

GROWTH AND DEVELOPMENT OF PRIMARY AGRICULTURAL CREDIT SOCIETY (PACS) IN INDIA - WITH SPECIAL REFERENCE TO BIHAR

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ABSTRACT

Agriculture is the backbone of our Indian Economy. But, at present agriculture are facing many problems. The main problems are credit and other capital requirements. Availability of credit to agriculture sector is the major factors that affect the agricultural development. PACS are one of the important institutional sources of credit which provide short term and medium term loan to rural people to meet their financial requirement. It works under the District Co-Operative Banks and it is organized at grass root level of village or a group of small villages. In this research paper we have analyzed the growth of PACS in India and Bihar from 2008-09 to 2017-18.

KEYWORDS: *Primary Agricultural Credit Society (PACS), Agriculture Credit, Institutional Finance.*

Introduction

The Father of the Nation, Mahatma Gandhi found that the real India lives in villages. So, India is proverbially called a nation of village. About 73% of India's population resides in its villages. Undoubtedly, the growth of the rural sector is central to the overall development of the country. Generally lack of capital, Lack of employment opportunities, growth of population, excessive pressure of population on agriculture, illiteracy, unhealthy tradition like child marriage, beyond means expenditure on marriage and funerals, corruption in public distribution system and sometimes joint family system and monsoon failure are greatly responsible for the poverty of rural masses. As agriculture is the main source of India's national income and pivotal for rural development credit facilities are to be brought to the door step of rural beneficiary for taking them out of the grip of pecuniary poverty. The lesson of history is that an essential of agriculture is credit. Neither the conditions of the country of the nature of the land tenure, nor the position of agriculture affects the one great fact that the agriculturist must borrow.

Even modern business is run on credit. Agriculture in India, however, gives rise to peculiarly urgent problems of finance because of its uncertainty, small unit of farm productions and scattered nature of operations. The French proverb rightly stresses the urgency of credit to the farmers. "Credit support the farmer as the hangman's rope supports the hanged" The Indian agriculture is dependent upon marginal and subsistence farming by the million of small farmers who are not in an position to save for productive purposes due to low output. Hence they depend almost on credit and pay a part of their income by of interest.

Finance in agriculture is as important as other inputs being used in agricultural production. Technical inputs can be purchased and used b farmer only if he has money (funds). But his own money is always inadequate and he needs outside finance or credit. Agricultural finance capitalizes farmers to undertake new investments and/or adopts new technologies. The importance of agricultural credit is further reinforced by the unique role of Indian agriculture in the macroeconomic framework alone with its significant role in overt alleviation. Realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being emphasized since the beginning of the planned development era in India. Credit has been regarded as

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condition which enables person to extend his control, as distinct from ownership of resources. It represents the borrowing power of the individual who wants to make use of certain resource during a certain period, through their temporary control, and promises to return them along with the price for temporarily using them' Agricultural credit is, thus essentially, an operation of securing money from one source or the other by creating the confidence that the amount of loan would be invested in productive operations so that the lender will get back the loan with interest as per agreement.

Credit cooperatives are regarded as an important source of agricultural credit for the vast majority of farmers in rural India. Institutions of Cooperative Credit had their launching in India after the enactment of Cooperative Societies Act of 1904 with the objective of emancipating the farmers from the clutches of money lenders. After independence a lot of efforts have been made by the Government of India and the State Governments to make the credit cooperatives efficient and farmer friendly. Indian economy is primarily agrarian in nature with more than 70% of the people living in rural areas. Agriculture happens to be the mainstay of livelihood for about 50% of the population of the country. Over the years cooperative credit has made phenomenal expansion in terms of membership coverage, credit advance etc. Primary Agricultural Cooperative Society (PACS) operates at the village level to cater to the credit needs of the farmers in rural areas. It may be observed that, the PACS is the foundation on which the entire cooperative structure is built upon.

Bihar is the Agricultural based state. A major portion of population of Bihar is engaged in Agriculture and allied sectors like forestry, dairy, fisheries etc. Agriculture is demographically the broadest economies sector and plays a significant role in the overall socio-economic fabric of Bihar. Primary Agricultural Co-operative societies (PACS) have been playing major roles in rural sector of Bihar specifically in agricultural finance. On the above backdrop the present research work attempts to study the performance of PACS in Bihar in terms of its coverage, inclusion, membership, deposits, economic efficiency, social responsibility and prudence in financial management.

Review of Literature

Primary Agricultural Credit Societies (PACS) is the most wide reaching financial institution in India fulfilling the financial needs and expectation of a large number of poor farmers in the rural areas (Mohapatra. 2014). Primary co- operative credit societies operate at the village level to auain the following objectives:

- To accept deposits and provide short- term loan on reasonable conditions:
- To develop the habit of saving among the rural massage.
- To assist in a better implementation of the five-year plan in so far as they relate to agriculture.
- To take up educative, advisory and welfare functions for the benefit of farmer members.

Individual farmers are members of primary credit societies. Each society secures its funds by way of share capital, deposits, loans and the Reserve Fund. The share capital is directly contributed by members and non- members with a view of effective mobilization of rural saving. To get larger deposits, primary co-operative encourages rural people to save a part of their income and deposit it with it. Loans constitute an important source of working capital for primary credit societies. Loans are procured from the State Government and central co-operative banks. Primary credit societies advance loans to their members for short periods varying between six months and one year, to enable them to conduct their ongoing agricultural operations. The loan amount operations vary among members depending upon:

- The purpose of the loan:
- The character of the individual:
- His repayment capacity; and
- The type of security that he can pledge to the society.

A short-term loan is sanctioned for the purchase of seeds, fertilizers, pesticides, and minor repairs. Medium-term loans are granted by the society for the purchase of cattle, pumpsets, agricultural implements. etc., for periods varying between one to live years Short-term loans are lent against personal security or against the security of other members upto a certain limit. For medium-term loans, tangible securities have to be pledged. The success of co-operative credit society lies in the extent to which the management committee members and office bearers are in a position to recover the loans from the burrowers on due dates.

There are around 95238 PACS presenting in 758597 villages in India and about 8463 PACS presenting in Bihar in 45098 villages as on 31st March, 2018 whereas its close counterpart Commercial Banks (CBs) and Regional Rural Banks (RRBs) have a spread of 50,000 branches throughout the country including semi-urban and urban areas. This clearly highlights the significance of PACS in general and their contribution towards rural farmers and rural economy in particular. The reports of National Federation of State Co-operative Banks Ltd (NAFSCOB) unveiled that in the year 2016-17, PACS alone granted loan to 3.09 crore rural farmers whereas Commercial Banks granted loans to 2.55 crore people and Regional Rural Banks were only able to reach 82 lakh people. Besides, in that fiscal year, PACS provided loans to 67 lakh new rural farmers which itself signifies its importance. Out of the total loan and advances made to the rural farmers, 10% of the fund was mobilized by the members of PACS and remaining 90% fund was supported by DCCBs.

Primary Agricultural Cooperative Societies (PACS) play a crucial role in improving the economic and social condition of the common masses. They provide short-term and medium-term loans to the members/farmers at reasonable interest rates to meet their various needs. They provide credit to the farmers for agriculture purposes at cheap and easy terms. PACS is the foundation of the Co-operative Credit System on which the super structure of the short term cooperative credit system is built (Baby, 2014). The structure and working of primary co-operative credit societies need to be modified to make them more responsive to the needs of small farmers. The non-viable units must be amalgamated with the viable ones, and their resource base must be strengthened. Their operational efficiency should be enhanced by the appointment of a paid secretary. Suitable arrangements, both coercive and persuasive, will have to be made for the speedy recovery of loans on due dates. Loan policies will have to be modified to provide greater assistance to the weaker sections of the community. In this connection the Banking Commission Report says: "The progress of reorganization of primary societies with a view to building strong and viable primary societies has been slow and halting due to various factors, such as reluctance on the part of some State Government to enforce compulsory amalgamation, unwillingness on the part of primary societies to amalgamate, absence of legal provision in many State Co-operative Acts for compulsory amalgamation; and various administrative and other delays due to administrative inefficiency and political and other pressures.

Kannusany & Nirmala have made a study on the growth of pattern of primary agricultural credit societies in India. The study explains the vital role played by PACS in the development of agriculture. The study reveals that the membership pattern during 2001-2010 has increased with an average compound growth rate of 3.92%. In terms of financial indicators, the share capital of PACS has increased during the study period. Along with that the Government holdings have also increased. PACS has also shown good performance in providing loans. Sudarsan Nayak conducted a study on cooperative credit in Odisha. His study revealed that cooperative credit societies constitute an integral part of state agricultural development programme as it renders 70% of total agricultural credit requirement of the state. The cooperatives are considered as an effective mechanism of structural change. It needs to be strengthened with high degree of professionalization, strive for an objective orientation.

Objectives of the Study

- To study the concept of PACS.
- To study the growth of PACS in India and Bihar
- To offer conclusion and suggestion

Research Methodology

The present study was analytical and descriptive in nature based on secondary data which has been collected from economic survey of India, magazines and websites of NAFSCOB.

Primary Co-Operative Agricultural Credit Societies (PACS)

A Co-operative agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally for the harvest season, for carrying on agricultural operation, and the rate of interest is fixed. There were 95,236 primary agricultural credit societies in the country with a membership of 13,05,47 lakhs till the end of March 31, 2018. The primary agricultural credit society was expected to attract deposits from among the well-to-do members and non-members of the village and thus promote thrift and self-help. It should give loans and advances to needy members mainly out of these deposits.

Objective of PACS

The main objectives of primary credit societies are given below:

- Borrowing funds from members as well as others to be utilized in giving loans to the members for productive purposes.
- Acting as the agent for the joint supply of agricultural, domestic and other requirements of the members, and the joint sale of produce.
- Purchasing and owning implements, machinery or cattle for renting it to the members.
- Disseminating knowledge of the latest improvements in agriculture, handicraft, etc.
- Encouraging thrift, self-help and co-operation among the members.
- PACS provide the loan only for medium and short term purpose
- The work of PACS should limited to its village only.

Functions of PACS

The main functions of the credit societies are to provide short and medium term credit; supply agricultural and other production requirements and undertake marketing of agricultural produce. In addition to these functions, the co-operatives will help to implement the plan of agricultural production for the village and undertake such educative, advisory and welfare works as the members might be willing to take up. According to a committee on co-operative credit, following important recommendations are laid for the effective functioning of the society. These are:

- To associate itself with the programme of production;
- To lend adequate amount to its members for their agricultural production and consumption purposes;
- To borrow adequate funds from the central financial agencies for helping the members adequately for the above purposes;
- To attract local savings for share capital and fixed deposits;
- To supervise the use of loans (especially medium term loans) and to see that they are paid regularly;
- To distribute fertilizers, seeds, insecticides, agricultural implements etc. either on its own or as agent;
- To supply certain consumer goods in common demand such as kerosene, sugar etc.;
- To store the produce of the members till it is sold;
- To collect or purchase produce, where necessary, behalf of a consumers society, marketing society, or government; and
- To associate itself with programme of economic and social welfare for the village.

Growth and Development of PACS in Bihar

As mentioned above, Bihar is predominantly an agrarian economy as more than 80% of the population depends on agriculture. PACS caters to the short term credit needs timely availability of loans will support the rural farmers to enhance the productivity in agriculture and that would lead to an overall growth of the economy. The growth of PACS in Bihar in term of number of societies is presented in table 1.

Table 1: PACS in Bihar and India (During the period 2008-09 to 2017-18)

Year	India		Bihar	
	No. of Societies	Trend %	No. of Societies	Trend %
2008-2009	95633	100	8463	100
2009-2010	94647	98.97	8463	100
2010-2011	93415	97.68	8463	100
2011-2012	92432	96.65	8463	100
2012-2013	93488	97.76	8463	100
2013-2014	93042	97.29	8463	100
2014-2015	92789	97.03	8463	100
2015-2016	93376	97.64	8463	100
2016-2017	95595	99.96	8463	100
2017-2018	95238	99.59	8463	100
Average	93965.5	98.26	8463	100

Source: National Federation of State Co-operative Bank Ltd. (NAFSCOB)

PACS were registered under the respective State Co-operative Societies Act. The Society would be registered under the by-law of the society, which contained all the regulations relating to the working of the society. PACS were organized at the village level to meet the short-term credit needs of the farmers. At present, 100 per cent villages are covered by PACS. At all India level, the number of societies had decreased from 95633 in the year 2008-09 to 93367 in the year 2015-16. But in the subsequent year 2016-17 it had increased to 95,595 and thereafter in 2017-18 it had decreased to 95238. At Bihar the total number of societies was constant during the period 2008-09 to 2017-18. The total number of societies in 2008-09 was 8463 and in the year 2017-18 was also 8463.

The membership of PACS comprises of farmers residing in the area of operation. In other words, the co-operative credit institution is a voluntary association of farmers, who want to use the services of it. To become a member, a person should have attained the age of 18 years and must be competent to contract as per law. "In Cooperatives man remains master and organization is his servant."⁹ These unique features could not find in any other credit organizations. The growth in membership of PACS in Bihar and India is presented in Table 2.

Table 2: Membership in PACS in Bihar and India (During the period 2008-09 to 2017-18)

Year	India		Bihar	
	Members (00000)	Trend %	Members (00000)	Trend %
2008-2009	658.21	100	94.35	100
2009-2010	1222.26	185.6945	96.37	102.141
2010-2011	1061.36	161.2494	97.65	103.4976
2011-2012	1276.46	193.929	99.72	105.6916
2012-2013	1100.68	167.2232	100.10	106.0943
2013-2014	1301.20	197.6877	105.63	111.9555
2014-2015	1210.88	183.9656	106.07	112.4218
2015-2016	1273.22	193.4367	97.65	103.4976
2016-2017	1312.35	199.3817	97.65	103.4976
2017-2018	1305.47	198.3364	97.65	103.4976
Average	1172.21	178.0904	99.28	105.2295

Source: National Federation of State Co-operative Bank Ltd. (NAFSCOB)

The growth rate of membership of PACS in India and Bihar has been fluctuating during the period 2008-09 to 2017-18. The total member of PACS which was 658.21 lakh in 2008-09 in India has increased 98.34% in the year 2017-18 with an average growth of 78.09 percent where the total number members of PACS in Bihar in 2008-09 was 94.35 lakh and has increased 3.50 percent in the year 2017-18 with an average growth was 5.23 percent. The average growth of membership of PACS in Bihar is low in comparison of whole India growth. There was a small increase in the total membership in Bihar which indicates unsatisfactory growth and development.

Conclusion

Agriculture is the back bone of the our Indian Economy. Any charge in the agriculture sector has effect the entire economy. At present agriculture are facing many problems such as irrigation, marketing, credit and other capital requirements etc. Availability of credit to agriculture sector is the major factor that affecting the agriculture development. There are two sources of agriculture credit first is non- institutional and second is institutional source. Co-operative Bank, Regional Rural Bank, Commercial Bank, Land Development Bank, Primary Agriculture Co-operative societies (PACS) are the institutional sources of finance. Primary Agriculture co-operative society are the banks which are situated in rural area and plays a very important role in rural credit system by performing their agriculture are 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 requirement. PACS are working at grass root level and providing credit facilities to farmers at village level and can be organized with ten or more people. PACS are managed by elected body. As we know agriculture is the strength of our economy, timely and adequate credit supply is of utmost importance. So it is extremely essential to assess the past performance of PACS for formulating various financial policies and reforming the present structure.

The Indian co-operative movement like its counterparts in other countries of the world has gathered momentum in the last quarter of the 19th century. With the passing of co-operative credit societies Act of 1904, the movement of organized credit co-operative has emerged in India. In 1919 responsibility for co-operative legislation was shifted to states provision which gave adequate stimulus to provisional states to enact independent co-operative legislation. Bihar and Orissa co-operative societies

Act, 1935 has passed for development of co-operative institutions in Bihar and Orissa. After independence during the course of the plan the Reserve Bank of India setup the All India rural Survey committee (AIRCSC) in the year 1951. The recommendations of AIRCSC shaped the future of co-operatives in India. The co-operative Banking structure in India comprises of two main components, viz, urban co-operative Banks and rural co-operative credit institutions. Urban co-operative Banks have a single tier structure while rural co-operative have a complex structure. It has different segments to cater to the short term and long term credit needs. The short term co-operative credit structure (STCCS) is organized in a three tier structure. Within the STCCS, primary agricultural credit societies (PACS) at the village level, the District Central Co-operative Banks (DCCB) are placed at the intermediate level and state co-operative banks function at the apex.

A primary co-operative agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The members of these societies have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally for the harvest season, for carrying on agricultural operation, and the rate of interest is fixed. There were 95238 PACS in the country with a membership of 1305-47 lakhs till the end of 31st march 2018. The main functions of the credit societies are to provide short and medium term credit, supply agricultural and other production requirements and undertake marketing of agricultural produce. The management of the society is democratic and honorary based on the principle, 'one member and one vote'. The management is done by a managing committee of 5 to 9 members chosen from among the members of General committee constituting its general body. The general committee elects the members of the managing committee. The managing committee is responsible for the routine and executive business of the society. In order to perform the functions of providing credit, the primary credit the society requires funds. Such funds are raised both from the internal and external sources. The internal sources refers to funds raised from the societies members and consist of the share capital, the entrance fees and the reserve funds and deposits from non members, loans from the co-operative central financing organization and the Government donations, grant, subsidies, etc.

At present 100 villages of Bihar has covered by PACS. At India level the number of societies had decreased from 95633 in the year 2008-09 to 93367 in the year 2015-16. But in the subsequent year 2016-17 it had increased to 95,595 and thereafter in 2017-18 it had decreased to 95238. On average 1.74% PACS had decreased in India during the year 2008-09 to 2017-18. But in Bihar the total number of societies was constant during the period 2008-09 to 2017-18. The total number of societies in 2008-09 was 8463 and in the year 2017-18 was also 8463. To become a member, a person should have attained the age of 18 years and must be competent to contract as per law. The growth rate of membership of PACS in India as well as Bihar has been fluctuating during the period 2008-09 to 2017-18. In India average growth of member of PACS was 78.09 percent and 5.23 percent in Bihar during the period under study. The membership of PACS in Bihar was less increase in comparison of whole India which indicate the unsatisfactory growth and development.

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