



PRIMARY AGRICULTURAL CREDIT SOCIETY (PACS) - GOVERNANCE PRELIMS AND GS III MAINS

Q. PACS are the ground-level cooperative credit institutions aimed at the development of rural India by enhancing various activities at the ground. Elucidate (15 marks, 250 words)

News: *Every village to have agricultural credit societies by 2027, says Amit Shah*

What's in the news?

- Union Cooperation Minister Amit Shah said that the Centre has decided to ensure **formation of Primary Agricultural Credit Societies (PACS) in every village by 2027**.

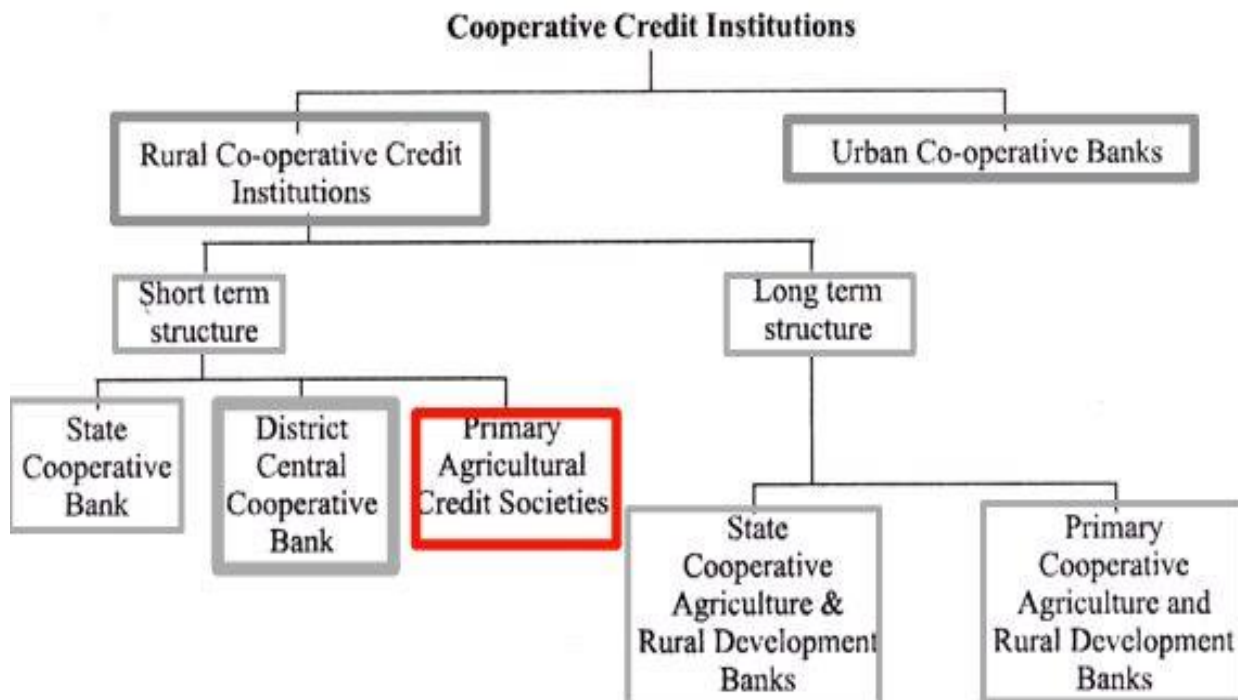
Key takeaways:

- Addressing an event, Shah said the Centre has introduced 20 new activities to be associated with PACS, enabling them to generate profits.
- The computerization of PACS has opened up many possibilities for their development.
- Shah launched the National Cooperative Database and released the 'National Cooperative Database 2023: A Report'.
- The database aims to identify and address the gaps through a comprehensive analysis.

PACS:

- PACS is a **basic unit** and smallest co-operative credit institution in India.
- In **1904** the first Primary Agricultural Credit Society (PACS) was established.
- It works on the grassroots level (gram panchayat and village level).
- PACS are the **ground-level cooperative credit institutions** that provide short-term, and medium-term agricultural loans to the farmers for the various agricultural and farming activities.
- PACS is the final link between the ultimate borrowers, i.e., rural people, on the one hand, and the higher agencies, i.e., Central cooperative bank, state cooperative bank, and Reserve Bank of India, on the other.

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Regulation:

- PACS 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.

Functions:

- To provide **short and medium-term purpose loans to its members**.
- Borrowing an adequate amount of funds from central financial agencies.
- Maintaining the supply of the hire light machinery for the agricultural purpose.
- Promotes savings habits among its members.
- To make the arrangement of **supplying the agricultural inputs**. Example - seeds, fertilizers, insecticides, kerosene etc.
- It helps its members by providing marketing facilities that could enhance the sale of their agricultural products in the market at the proper prices.

Who can form PACS?

- A primary agricultural credit society can be formed by a **group of ten or more people from a village**. The society’s management is overseen by an elected body.
- The membership fee is low enough that even the poorest agriculturist can join.
- Members of the society have unlimited liability, which means that each member assumes full responsibility for the society’s entire loss in the event of its failure.

Funding:

A Primary Agriculture Credit Societies (PACS) can raise funds for carrying out its activities by following means:



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- By way of share capital to be raised from members and indirect govt.
- Share capital contribution through the apex co-operative bank and the district central co-operative bank.
- Deposits from members
- Loans
- Donations
- Entrance fee.

Significance of PACS:

- **Provide credit facilities to the member** - Helps in absorbing shocks.
- **Financial inclusion** - Accepting deposits from the members, thereby enhancing financial culture.
- **Running government schemes at the gross root level** - Enhancing transparency and accountability of the government scheme at the gross root level. Eg. Managing PDS shops.
- **Selling agricultural inputs** - Acting as a helping hands to small and marginal farmers in providing inputs at a lower cost.
- **Marketing produces** - Acts as a marketing channels for the agricultural produce, thereby enhancing remuneration of the farming community.
- **Back end support to farmers** - Providing warehousing services to farmers in order to preserve and store their food grains.
- **Dairy development** - PACS arrange for the supply and development of improved breeds of livestock for members.
- **Development of local areas** - Primary agriculture co-operative credit societies as financial institutions that play a very important role at the grass roots level in the development of local areas.
- **Women empowerment** - PACS goes in hand with SHGs, thereby providing the necessary support to the needy women in agriculture and allied sectors.
- **Poverty alleviation** - PACS plays a significant role in eradicating poverty in Northeast by promoting storage facilities to dairy and farm products along with providing effective marketing channels, thereby promoting optimum financial benefits to the local people.

Concerns in PACs:

- **Organizational weakness:**
 - Laxity in internal control system.
 - Poor management information system.
 - Low motivation and involvement of staff.
 - Poor industrial relations climate.
 - Duality of control.
- **Financial factors:**
 - Lack of adequate finance.



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- Improper identification of borrower - Credit support to large farmers instead of the needies such as small and marginal farmers.
 - Under or over financing.
 - Lack of post disbursement follow up.
 - Perception of bank as a charity institution
 - Delay in loan sanctioning
 - Insufficient gestation or repayment period
 - Lack of borrower contact and poor understanding of rural clientele
 - No thrust on recovery
 - Misutilisation of loan
 - Willful default
 - Diversion of funds
 - Loan waiver, write-off, etc.
- **Political factors:**
 - Failure to ensure adequate rapport with govt agencies.
 - Frequent change in the policy environment.
 - Political interference.
 - Target approach under government sponsored programmes.
 - Lack of transparency
 - **Professional factors:**
 - Lack of technical and management skills
 - Poor maintenance of assets
 - Inadequate market linkages
 - Lack of professional management
 - Inadequacy of non-official and member education

Way forward:

- Many co-operative societies circumvent the provisions of **Section 7** of the Banking Regulation Act. It is essential that appropriate **legal action is initiated against the wrongdoers** to safeguard the entire banking activities from the Domino effect.
- Registrars of Co-operative Societies should be '**modernised**' enough. Ill-functioning societies need to be isolated and special precautionary investigations must be held by the RBI authorized controllers and supervisors.
- Need to **strengthen financial inclusion**. There is strong evidence that such societies may be taking undue advantage of the poor in financially excluded areas and exploiting them.
- **Internal surveillance mechanisms** have to improve substantially, for example these credit societies can be brought under RBI SWIFT platform.
- **Digitisation of PACS** - Enhancing the transparency and accountability of the organisation as a whole.



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These more than a century-old institutions deserve another policy push and can occupy a prominent space in the vision of Atmanirbhar Bharat as well as **Vocal for Local of the Government of India**, as they have the potential to be the building blocks of an Aatma Nirbhar village economy.



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