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## Role of Primary Agricultural Co-Operative Society (PACS) in Agricultural Development in India

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**Abstract-** PACS are the banks which are situated in rural area and plays a very important role in rural credit system by performing their activities on co-operative principles and also these banks are worked under the District Credit Co-operative Banks. They provide short term and medium term loan to rural people to meet their financial requirements. But, the rural people still depend on unorganized sources such as money lenders in village, mandies, traders etc. So, various measures taken by Government to reduce these unorganized sources through the establishment of PACS in rural areas. In order to know the role of PACS in agricultural development in India the study has been undertaken.

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**GJMBR-C Classification:** *JEL Code: G00*



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## I. INTRODUCTION

The co-operative banks in India play an important role in even today in rural financing. These are registered under the Co-operative Societies Act and also regulated by the RBI. They are governed by the “Banking regulation Act-1949” and Banking Laws ( Co-operative societies) Act 1965. The business of co-operative banks in urban area also have increased in recent years due to sharp increase in the number of primary co-operative banks. The co-operative movement was stated in India largely with a view to providing agriculturists funds for agricultural operations, at low rates of interest and protect them from the clutches of money lenders.

## II. OBJECTIVES OF THE STUDY

1. To study the role and performance of PACS in respect of agricultural credit and rural development.
2. To find out reasons for poor recovery of loans in PACS
3. To offer suggestions to improve the performance of PACS

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## III. METHODOLOGY

The study is based on Secondary data. The data has been collected from books, magazines and websites.

### a) Role of Pacs

A co-operative credit society, commonly known as Primary Agricultural Co-operative Society (PACS) may be stated with 10 or more persons, normally belonging to a village. The value of each share is generally nominal so as to enable even poorest farmer to become a member. PACS occupy a predominant position in the co-operative structure and form its base. A Primary Agricultural Credit Society is organized at grass-root level of a village or a group of small villages. It is the basic unit which deals with rural (agricultural) borrowers, gives those loans and collects repayments of loans given. It serves as the final link between the ultimate borrowers on the one hand and higher financial agencies, namely the RBI/ NABARD on the other hand.

At the end of June 1989 there were 87000 PACS. These societies covered about 90% of 5.8 lakh villages. There membership of 9 crores covered about 65% of the total estimated population of about 14 crore of rural households. More than half of members of PACS are persons of small means- small farmers, agricultural labourers , rural artisans, and 25% of them belongs to SC/ST.

The working capital of the PACS derived mainly from borrowings from Central Co-operative Banks (CCBs) and the small proportion from owned funds and deposits. That the PACS have failed to attract deposits is not so much a reflection of low savings habits of the rural population as a reflection of the availability of better assets to rural savers of both rate of return and riskiness.

High net borrowings from CCBs shows that PACS act mainly as distribution channel for funds mobilized elsewhere. Only the members of a PACS are entitled to borrow from it. Most loans are for agricultural purpose and are such purpose of machinery (mostly pump sets for irrigation) and cattle are also given. But, consumption loans given

mostly to landless labourers, artisans, and marginal farmers. The share of loans given going to weaker sections is usually about 40% of loans. A varying number of PACS also undertake non-credit activities such as handling the supply of farm requisites, distribution of consumer goods, among their members, constructing godowns and marketing of agricultural produce and process of it.

The management of the society is under an elected body consisting of President, Secretary and a Treasurer. The management is honorary, the only paid membership being normally, the accountant. Loans are given for short period normally for one year, for carrying out agricultural operations, and the rate of interest is low. Profits are not distributed as dividends to shareholders but are used for the construction of the well or maintenance of the village school and so on.

The PAC<sub>s</sub> have stepped up their advances to the weaker sections particularly the small and marginal farmers. This progress has been quite spectacular but not accurate considering the demand for finance from farmers. However, the primary credit society has continues to remain the weakest link in the entire co-operative structure.

*b) Objectives of Pacs*

1. For the membership of co-operatives credit society members should belong to located at village of co-operative societies.
2. The work of PACS should limited to its village only.
3. The liability of PACS should be unlimited.
4. PACS is liable for to the deposits and loans on its account.
5. PACS provides loans to its members only.
6. Loans repayment schedule can be decided by the co-operative society as per the significance purpose of the loans.
7. PACS provide the loan only for medium and short term purpose.

*c) Functions of Pacs*

1. It promotes economic interest of members in accordance with the co-operative principle.
2. It provides short term and medium term loans.
3. It promotes savings habits among members.
4. It supplies agricultural inputs like fertilizers, seeds, insecticides, and implements.
5. It provides marketing facilities for the sale of agricultural products and
6. It supplies domestic products requirements such as sugar, kerosene etc.

*d) Management, Membership And Share Capital of Pacs*

The general body elects a managing committee which consists of 5 to 9 members and

elects a president, secretary, and treasurer to look after the day today functioning of the society. All the office bearers render honorary service. The RBI has given a directive to appoint a full time paid secretary to maintain the accounts for each society.

All agriculturists, agricultural labourers, artisans and small traders in the village can become member of the society. PACS issue ordinary shares of small value depending upon the particular society .i.e. Rs.10 and Rs .50 each to their members. The ownership of shares decides the right and obligations of the holder to the society. Share capital forms an important form or part of the working capital. Members borrowing capacities were determined by the number of shares held by them. Initially, societies were form with unlimited liability. The All India Rural Credit Review Committee pointed out that unlimited liability operates as a restraints on the willingness of the society to liberalize its loan policies, to admit new members and to extend its area of operation. Besides, it hinders the society to receive contribution from the State government, whose liability inevitably has to be limited. In view of these reasons, the societies were formed with limited liability and existing societies were converted into limited liability societies.

To make all Primary Agricultural Society viable and ensure adequate and timely flow of co-operative credit to the rural areas the RBI, in collaboration with State Government's had been taking a series of steps to strengthen the PACS and to correct regional imbalances in co-operative development. These efforts are being intensified by providing larger funds to weak societies to write off their losses, bad debts and overdue.

e) *Reasons for Poor Recovery of Loans in Pacs*

<p style="text-align: center;"><b>A. INTERNAL REASONS</b></p> <ol style="list-style-type: none"> <li>1. laxity in internal control system</li> <li>2. poor management information system</li> <li>3. low motivation and involvement of staff</li> <li>4. poor industrial relations climate</li> <li>5. improper identification of borrower</li> <li>6. under or over financing</li> <li>7. lack of post disbursement follow up</li> <li>8. lack of appraisal skills</li> <li>9. failure to ensure adequate, rapport with govt agencies</li> <li>10. perception of bank as a charity institution</li> <li>11. delay in loan sanctioning</li> <li>12. insufficient gestation or repayment period</li> <li>13. lack of borrower contact and poor understanding of rural clientele</li> <li>14. no thrust on recovery</li> <li>15. Personal accident, death etc.</li> <li>16. misutilisation of loan</li> <li>17. willful default</li> <li>18. diversion of funds</li> <li>19. shifting of place of residence or business</li> <li>20. lack of technical and management skills</li> <li>21. poor maintenance of assets</li> </ol>	<p style="text-align: center;"><b>B.EXTERNAL REASONS</b></p> <ol style="list-style-type: none"> <li>1. change in policy environment</li> <li>2. inadequate market linkages</li> <li>3. change in economic conditions</li> <li>4. change in technology</li> <li>5. political interference</li> <li>6. target approach under government sponsored programmes</li> <li>7. legal process</li> <li>8. geographical factors</li> <li>9. loan waiver, write off etc.</li> </ol> <p style="text-align: center;"><b>C. EXCLUSIVE REASONS</b></p> <ol style="list-style-type: none"> <li>1. lack of transparency</li> <li>2. lack of professional management</li> <li>3. inadequacy of non-official and member education</li> <li>4. imbalance among tiers</li> </ol>
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**IV. FINDINGS**

1. Rural credit is mainly focused on the agro sector and PACS plays a major role in rural finance.
2. The society provides only short-term and medium-term loan.
3. It supplies short-term credit on the personal security of the borrowers, while medium-term credit is given by charge on their immovable assets.
4. The society provides loans only relate to agricultural credit to farmers
5. Deposit mobilization in society is less. Because of lack of awareness among the people about the different schemes of the society.
6. The members deposit money for the purpose of compulsion made by banker to open account.
7. The amount of loan distributed to members were in inadequate time.
8. Use of computer is less in these societies.

**V. SUGGESTIONS**

1. The society should provide long-term loan also to farmers to meet their financial requirements.
2. As society provide loans only related to agricultural credit to farmers it is suggested that it should also provide other types of loans so that it can help the farmers and maintain good standard of living.
3. To improve the deposit mobilization, the society should conduct awareness programs from time to time. This will popularize the different schemes of the society and there by attract new customers and educating the farmers relating to different services provided by society.
4. To help farmers the society should adopt easy procedures for distributing and recovering the loan from farmers.
5. To develop self employment in the rural areas the society should provide training to the rural unemployed people.
6. The adequate amount of loan should be distributed to farmers at adequate time.

7. Political interference in lending operation should be eliminated as per as possible.
8. For early retrieval of information use of computer should also be introduced for maintaining 9echanized accounting system safely.
9. Society should educate the farmers relating to different services provided by society.
10. The society should provide quality necessary agricultural items at reasonable price to the farmers
11. The staff member of society should maintain good co-operative relationship with members by providing all information to farmers.

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## VI. CONCLUSION

Primary Agricultural Credit Society is actually organized at the grass-roots level a village or a group of small villages. It is the basic unit which deals with rural credit to farmers for meeting their financial requirements. It provides short-term and medium-term loan to farmers which helps to meet their short-term financial requirements. It supplies agricultural inputs and provides marketing facility for the agricultural products. For the development of agricultural sector and allied activities adequate and timely finance are essential. But many financial problems are cropping up in the process of development of co-operative system they are lack of adequate and trained staff, lack of necessary funds, poor industrial relations climate, lack of professional management, political interference, change in economic conditions, over dues and limited source of income of the farmers and so on these societies are unable to provide adequate finance to the members and they are making delay in the sanctioning of loan. Therefore to increase the efficiency of the society and to serve the rural agricultural people in a better perspective the co-operative banking should be strong and efficient to face the challenges in competitive environment and it needs to take necessary measures.

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