CHAPTER - III
CHAPTER III
PROFILE OF PRIMARY AGRICULTURAL CO-OPERATIVE BANKS

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3.1 Introduction

Co-operative Credit Societies have been playing a crucial role in rural credit markets by extending financial services to agriculture and rural institutions. Co-operatives are local institutions with the noble objective of helping farmers with meagre means. Policy interventions in the area of rural credit were mostly confirmed to the co-operatives until 1960s, for the delivery of rural credit. The Central and State governments extended considerable help to the co-operatives to promote rural development.¹

Primary Agricultural Credit Societies are double-pronged instruments designed to fight against the contagion of rural indebtedness and to improve the lot of the poor peasants. They provide credit both for production and for other purposes on easy terms and also educate them to practise modern methods of high-yielding cultivation and inculcate in them the habit of thrift, frugality and self-help. PACBs attempt to make cultivators their own masters and encourage them with necessary money and materials to increase agricultural production for their own advancement and for the nation's economic development. These PACs after the implementation of the Government G.O. Ms. No.509 dated 01.09.1987 (Annexure-III) were called Primary Agricultural Co-operative

¹ Rama Mohan Roa, P., Banks Borrowers and Barriers Problems of Finance Against Poverty, Chennai-10, p.21.
Banks in Tamil Nadu. Hence an attempt was made at first to explain the performance of PACs and then the progress of PACBs in Tamil Nadu.

### 3.2 Primary Agricultural Credit Societies

Co-operative Agricultural Credit Societies were established in India in 1904 as a resistance against the money lenders’ inhuman dealings and malpractices. Since they had been the first institutions to be organised under the Cooperative Societies Act of 1904, they were rightly termed as the kernal of the Co-operative Movement in India. They are the very foundation stone of the co-operative credit structure and constitute by far the largest member of co-operative institutions in India. In the context of the national drive after independence for increasing agricultural production and the consequent need for making available to the farmers credit in cash in kind, PACS has assumed a significant role.

A society formed at the village level to supply agricultural credit and other inputs to the agriculturists is called a Primary Agricultural Credit Society. It is a voluntary organisation of villagers for mutual help and cooperation to meet their common economic requirements and to increase agricultural production.

Primary Agricultural Credit Societies provide short and medium term credits to their member farmers to meet their financial
requirements, supply high yielding varieties of seeds, chemical fertilizers and insecticides and to teach them to adopt modern methods of cultivation. They also formulate plans for the village to increase the production of agricultural products and assist the farmers to implement those plans. In addition, they educate and advise the farmers on the achievements of applying modern technology into agricultural operations besides looking after the welfare of their members.²

Primary agricultural credit societies lie at the root of the cooperative credit structure of the country. They are at the local or base level. In rural areas, there are Primary Agricultural Credit Societies (PACS), which cater to the short and medium term credit needs of the farmers. They directly deal with the farmers.

The PACS are generally organised on the Raiffeisen model. Their members have unlimited liabilities. The members contribute to their share capital. The members elect President or Chairman, Secretary and other members of the Managing Committee and the elected members work on an honorary basis.

The PACS raise their funds by way of share capital, membership fees, deposits of members and non-members and loans from the District Central Co-operative Bank and the government.

² Report of the Committee on Cooperative Credit, 1960, pp.72-73.
The PACS grant short-term and medium-term loans only to their members against the personal security and mortgage security. The rates of interest charged by them vary from State to State. They deposit their reserve funds with the District Central Co-operative Banks (DCCB).³

3.2.1 Functions of PACSs

The Primary Agricultural Co-operative Societies have a wide area of operations. Their main functions are:

i) Promoting the economic interest of their members in accordance with the co-operative principles.

ii) Providing short and medium credit.

iii) Supplying agricultural inputs like fertilizer, seeds, insecticides and implements.

iv) Promoting sharing habits among members.

v) Supplying domestic requirements such as sugar and kerosene.

vi) Providing marketing facilities for sale of agricultural produce.

vii) Associating the members with the economic and social welfare programmes in village.

3.2.2 Objectives of PACSs

The primary agricultural co-operative societies have the following objectives.

1. To borrow funds from members as well as others to be utilized for giving loans to the members for productive purposes.

2. To act as an agent for the joint supply of agricultural, domestic and other requirements of the members and for joint sale of the produce.

3. To purchase and own implements, machinery or cattle or for hiring instruments.

4. To encourage thrift, self-help and co-operative spirit among the members.

3.2.3 Features of PACSs

1. Limited area

2. Shares of small value

3. Permanent invisible reserve fund

4. Unlimited liabilities

5. Loans for productive purposes

6. Loan facility only to its members
7. Credit of relatively long periods with facilities for repayment in easy instalments.\(^4\)

### 3.2.4 Shortfalls of PACSs

Though the PACS have made remarkable progress in the area of rural finance, their shortfalls may be enlisted. They are:

1. They have failed to adequately fulfil the credit needs of the small farmers and tenants.

2. A large number of them lacked potential viability.

3. The Banking Commission (1972) observes that PACS neither provided credit for all productive activities of the farmers nor fulfilled their credit needs adequately.\(^5\)

### 3.2.5 Problems of PACSs

Some of the critical problems of primary level co-operative credit institutions apart from poor resource mobilisation are:

- lack of diversification in business portfolio
- low volume of business
- declining percentage of borrowing membership

• high cost of management
• imbalances in loan outstanding
• low skilled staff
• lack of professionalisation
• weak MIS
• involvement in non/less profitable PDS business
• low interest margins.

3.2.6 Finance Composition of PACS

Finance is central to all economic activity and Primary Agricultural Societies need capital to equip their members with loans and other accessories for increased agricultural production. The PACS collect funds through a number of sources. They are,

i) Entrance Fees: The PACS charge entrance fees, generally Rs.1 per head for admission of members. Obviously, such fees amount is very little minor portion of the working capital of the societies.

ii) Share Capital: The share capital raised from members form a significant part of the working capital of PACS. The share issued by the PACS are ordinary shares and the value of which is comparatively small. It is this "smallness" of the share capital amount and its insufficiency that

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compelled the committee of co-operative credit (1960) to recommend that contributions to the share capital should be linked with the borrowings in a certain proportion.

iii) **Government Contribution to Share Capital:** It is not unlikely that all members will not be able to contribute their share capital amounts in one single instalment. The financial constraints thus experienced by the PACS have come to the notice of the All India Rural Credit Survey Committee (1954). It therefore recommended that Government should contribute to the share capital of credit societies and that the contribution should be 51 per cent of total share capital. The committee headed by V.L. Mehta (1960) suggested that the range of government contribution towards the share capital of PACS should be between Rs.1000 and Rs.10000. However, the criteria for state contribution towards the share capital were conditioned by the extent, during an financial obligations of the partnership and the extent of state control over the management of societies.

iv) **Deposits:** PACS are free to accept deposits from members as well as from non-members. Successful mobilisation of local deposits have the double virtue of increasing the working capital amount of the societies as well as indirectly inducing members and non-members to be careful in their spending habits.
v) **Reserve Funds:** The reserve funds of PACS comprise profits minus dividends declared. State government often fix a limit on dividends to be declared by PACS, so that they should have reserve funds to be utilised to meet unforeseen losses, claims of creditors and other financial needs in times of scarcity.

vi) **Borrowings and Loans from Apex Banks:** PACS can borrow funds or receive loans from District Central Co-operative Banks or from Central Cooperatives. In fact, such borrowings and loans form the major share of the working capital of PACS.

A perusal of the above sources shows that the working capital of PACS is mobilised internally and externally. Entrance fees, share capital and reserve funds are internal sources, whereas Government contributions, deposits and borrowings and loans from Apex institutions are external sources.\(^7\)

### 3.2.7 Credit Policy

Primary agricultural credit societies provide not only short term credit but also medium term credit. These societies advance loans to members who are tillers of the soil, owing their own land or cultivating it as tenants and to credit worthy agricultural members whose vocation is

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\(^7\) *Ibid.*, pp.87-88.
normally remunerative business enabling them to repay their wings from
the proceeds of the crops raised by them.

The primary credit societies do not advance loans to
members limitlessly. They fix the credit limit of each member on the basis
of certain criteria like

i) the purpose of the loan

ii) the standing and character of the applicant

iii) his repaying capacity

iv) the security he can give and

v) the number of shares he holds.

These criteria varies from state to state and sometimes even
within the same state.

Short term loans are given against the guarantee of one or
two or more members for a certain amount and above that against the
mortgage of lands. Now the emphasis being placed on the repaying
capacity of the cultivators.

For medium term loans, the security is usually the mortgage
of land. In some states, the borrowers create a charge on their lands in
favour of the society.
3.2.8 Management

The management of the society is democratic and honorary. The management is vested in (1) a General Body consisting of the members and (2) the Managing Committee consisting of 5 to 9 members. The supreme authority of the society vested in the hands of the General Body. The Managing Committee is responsible for the routine and executive business of the society.

3.2.9 Audit

According to co-operative laws in India, audit is a statutory obligation of the Registrar who is to audit or have the accounts of every society at least once in every year by some persons authorised by him. The necessity of entrusting audit to the Registrar was stressed by the Moclagan Committee as early as 1915, when it observed that through audit alone the effective control can be exercised ‘over the movement’.

3.2.10 Supervision

Supervision implies control over the affairs of the co-operative societies to ensure that they are following the Act, Rules and Byelaws in their operations and in the best interest of the members. The arrangements for supervision differ from State to State.
3.3 Reorganisation of PACS

The Government and Reserve Bank of India are keen on strengthening and developing the co-operative structure of the country’s money market on a sound footing. Eventually, the reorganisation programme of the Primary Agricultural Credit Societies (PACS) has been undertaken since mid-sixties.

The process of organisation as per viability norms laid down in 1976 has been completed in most of the States, except Gujarat, Jammu & Kashmir and Maharashtra. Nevertheless, a large number of societies continue to have their age old defects, such as low borrowing membership, low business turnover and high level of overdues resulting in accumulation of losses and many of them continue to be non-viable.

In 1976, the viability norm was fixed as Rs.2 lakhs. It is no longer appropriate under the present situation of revised interest rates, high wages and large overdues. Hence, an upward revision of the viability norms for PACS is urgently needed.

Recently, the NABARD has circulated detailed guidelines to all State Governments stressing the need for a time bound programme for improving the quality and range of services rendered by the PACS. The
State Government had been advised to select 10-15 societies in each district for their intensive development by 1982-83 and to gradually extend the scheme to all societies by March 1985. It is gratifying to note that by the end of June 1987, 4828 PACS in 18 States/Union Territories were selected for intensive development and a sizable progress has been reported in the matter of membership drive, deposit mobilisation, expansion of loan, business and non-credit activities.\(^8\)

### 3.4 Progress of PACS in India

The progress of PACS can be measured in terms of certain criteria such as a) Growth in the number of societies, b) Membership, c) Deposits, d) Loans and Advances and e) Overdue position.

Table 3.1 presents the progress of PACS over the past eleven years from 1996-1997 to 2005-2006.

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TABLE 3.1

GROWTH OF THE PACS IN INDIA

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>Membership (in Crores)</th>
<th>Deposit (Rs. in Crores)</th>
<th>Loans and Advances (Rs. in Crores)</th>
<th>Overdues (Percentage of O/D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>92327</td>
<td>9.05</td>
<td>3789.85</td>
<td>12732.09</td>
<td>34.69</td>
</tr>
<tr>
<td>1996-1997</td>
<td>91588</td>
<td>8.03</td>
<td>5108.09</td>
<td>13605.89</td>
<td>35.27</td>
</tr>
<tr>
<td>1997-1998</td>
<td>92838</td>
<td>8.02</td>
<td>5279.19</td>
<td>13723.99</td>
<td>34.95</td>
</tr>
<tr>
<td>1998-1999</td>
<td>95156</td>
<td>8.96</td>
<td>7061.70</td>
<td>17767.80</td>
<td>35.45</td>
</tr>
<tr>
<td>1999-2000</td>
<td>101545</td>
<td>10.84</td>
<td>12283.61</td>
<td>23297.97</td>
<td>35.22</td>
</tr>
<tr>
<td>2000-2001</td>
<td>100604</td>
<td>10.98</td>
<td>10996.16</td>
<td>24738.57</td>
<td>34.27</td>
</tr>
<tr>
<td>2001-2002</td>
<td>95670</td>
<td>10.28</td>
<td>18135.32</td>
<td>22936.44</td>
<td>34.83</td>
</tr>
<tr>
<td>2002-2003</td>
<td>98000</td>
<td>10.21</td>
<td>148.46.00</td>
<td>30770.00</td>
<td>41.22</td>
</tr>
<tr>
<td>2003-2004</td>
<td>112000</td>
<td>12.36</td>
<td>19120.00</td>
<td>33996.00</td>
<td>39.28</td>
</tr>
<tr>
<td>2004-2005</td>
<td>106000</td>
<td>13.54</td>
<td>18143.00</td>
<td>35177.00</td>
<td>36.18</td>
</tr>
<tr>
<td>2005-2006</td>
<td>105735</td>
<td>15.82</td>
<td>18142.53</td>
<td>37142.28</td>
<td>37.26</td>
</tr>
</tbody>
</table>


The PACs occupy a strategic position in the co-operative credit structure of rural economy. In 1995-96, there were 92327 PACs. However, their number declined to 91588 in 1996-97. From 1997-2000 the number has increased to 1,01,545. In 2000-2001 the number declined to 1,00,604 and it further declined to 95670 in the year 2001-2002. It
increased to 98000 in the year 2002-2003 and 1,12,000 in the year 2003-
2004. However, it has come down to 1,06,000 in the year 2004-2005 and
1,05,735 in the year 2005-2006 owning to the reorganisational structural
change and the closing down of loss units.

There is wide fluctuation in the membership during the last
eleven years. The membership in the year 1995-96 was 9.05 crores which
went down to 8.30 crores in the year 1996-97 and to 8.02 crores in the year
1997-98. However, it increased to 8.96 crores in the year 1998-99, 10.84
the end of 2002 it decreased to 10.28 crores and to 10.21 crores in the year
2002-2003. Along with wider coverage, the membership of the societies
went up from 10.21 crores in 2002-2003 to 15.82 crores in 2005-2006, an
increase of nearly 55 per cent.

No doubt, both deposits as well as loan amount have been
increasing, but the deposits are inadequate when compared to the loans and
advances. This indicates the inadequacy of co-operative credit to meet the
growing credit requirements.

Although there has been an appreciable increase in the flow
of co-operative credit, the recovery position has been very low. The
overdues continues to be on an average of 35-40 per cent. In 1995-96 the
overdues amount to 34.69 per cent and it is 37.26 per cent on 2005-2006.
3.5 Progress of PACBs in Tamil Nadu

In Tamil Nadu the PACS were called by the name Primary Agricultural Co-operative Banks (PACBs) after 01.09.1987 (G.O. No.509 dated 01.09.1987). The progress of PACBs in Tamil Nadu can be measured in items of certain criteria such as: a) Growth in the number of Banks, b) Membership, c) Deposits, d) Loans and Advances and e) Overdue position.

Table 3.2 presents the progress of PACBs over the past eleven years from 1996-97 to 2005-2006.

**TABLE 3.2**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks (in Numbers)</th>
<th>Membership (in Lakhs)</th>
<th>Deposit (Rs. in Crores)</th>
<th>Loans and Advances (Rs. in Crores)</th>
<th>Overdues (Percentage of O/D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-1996</td>
<td>4589</td>
<td>79</td>
<td>1100.23</td>
<td>2454.43</td>
<td>29.8</td>
</tr>
<tr>
<td>1996-1997</td>
<td>4589</td>
<td>78</td>
<td>838.44</td>
<td>1774.43</td>
<td>28.8</td>
</tr>
<tr>
<td>1997-1998</td>
<td>4559</td>
<td>79</td>
<td>1642.34</td>
<td>2691.89</td>
<td>32.4</td>
</tr>
<tr>
<td>1998-1999</td>
<td>4418</td>
<td>79</td>
<td>2136.76</td>
<td>2997.50</td>
<td>32.32</td>
</tr>
<tr>
<td>1999-2000</td>
<td>4589</td>
<td>84</td>
<td>3227.58</td>
<td>3805.08</td>
<td>29.12</td>
</tr>
<tr>
<td>2000-2001</td>
<td>4589</td>
<td>89</td>
<td>3687.87</td>
<td>6520.64</td>
<td>29.00</td>
</tr>
<tr>
<td>2001-2002</td>
<td>4589</td>
<td>89</td>
<td>4327.83</td>
<td>4154.04</td>
<td>59.90</td>
</tr>
<tr>
<td>2002-2003</td>
<td>4573</td>
<td>91</td>
<td>8906.06</td>
<td>4247.00</td>
<td>53.24</td>
</tr>
<tr>
<td>2003-2004</td>
<td>4516</td>
<td>89</td>
<td>2813.23</td>
<td>3433.00</td>
<td>54.32</td>
</tr>
<tr>
<td>2004-2005</td>
<td>4497</td>
<td>92</td>
<td>2605.47</td>
<td>4447.00</td>
<td>49.86</td>
</tr>
<tr>
<td>2005-2006</td>
<td>4482</td>
<td>96</td>
<td>2458.3</td>
<td>4112.73</td>
<td>47.18</td>
</tr>
</tbody>
</table>

Table 3.2 depicts that the number of Banks registered in Tamil Nadu in the year 1995-96 was 4589 which declined during the year 1997-98 as 4559, and in the year 1998-99 as 4418. However, there was an increase in the number of Banks from 1999-2001. The number of Banks declined during the year 2001-2005 from 4589 to 4497. In the year 2005-2006 it was 4482, owing to amalgamation and restructuring process.

Membership in Tamil Nadu Primary Agricultural Cooperative Banks shows an increasing trend over the past eleven years. In the year 1996-97, there were only 79 lakhs members which increased to 96 lakhs members in the year 2005-2006.

There has been a phenomenal increase in their deposits from Rs.1100.25 lakhs in the year 1995-96 to Rs.8906.06 lakhs in the year 2002-2003. However, there is sudden decrease in the deposits in the year 2003-2004 as Rs.2813.23 lakhs. After that there is only decrease in deposits as Rs.2605.47 lakhs in the year 2004-2005 and Rs.2458.3 lakhs in the year 2005-2006. This indicates the lack of interest shown by members in the co-operative principles, owing to the loss in the co-operative banks.

Loans and advances are high compared to the deposits which indicate the inability of the co-operative banks in providing adequate short-term credit to agriculturists.
In the year 1995-96, the overdues constitute 29.8 per cent. There is only gradual increase in the overdues year by year and in the year 2005-2006 nearly half the amount remains as overdues which accounts 47.18 per cent. A committee appointed by the Reserve Bank of India to study the problem of overdues from co-operative banks observed that overdues occur mainly because of the following reasons:

i. Over financing

ii. Lack of supervision

iii. Over use of credit

iv. Fixation of unrealistic due dates

v. Lack of will on the part of management to enforce recovery, to take strong and necessary action against, wilful defaulters and

vi. Political influence.

3.6 Primary Agricultural Co-operative Banks in Kanniyakumari District

Kanniyakumari district, situated at the southern tip of Tamil Nadu has 114 PACBs at present. Progress of the banks are presented in table 3.3.
### TABLE 3.3

**GROWTH OF PACBs IN KANNIYAKUMARI DISTRICT**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks</th>
<th>Membership (in Lakhs)</th>
<th>Deposit (Rs. in Crores)</th>
<th>Loans and Advances (Rs. in Crores)</th>
<th>Overdues (Percentage of O/D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-1998</td>
<td>114</td>
<td>1,76,149</td>
<td>329.107</td>
<td>2550.01</td>
<td>26.64</td>
</tr>
<tr>
<td>1998-1999</td>
<td>114</td>
<td>1,89,458</td>
<td>524.057</td>
<td>3658.87</td>
<td>25.46</td>
</tr>
<tr>
<td>1999-2000</td>
<td>114</td>
<td>2,07,176</td>
<td>795.163</td>
<td>5219.8</td>
<td>23.58</td>
</tr>
<tr>
<td>2000-2001</td>
<td>114</td>
<td>2,41,036</td>
<td>1035.293</td>
<td>6464.16</td>
<td>24.84</td>
</tr>
<tr>
<td>2001-2002</td>
<td>114</td>
<td>3,04,673</td>
<td>1326.703</td>
<td>7961.69</td>
<td>27.98</td>
</tr>
<tr>
<td>2002-2003</td>
<td>114</td>
<td>3,16,453</td>
<td>1475.524</td>
<td>8337.69</td>
<td>33.62</td>
</tr>
<tr>
<td>2003-2004</td>
<td>114</td>
<td>3,24,453</td>
<td>1490.823</td>
<td>9038.67</td>
<td>28.86</td>
</tr>
<tr>
<td>2004-2005</td>
<td>114</td>
<td>3,30,420</td>
<td>1447.58</td>
<td>10806.96</td>
<td>28.21</td>
</tr>
<tr>
<td>2005-2006</td>
<td>114</td>
<td>3,35,897</td>
<td>1471.99</td>
<td>10160.12</td>
<td>30.51</td>
</tr>
<tr>
<td>2006-2007</td>
<td>114</td>
<td>3,41,068</td>
<td>1628.901</td>
<td>7778.24</td>
<td>28.67</td>
</tr>
<tr>
<td>2007-2008</td>
<td>114</td>
<td>3,41,276</td>
<td>1890.386</td>
<td>9230.81</td>
<td>22.46</td>
</tr>
</tbody>
</table>

**Source: Records of the PACBs.**

Table 3.3 indicates that there is no change in the number of Banks over the past eleven years in Kanniyakumari district owing to the improper functioning of many PACBs.
Membership in Kanniyakumari district PACBs shows an increasing trend over the past eleven years. In the year 1997-98, there were only 1,76,149 members which increased to 3,41,276 members in the year 2007-2008.

There has been a phenomenal increase in their deposits from Rs.329.107 lakhs in the year 1997-98 to Rs.1490.823 lakhs in the year 2003-2004. After that there is only decrease in deposits as Rs.1447.58 lakhs in the year 2004-2005 and Rs.1471.99 lakhs in the year 2005-2006. After that there is increase in their deposits; Rs.1628.901 lakhs in the year 2006-2007 and Rs.1890.386 lakhs in the year 2007-2008.

Loans and advances are high compared to the deposits which indicate the inability of the PACBs in providing adequate short-term credit to agriculturists.

In the year 1997-98, the overdues constituted 26.64 per cent and it was 22.46 per cent on 2007-2008.

3.7 Conclusion

To conclude, it can be pointed out that the PACBs must function as a viable unit responsive to the needs, aspirations and convenience of its members, particularly, members of the non-vulnerable section of the society. It must function effectively as a well-managed,
multipurpose society providing a package of services including credit, supply of agricultural inputs and implements, consumer goods, marketing services, technical guidance and mobilizing the savings of the rural people as deposits. Therefore, the PACBS have to be developed as a real source of and serve to society with focus on the weaker sections.