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Study on Primary Agricultural Cooperative Credit Societies Financial Management in Indian states

Dr. Nidhi Sahore
Assistant Professor Birla Institute of Management Technology
Greater Noida (UP)
nidhi.sahore@bimtech.ac.in

ABSTRACT:
Primary Agricultural Cooperative Credit Societies (PACCS) play a critical role in India's rural credit system by providing accessible financial services to farmers and other rural populations. This study examines the financial management practices of PACCS across various Indian states, focusing on their role in delivering short-term and medium-term agricultural credit. PACCS are essential for the growth and development of the agricultural sector, particularly for small and marginal farmers who rely on these societies for timely credit to meet seasonal agricultural needs, input purchases, and other operational expenses.The analysis covers key aspects of financial management, such as liquidity, loan disbursement patterns, credit recovery performance, and asset-liability management. It also explores the financial health of PACCS in different states, identifying factors influencing their profitability, sustainability, and ability to meet the credit needs of their members. Using financial ratios like loan-to-deposit ratio, non-performing assets (NPA) ratio, and capital adequacy ratio, the study evaluates the efficiency of PACCS in managing their financial resources. This research emphasizes the need for robust financial management strategies and policy reforms to strengthen PACCS, improve their credit delivery mechanisms, and enhance their role in supporting rural economic development. Additionally, it underscores the importance of government support and capacity-building initiatives to improve the financial sustainability of these cooperative institutions.

Keywords: *Primary Agricultural Cooperative Credit Societies (PACCS), Rural Credit System, Agricultural Finance, Financial Management, Loan Disbursement Patterns*

Introduction

Financial stability is crucial in a growing economy, since the majority of real economy transactions are conducted via the financial sector (World Bank, 2020). The World Bank asserts that a stable and well-developed financial system would improve the effectiveness of the pricing mechanism, hence facilitating allocational efficiency in both the real and financial sectors of the economy. Consequently, the economy may attain and sustain full employment or near-full employment with a minimal and inevitable amount of unemployment (natural rate of unemployment), at least in the short term[1][2]. Since 2018, the Indian Financial System has faced challenges due to the failure of financial institutions including Infrastructure Leasing & Financial Services Limited (IL&FS), Dewan Housing Finance Corporation Ltd (DHFL), Housing Development and Infrastructure Ltd (HDIL), Punjab and Maharashtra Cooperative Bank (PMCB), Yes Bank, and Lakshmi Vilas Bank (LVB). The collapse of these institutions cannot be exclusively ascribed to the contagion effect stemming from the fall of IL&FS, since significant instances of fraud and asset theft have been documented in each case. The Reserve Bank of India (RBI) indicates that bank fraud is a significant problem, and banks have the major duty for preventing such occurrences (RBI, 2009). Frauds at banks are often reported, and their cost and complexity have escalated significantly. During the fiscal year 2019-20, the Indian banking industry incurred losses of ₹ 1,85,644 crores due to 8,707 fraudulent activities (Reserve Bank of India, 2020). The mean duration for fraud detection was 24 months, whereas the mean duration for reporting significant frauds (1 billion and above) was 63 months. Frauds about advancements are prevalent in both quantity and magnitude. The Reserve Bank of India (2011) defines fraud as “a deliberate act of omission or commission by any individual conducted during a banking transaction or within the accounting records maintained manually or electronically in banks, resulting in wrongful gain to any person for a temporary period or otherwise, with or without any financial loss to the bank." In addition to the economic cost, fraud and subsequent bank failures may severely undermine depositor and investor trust, jeopardizing the stability and integrity of the financial system[3].

Agriculture is the cornerstone of the Indian economy, contributing around one-third of the national GDP. Approximately 64.9 percent of the workforce consists of farmers or agricultural laborers in rural regions, relying on agriculture for their sustenance. It is accurately stated that India resides in villages, and the agricultural sector significantly contributes to the Indian economy by providing food for the rapidly growing population, supplying raw materials for the expanding manufacturing industry, generating demand for industrial products, offering capital to the burgeoning industry, and earning foreign exchange through the export of agricultural products. Credit is vital for all endeavors, including agriculture. Credit is essential for agricultural development. If sufficient funds are not attainable from personal income, credit is necessary. Indian farmers lack enough personal finances to conduct their agricultural activities. The success or failure of agriculture largely depends on the availability of financing. In rural India, the need for credit is particularly urgent due to the predominance of small and marginal farmers, tenant cultivators, craftsmen, and landless laborers among the population. All these individuals need credit[4]. They need credit not simply for productive endeavors but also for daily minimal consuming needs. In this regard, Horace Belshaw properly asserts that the advancement of the agricultural sector depends on how we address the issues of rural lending. The issue of rural finance pertains to the provision of money for the requirements of a multifaceted agricultural business. Nicholson, another scholar, has noted that the universal agricultural history from Rome to Scotland demonstrates that credit is a crucial element for agriculture. The farmers are forced to borrow. The Indian farming peasants is not exempt from this basic principle[5]

The modernization and enhancement of agriculture need substantial investment. Regrettably, Indian agriculture has mostly persisted as a livelihood for the impoverished, hence necessitating reliance on foreign financial resources. In this environment, institutional financing must play a significant role in facilitating the adoption of capital-intensive new technologies. Commercial banks and Regional Rural Banks (RRBs) significantly provide loans to agriculture in India. • Cooperative institutions also play a significant role in this context. In the fiscal year 1994-95, the proportions of Commercial banks, Regional Rural Banks (RRBs), and Co-operative banks were 35 percent, 6 percent, and 59 percent, respectively[6][7].

Agriculture is a predominant economic sector in India, including its contribution to national revenue and job creation. Consequently, the advancement of agriculture is a crucial prerequisite for the progress of the national economy. The advancement of agriculture, including rural development, mostly relies on credit and non-credit services offered to farmers. Numerous organizations provide financing to farmers. Co-operative credit institutions play a crucial role in providing loans to farmers among other financial institutions[8]. The proportion of cooperatives to overall institutional credit was 55 percent in 1984-85, decreased to 43 percent in 1997-98, and was 42.8 percent in 2002.

Agricultural Credit Societies (PACS) are a significant segment of cooperative credit institutions focused on delivering affordable financing to farmers. India has 84,000 PACS located throughout its communities. Registered trademark Andhra Pradesh, mostly an agricultural state, is recognized as a pioneer in establishing the PACS as a single-window system. The PACS provide short-term, mid-term, and long-term loans to the agricultural sector. The magnitude and orientation of their credit will significantly impact the speed and trajectory of agricultural growth in the state. Small and marginal farmers, Scheduled Castes, Scheduled Tribes, backward classes, and government land assignees constitute vulnerable groups that require credit urgently to sustain their minor agricultural endeavors, as they possess limited assets and income, making access to capital for agricultural development challenging[9].

Direct Agricultural Credit

Commercial banks provide direct agricultural financing in the form of short-term, medium-term, and long-term loans. Short-term loans may once again manifest as crop loans or production loans. Crop loans are necessary to cover the expenses associated with cultivating seasonal or annual crops, including rice, wheat, other cereals, millets, pulses, oilseeds like groundnuts, and cash crops such as sugarcane, tobacco, and cotton. Production loans are intended to finance the yearly maintenance expenses of perennial plantation crops, including tea, coffee, and cardamom. Although short-term credit mostly consists of loans, production credit may sometimes be provided as a 'cash credit limit,' particularly in the context of working capital financing for tea plantations, where activities occur year-round[10]. Short-term lending assistance provided by banks often includes a need for repayment within one to two months after the agricultural harvest. To guarantee the recovery of loaned cash and facilitate efficient fund recycling, banks often establish tie-up agreements wherever feasible. Banks often pursue tie-up agreements with sugar mills for loans to sugarcane farmers and with milk producers' associations for dairy advances. Medium and long-term loans are typically provided to cover the investment expenses associated with various capital-intensive agricultural development programs, ensuring benefits over a duration that usually extends from three years onward, contingent upon the specific project type. Term loans or long-term loans provided by banks have a maximum payback duration of 15 years, inclusive of any initial grace period. The repayment timeline for term loans provided by banks varies from 3 to 15 years, depending upon the project's type, scale, and anticipated cash flow. Nearly all forms of investment in agricultural projects that are economically viable and technically possible fall within the scope of the bank's loan portfolio. The primary credit programs provided by commercial banks are modest irrigation and land development[12]. The credit assistance provided by commercial banks for minor irrigation encompasses a broad range of activities, including the excavation of new wells, deepening of existing wells, acquisition of electric and diesel pump sets, construction of pump houses, installation of pipelines, lining of channels, and implementation of lift irrigation schemes designed to extract water from rivers. Minor irrigation is a significant recent advancement that has enhanced agricultural practices in the nation. This form of investment has significantly enhanced the cropping pattern, crop intensity, and the variety of crops cultivated in the nation. Development of irrigation infrastructure on farms may sometimes need other enhancements, such as land leveling or field drainage upgrades, which are often financed via a composite loan. Land development include activities such as contour bunding, terracing, trenching, and rectifying substandard soil conditions[13].

Co-ordination between Commercial Banks and Co-operative Banks

With both co-operative banks and commercial banks functioning in the agricultural sector, the primary challenge to address is the coordination of their operations. The first task is to convince cooperative banks to provide substantial support to commercial banks in effectively addressing the challenges of rural finance. It is essential to alter the mindset of cooperative banks, which have long seen agricultural lending as their exclusive domain, believing that commercial banks are intruding into their territory. Under the new circumstances, cooperative banks and commercial banks will function as two distinct components of the organized rural credit framework. They must function complementarily, with one enhancing the other's actions. This is feasible due to the comprehensive organizational framework of co-operative banks developed over about 80 years, together with their local expertise on agricultural issues and their experience in rural banking. However, as previously said, they exhibit many deficiencies, including a fragile financial foundation, insufficient coverage throughout several states, inadequately qualified personnel, domination of large landowners in management, and political pressures, among others. Conversely, commercial banks possess considerable financial resources, contemporary business methodologies, qualified personnel, and similar assets[14]. However, their organizational structure is less broad than that of cooperative banks. Moreover, the personnel of commercial banks are mostly urban-oriented and often lack expertise in agricultural and rural issues, rendering them ill-equipped to operate effectively in rural environments. Their administration and management are likewise rather expensive. The issue of coordination between the two must be addressed within this backdrop. Based on the aforementioned analysis of the strengths and weaknesses of the two sectors of organized banking in the nation, it is evident that the two systems may function in a complementary manner. The primary goal of cooperation between the two banking sectors should be to develop a comprehensive and progressive financial institutional framework at the village level, facilitating direct interaction between institutional credit agencies and rural creditors and borrowers[15]. The objective should be to mobilize optimal local savings and to provide sufficient, prompt, and affordable loans to all disadvantaged borrowers, particularly from the lower socioeconomic strata. Generally, coordination may be necessary between the two on a geographical and functional basis. Commercial banks must establish branches particularly in regions where cooperative banks have been unable to function effectively or have significant influence. There should be synchronization in the branch opening initiatives of the two entities. Cooperation on a functional level is necessary to prevent overlap and redundancy in banking and finance operations[16]. The two systems must together establish a credit plan for each district and operate synergistically to achieve the credit plan objectives. The guidelines established by the National Credit Council to enhance coordination between cooperative banks and commercial banks include, among other aspects, the following

1) exchange of information regarding areas and projects to be financed,
2) joint financing of individual projects,
3) provision of finance to plantations by commercial banks.
4) provision of finance by commercial bank to special schemes covering dairy, poultry, piggery and such other ancillary agro based occupations.
5) provision of finance, supplementary in nature, by commercial banks in I.A.D.P., I.A.A.P. and H.Y.V.P. districts.
6) supply of production finance by co-operatives for service units and term finances by commercial banks.
7) provision of finance to co-operative processing units by commercial banks. It is felt that rural credit operations will be much more effective, if co-ordination is effected between the co-operative banks and commercial banks functioning in rural areas along the 24nes suggested above.

Primary Agricultural Credit Societies (PACS)

A primary agricultural co-operative credit society is defined as "an association of borrowers and non-borrowers who reside in a locality, are acquainted with one another, and are invested in each other's interests." The National Bank for Agriculture and Rural Development Act of 1981 provides the definition of a Primary Agricultural Credit Society[16][17]. A Primary Agricultural Credit Society is defined as a cooperative society that

(1) aims to provide financial assistance to its members for agricultural activities, crop marketing, or rural development, and

(2) has by-laws that prohibit the admission of any other cooperative society as a member, except for a State Cooperative Bank or a Central Cooperative Bank that subscribes to the share capital of the society using funds allocated by the State Government for this purpose.

A Primary Agricultural Credit Society may be established with a minimum of 10 individuals, often residing in a community. The value of each share is often modest, allowing even the most impoverished farmer to join as a member. The members possess unlimited liability, meaning each member is wholly accountable for the whole losses of the society in the case of collapse. This necessitates that all members possess a deep understanding of one another. The society is governed by an elected body including a president, secretary, and treasurer. The management is honorary. The only compensated member is the accountant, should the organization be substantial and need a full-time accountant[18]. These societies once offered short- and medium-term loans. Following the implementation of the single window system, short-term, medium-term, and long-term loans are being provided via this society. The collective body of a society, including all its members, serves as the ultimate authority in its governance. The general assembly elects a Managing Committee with 5 to 9 members based on the premise of 'one member, one vote'. This club is anticipated to encourage frugality among farmers and get deposits from them. The Cooperative Central Bank will satisfy the needs of society. The operating capital of a Primary Agricultural Credit Society primarily comprises four components. The components are a) Paid-up Share Capital, b) Reserve Fund and Other Reserves derived from excess, c) Deposits, and d) Borrowings. The paid-up share capital of the societies has consistently risen, mostly due to the association of members' borrowings with their shareholdings in the societies.

Primary Agricultural Credit Societies (PACS) have a pivotal role in the cooperative credit framework and constitute its foundation. A PACS is established at the foundational level of a village or a cluster of minor villages. It is a primary entity that engages directly with rural (agricultural) borrowers, disburses loans, and collects loan repayments. PAC functions as the intermediary between borrowers and prominent financial institutions such as SCBS, RBI, and NABARD. Numerous PACs are engaging in operations such as the selling of fertilizers and other agricultural products. The primary tasks of PACs include offering short- and medium-term loans, encouraging savings, supplying agricultural supplies, facilitating marketing, providing domestic goods, and advancing the economic interests of its members. The first graph indicates that Maharashtra has the biggest number of PACs, followed by Uttar Pradesh (8929) and Gujarat (8613).

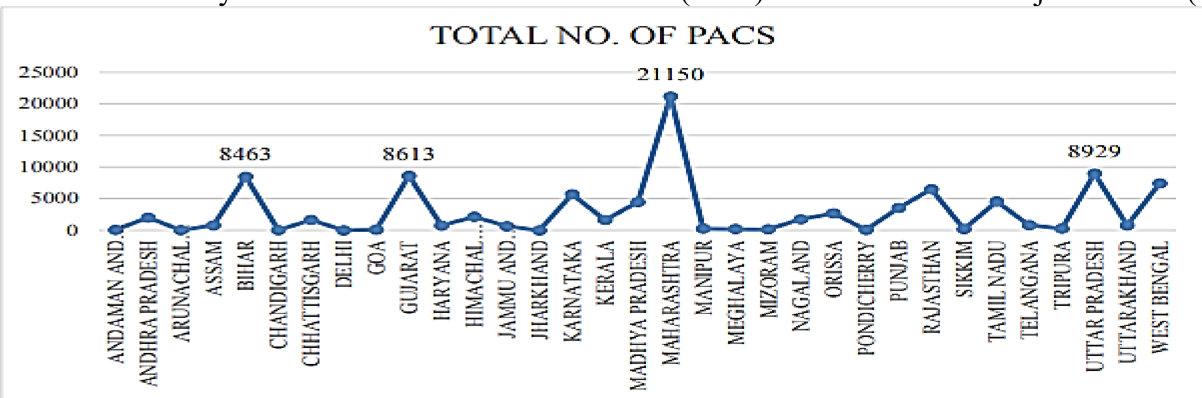

Figure 1: State-Wise Number of PACs

Year	No. of PACCS in Profit	Amount	No. of PACCS in Loss	Amount	No of Villages Covered by Societies	Profit	Loss
2013-14	3472	279.11	1066	568.42	16564	0.08	0.53
2014-15	2377	189.5	1930	234.06	18794	0.08	0.12

2015-16	2803	414.73	1507	485.96	18540	0.15	0.32
2016-17	2758	385.44	1732	511.75	18285	0.14	0.3
2017-18	2289	110.86	2147	304.84	18978	0.05	0.14
2018-19	2357	209.74	2154	263.55	16603	0.09	0.12
2019-20	2358	178.48	2162	205.36	16549	0.08	0.09
2020-21	2510	173.43	2011	482.4	17258	0.07	0.24
2021-22	2090	188.71	2435	587.36	16093	0.09	0.24
2022-23	2134	195.34	2394	596.65	16176	0.09	0.25
Average	2515	232.53	1954	424.04	17384	0.09	0.24
CGAR (%)	-1.7	-2.4	2.9	0.1	-0.6	-0.8	-1.9

Table1.Position of Financial Results in India and Tamil Nadu((Figures in Numbers and Rs. in Crores)

The above table represent data regarding PACCS (Primary Agricultural Credit Cooperative Societies) over the years from 2013-14 to 2022-23 as we had consider Tamil Nadu state of India, including details like the number of PACCS in profit or loss, corresponding amounts, and villages covered. The table also includes some calculated metrics such as average values and Compound Growth Annual Rate (CGAR)

1. **Number of PACCS in Profit vs. Loss**: Over the years, the number of PACCS in profit has generally decreased, with an average of 2,515 in profit and 1,954 in loss. The CGAR shows a slight decline of -1.7% in the number of PACCS in profit and an increase of 2.9% in those in loss.
2. **Amount of Profit vs. Loss**: The average profit per year is 232.53 units, while the average loss is much higher at 424.04 units. Both profit and loss amounts show modest changes, with a CGAR of -2.4% for profit and 0.1% for loss.
3. **Villages Covered by Societies**: The number of villages covered by these societies has also shown a small decrease over time, with a CGAR of -0.6%. On average, 17,384 villages were covered each year.
4. **Profit/Loss Per Society**: The profit and loss per society fluctuated, but there seems to be a consistent trend of PACCS showing more significant losses compared to their profits. The CGAR shows a decline in profit per society (-0.8%) and a steeper decline in loss per society (-1.9%).

Conclusion

PACCS have played a crucial role in extending finance to farmers, especially those who are small and marginal. They function as an essential connection between conventional banking institutions and the rural agricultural community, guaranteeing that financial resources are available to individuals requiring assistance. The analysis reveals a decreasing trend in the number of PACCS generating profits, along with rising losses. The fall may be ascribed to several issues, including as mismanagement, insufficient financial knowledge among members, and heightened competition from other funding sources. Efficient financial management methods are crucial for enhancing the operational efficacy of PACCS. This includes improved accounting, risk management methods, and technological investments for financial transactions and member participation. While PACCS have traditionally played an important role in agricultural financing in India, resolving their financial management difficulties is essential. Through the implementation of efficient management techniques, the enhancement of training programs, and the cultivation of a supportive policy framework, PACCS can maintain its crucial position in the rural economy and the comprehensive development of India's agricultural sector. Future research should concentrate on optimal practices from effective PACCS and investigate novel financial models that may be reproduced across states to improve their efficacy.

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