
<th>Overdues % of recovery to demand</th>
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</thead>
<tbody>
<tr>
<td>1983</td>
<td>12.23</td>
<td>293.67</td>
<td>416.84</td>
<td>315.99</td>
<td>33.82</td>
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<tr>
<td>1984</td>
<td>13.76</td>
<td>371.15</td>
<td>440.09</td>
<td>331.42</td>
<td>37.47</td>
</tr>
<tr>
<td>1985</td>
<td>14.45</td>
<td>385.58</td>
<td>457.75</td>
<td>348.41</td>
<td>75.68</td>
</tr>
<tr>
<td>1986</td>
<td>15.45</td>
<td>418.68</td>
<td>455.16</td>
<td>365.91</td>
<td>87.82</td>
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<tr>
<td>1987</td>
<td>16.00</td>
<td>431.23</td>
<td>522.01</td>
<td>392.30</td>
<td>68.60</td>
</tr>
<tr>
<td>1988</td>
<td>17.74</td>
<td>495.86</td>
<td>555.47</td>
<td>430.97</td>
<td>83.66</td>
</tr>
<tr>
<td>1989</td>
<td>18.98</td>
<td>516.62</td>
<td>579.00</td>
<td>480.47</td>
<td>78.58</td>
</tr>
<tr>
<td>1990</td>
<td>21.35</td>
<td>554.82</td>
<td>624.04</td>
<td>560.11</td>
<td>122.95</td>
</tr>
<tr>
<td>1991</td>
<td>21.80</td>
<td>611.60</td>
<td>684.58</td>
<td>582.10</td>
<td>77.44</td>
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<td>1992</td>
<td>24.90</td>
<td>679.85</td>
<td>684.85</td>
<td>670.89</td>
<td>91.90</td>
</tr>
<tr>
<td>CGR(a)</td>
<td>7.73*</td>
<td>8.62*</td>
<td>5.89*</td>
<td>8.86*</td>
<td>10.43**</td>
</tr>
<tr>
<td>'t' cal</td>
<td>25.57</td>
<td>17.09</td>
<td>6.59</td>
<td>16.20</td>
<td>3.26</td>
</tr>
</tbody>
</table>

Notes: * Indicates significant at one per cent level  
** Indicates significant at 5 per cent level

Source: As in Table 3.1.

progress in outstandings. The recovery of loans suffered after the SWCCDS as the staff of the DCCBs have not devoted the required attention to the recovery of old LT loans of PADB which devolved on the DCCBs. It has not been able to exercise the same type of supervision and control over the DCCBs as it did over the PADBS leading to shortcomings in adherence to the lending policies and procedures. The trend
in overdues is unwelcome and retards the further loan activities of the APCCADB. On the whole, it may be summed up that the performance of PACs and DCCBs is remarkable after the inception of SWCCDS as compared to earlier one. A similar trend can be observed in the working of the APSCB and the APCCADB during 1983-92. Poor recoveries are a cause of concern which need to be addressed with firmness and tenacity. With the required support from the Government of AP and the Department of Cooperation, it should be possible to significantly improve recoveries since all investment is essentially aimed at additional income generation through increased productivity, besides being covered by land as security.

References


5. ARDC, Report of the Committee on Integration of Cooperative Credit Institutions (Narzari Committee), Bombay, 1976.

6. Govt. of India, Ardhanareswaran Committee Report, (Ministry of Agriculture), New Delhi, 1986, p.3.

7. Computed from the data collected from the Office of the Commissioner for Cooperation and Registrar of Cooperative Societies, AP, Hyderabad.