

## Enhancing the Role of Primary Agricultural Cooperative Credit Societies in Rural Development: Insights from Puducherry

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### Abstract

Primary Agricultural Cooperative Credit Societies (PACCS) in the Union Territory of Puducherry function as village-level organizations within a two-tier cooperative credit structure, providing essential credit services to their members. These societies possess significant potential to drive social change and contribute to societal welfare, despite facing numerous challenges. Historically, the cooperative credit sector has played a crucial role in safeguarding agriculture and supporting farmers during difficult times, making a substantial impact on the economy. PACCS have maintained an important position within India's financial system and has made notable contributions to the national economy. This study will explore the significance of PACCS in Puducherry and identify strategies for strengthening these cooperative credit societies. The research findings are expected to offer effective approaches for enhancing the viability and efficiency of PACCS in Puducherry, along with introducing innovative business ideas to support their growth.

**Keywords:** PACCS, Financial Inclusion, Rural Development.

### Introduction

Puducherry features a robust and dynamic cooperative network, with each village hosting at least one cooperative society, whether focused on agricultural credit or dairy production (Government of Puducherry). These cooperatives play a critical role in driving economic and social progress for small and marginal farmers, artisans, and various communities, with a particular emphasis on supporting the tribal population (Registrar of Cooperative Societies, Puducherry). By pooling resources and encouraging collaborative efforts, cooperatives help create sustainable rural communities, enabling growers to access larger product markets and procure supplies at reduced costs. This system not only enhances economic development but also promotes the welfare of rural residents, offering greater opportunities for growth and prosperity (EOS Data Analytics, 2024).

Central to this rural development strategy are Primary Agricultural Cooperative Credit Societies (PACCS), such as the T. Palayam society. These cooperatives are vital instruments in promoting financial inclusion, economic growth, and social upliftment in rural areas. By offering affordable credit to small and marginal farmers, women's self-help groups, and economically vulnerable members, PACCS enable rural communities to boost agricultural productivity and diversify income through non-agricultural activities. Additionally, they facilitate local infrastructure development such as providing government-subsidized tractors

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while encouraging savings and financial literacy. Through their efforts to integrate economically weaker sections and foster small-scale entrepreneurship, PACCS contribute significantly to poverty reduction and economic resilience, both key indicators of rural development. Ultimately, PACCS serve as catalysts for sustainable rural progress by addressing the diverse financial needs of rural populations and fostering inclusive growth and socio-economic advancement.

### **Background of the PACCS**

The history of cooperative credit societies in India began in the early 1890s, driven by the fact that agriculture was the primary source of income for the majority of the population. Agriculture, being the backbone of the Indian economy, often left farmers vulnerable to natural disasters such as droughts and floods, as well as exploitation by moneylenders and landlords. To address these challenges, Sir Fredrick Nicholson proposed introducing the Raiffeisen model in India. Consequently, Primary Agricultural Cooperative Credit Societies (PACCS) were established as grassroots organizations, marking the first foundational step in the cooperative movement and the development of the banking structure in India. (Abdul Kuddus K.A, 2019)

India hosts a variety of cooperative institutions, including agricultural and non-agricultural cooperatives. These are further categorized into short-term and long-term agricultural credit cooperatives. In the short-term agricultural sector, cooperatives operate within a three-tier federal structure. According to the National Cooperative Database (NCD) portal, there are 1,03,304 Primary Agricultural Cooperative Societies (PACS) across India, with approximately 95% (98,486) located in rural areas. The growth of PACS has been significant, expanding from around 2,982 societies between 1900-1923 to 14,391 societies from 2011-2023. Maharashtra has the highest number of PACS at 21,059, followed by Gujarat with 10,266, and Bihar with 8,476. Kerala leads in membership, with 2,56,28,261 members, followed by Bihar with 1,36,29,113, and Tamil Nadu with 1,33,39,395. Furthermore, about 78% of PACS (78,489) are affiliated with Federations or Unions. Of the 2,69,503 gram panchayats in the country, nearly 89% (2,41,075) are covered by PACS. At different levels, PACS function as village-level mini banks, DCCBs operate as District Central Cooperative Banks at the district level, and SCBs serve as state-level federal banks.

### **Objectives of the Study**

- To study the overall performance of Primary Agricultural Cooperatives Credit Society in the Union Territory of Puducherry.
- To analyse the membership, Deposits, Borrowings, Working Capital, Loan Disbursement and recovery of agricultural cooperative credit societies in the Union Territory of Puducherry.

### **Methodology**

The present study aims to assess the overall performance of PACCS in Puducherry by analysing the membership position, borrowings and working performance indicators, particularly in the Union Territory of Puducherry. In this study, secondary data were collected from the NAFSCOB reports and other related journals, publications etc., The study

specifically analyzed the T. Palayam PACCS as a case to understand the functioning and performance of PACCS in Puducherry.

### Growth of PACCS in India

At the time of British rule in India Sir Frederick Nicholson, a British officer suggested and introduced the German Agricultural Credit Cooperative model to rural India; in connection with this, the first Cooperative Credit Societies Act of 1904 was enacted to the formation of agricultural credit cooperatives in India. Under this 1904 act cooperatives were given a legal direct entity, with sponsorship by the government. Further, the act was replaced by the form of, all types of Cooperative Societies Act in 1912. From that point, rural India's agriculture has made significant progress in uplifting the farming sector as well as the living standard of the farmers including the common people. Especially the agricultural credit cooperatives started to spread their branches to reach every nook and corner of all villages in India, and now India has the largest network of credit cooperatives in the world and supports all kinds of credit needs to the people than other commercial banks. The agricultural cooperative credit societies provide strategic inputs to the farming community for the requirements at a concessional rate and help them to do better farming. When comes to credit cooperative banking structure, the rural cooperative credit system has three-tier structures viz., short and medium term and long term. The short and medium-term credit cooperatives have a federal three-tier structure of a huge number of Primary Agricultural Cooperative Credit Societies (PACCS) at the grassroots level, Central Cooperative Banks at the District level and State Cooperative Bank at the apex/state level.

**Table: 1 Financial Analysis of Primary Agricultural Credit Cooperatives in India  
(Amount in Lakhs)**

| Year    | Total Members        | Total Share Capital    | Reserves              | Deposits               | Borrowings             | Working Capital        |
|---------|----------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|
| 2017-18 | 130547.38<br>(-)     | 1494938.85<br>(-)      | 1679970.62<br>(-)     | 11963232.52<br>(-)     | 12833322.27<br>(-)     | 24356250.99<br>(-)     |
| 2018-19 | 132029.47<br>(1.14)  | 2413986.11<br>(61.48)  | 1937850.15<br>(15.35) | 13301035.83<br>(11.18) | 13892245.12<br>(8.25)  | 29655362.45<br>(21.76) |
| 2019-20 | 138157.55<br>(4.64)  | 2364343.13<br>(-2.06)  | 2074693.3<br>(7.06)   | 16547604.27<br>(24.41) | 13857109.15<br>(-0.25) | 32532183.13<br>(9.70)  |
| 2020-21 | 137168.94<br>(-0.72) | 2001471.07<br>(-15.35) | 2319568.85<br>(11.80) | 17092216.56<br>(3.29)  | 14304401.44<br>(3.23)  | 33471841.03<br>(2.89)  |
| 2021-22 | 169169.97<br>(23.33) | 2065760.81<br>(3.21)   | 2296225.03<br>(-1.01) | 17638958.51<br>(3.20)  | 17237362.79<br>(20.50) | 36989567.73<br>(10.51) |

(Source: Annual Report NAFSCOB)

The financial performance of Primary Agricultural Credit Cooperatives (PACS) in India from 2017-18 to 2021-22 indicates steady progress across key metrics. Membership numbers grew consistently, rising from 130,547 in 2017-18 to 169,169 in 2021-22, reflecting increased trust and reliance on PACS by rural communities. While total share capital saw a significant increase in 2018-19, it fluctuated in the following years, likely due to factors like new member investments or financial adjustments. Despite these variations, the overall trend remained positive, with share capital reaching ₹2,065,760 lakh in 2021-22.

Reserves also showed consistent growth, underscoring the cooperatives' capacity to retain profits and strengthen financial security. Deposits rose steadily, from ₹11,963,232 lakh in 2017-18 to ₹17,638,958 lakh in 2021-22, highlighting growing confidence in PACS as key financial institutions in rural areas. Borrowings fluctuated during the period, with a sharp rise to ₹17,237,362 lakh in 2021-22, likely reflecting increased credit demand after the pandemic. The significant rise in working capital, from ₹24,356,250 lakh in 2017-18 to ₹36,989,567 lakh in 2021-22, points to improved resource management and a greater capacity to provide financial services. Overall, the financial analysis highlights the growing importance of PACS in promoting rural financial inclusion and economic growth, though maintaining a balance in borrowing and reserves is essential for long-term stability.

**Table: 2 Purpose Wise Analysis of Loan disbursed and Loan Recovery (Agriculture & Non-Agriculture)**

(Amount in Lakhs)

| Year    | Loan Issued           |                             | Loan Outstanding        |                         | Loan Overdue               |                       | Loan Recovery         |                        |
|---------|-----------------------|-----------------------------|-------------------------|-------------------------|----------------------------|-----------------------|-----------------------|------------------------|
|         | Agri.                 | Non-Agri.                   | Agri.                   | Non-Agri.               | Agri.                      | Non-Agri.             | Agri.                 | Non-Agri.              |
| 2017-18 | 9867068.23<br>(-)     | 6346620.<br>66 (-)          | 8383761.3<br>8 (-)      | 6877328.1<br>4 (-)      | 1830035<br>.42 (-)         | 1356970.6<br>3 (-)    | 6990018.13<br>(-)     | 5303507.58<br>(-)      |
| 2018-19 | 10298224.39<br>(4.37) | 8094417.<br>41<br>(27.54)   | 8347511.1<br>6 (-0.43)  | 1935248.0<br>6 (-71.86) | 1926085<br>.12<br>(5.25)   | 216535.86<br>(-84.04) | 6705928.01<br>(-4.06) | 1335005.75<br>(-74.83) |
| 2019-20 | 9973508.09<br>(-3.15) | 8581474.<br>13 (6.02)       | 8910594.8<br>3 (6.75)   | 2098610.5<br>8 (8.44)   | 1847497<br>.86 (-<br>4.08) | 305997.11<br>(41.31)  | 7068541.98<br>(5.41)  | 1411232.45<br>(5.71)   |
| 2020-21 | 10598777.14<br>(6.27) | 9209599.<br>63 (7.32)       | 9254198.0<br>4 (3.86)   | 2256366.3<br>(7.52)     | 2177050<br>.12<br>(17.84)  | 322892.91<br>(5.52)   | 8702441.09<br>(23.12) | 1400610.72<br>(-0.75)  |
| 2021-22 | 11485298.95<br>(8.36) | 1986137.<br>35 (-<br>78.43) | 11241745.<br>79 (21.48) | 2796870.3<br>4 (23.95)  | 2289302<br>.7 (5.16)       | 627397.75<br>(94.31)  | 8823206.95<br>(1.39)  | 1503653.18<br>(7.36)   |

(Source: Annual Report NAFSCOB)

The analysis of loans issued and recovered by Primary Agricultural Credit Cooperatives (PACS) from 2017-18 to 2021-22 reveals clear trends in both agricultural and non-agricultural sectors. Agricultural loans steadily increased over the period, growing from ₹9,867,068.23 lakh in 2017-18 to ₹11,485,298.95 lakh in 2021-22, showcasing PACS' strong focus on supporting agriculture. Non-agricultural loans, however, initially rose but dropped significantly in 2021-22, falling from ₹9,209,599.63 lakh in 2020-21 to ₹1,986,137.35 lakh. The amount of outstanding agricultural loans continued to rise, reaching ₹11,241,745.79 lakh in 2021-22, while non-agricultural outstanding loans declined considerably in the final year. Overdue agricultural loans increased, suggesting some repayment difficulties, while overdue non-agricultural loans fluctuated but ultimately decreased sharply by 2021-22. Agricultural loan recovery improved during the period, rising from ₹6,990,018.13 lakh in 2017-18 to ₹8,823,206.95 lakh in 2021-22, although overdue loans indicate repayment challenges. Non-agricultural loan recovery, however, fell significantly, mirroring a broader decrease in non-agricultural loan activity. Overall, PACS has focused more on agricultural lending, with non-agricultural loans and recovery witnessing a notable decline.

## Background of Cooperatives and PACCS in Puducherry

The history of the cooperative movement in the Union Territory of Puducherry begins with the merger of the Union territory with India in 1954 because of French colonialism. Even though the movement was started late in the UT, it has made rapid growth in all the sectors like credit, dairy, consumers, handloom, sugar, spinning, and housing etc., In the Union territory of Puducherry, there is a strong and vibrant co-operative set up and in every village, there is at least one co-operative society, be it agricultural credit or dairy cooperative. The cooperative movement in Puducherry has gained huge growth and progress over the years and this is proof from the table.

There are 457 cooperative societies registered across different sectors, with 4,63,777 members spread over 4 districts in Puducherry: Pondicherry, Karaikal, Mahe, and Yanam. In the Pondicherry district, 305 cooperatives, or nearly 67% of all cooperatives, are in existence. The distribution of the societies is nearly equal between rural and urban areas. There are two hundred and forty-one rural societies and two hundred and twenty-one urban societies. With 120, 73, and 68 organisations, respectively, the dairy, credit and thrift, and fishing industries are the most prominent. PACS make up 56 out of the 76,564 cooperatives, or 12.25% of the total. Out of all the sectors, consumer cooperatives have the most members (1,32,304). The UT is home to 108 Gram Panchayats. PACS covers around 95% of Gram Panchayats, whilst dairy cooperatives cover roughly 66.50%. Notably, the Federation/Union is linked with all 56 PACS. (National Cooperative Database)

The Union Territories and small states have two-tier structures with PACCS and State Cooperative Bank straight meeting with the credit requirements. The below table shows the performance of Primary Agricultural Cooperative Credit Societies in the Union Territory of Puducherry.

**Table: 4 Financial Analysis of Primary Agricultural Credit Cooperatives in Puducherry**  
(Rs.Lakh)

| Year        | Total Members (in 000) | Total Share Capital | Reserves        | Deposits         | Borrowings      | Working Capital  |
|-------------|------------------------|---------------------|-----------------|------------------|-----------------|------------------|
| 2017-18     | 137 (-)                | 2050.4 (-)          | 1678.21 (-)     | 14824.6 (-)      | 3326.54 (-)     | 21055.68 (-)     |
| 2018-19     | 179 (30.66)            | 2077.57 (1.33)      | 1538.06 (-8.35) | 15782.91 (6.46)  | 3937.52 (18.37) | 22511.99 (6.92)  |
| 2019-20     | 172 (-3.91)            | 2256.44 (8.61)      | 1520.93 (-1.11) | 17259.85 (9.36)  | 4216.14 (7.08)  | 24428.76 (8.51)  |
| 2020-21     | 190 (10.47)            | 2036.01 (-9.77)     | 1640.32 (7.85)  | 19900.44 (15.30) | 4917.3 (16.63)  | 28494.07 (16.64) |
| 2021-22     | 193 (1.58)             | 2062.19 (1.29)      | 1754.05 (6.93)  | 21366.27 (7.37)  | 4910.88 (-0.13) | 30093.39 (5.61)  |
| <b>Mean</b> | 174.2                  | 2096.52             | 1626.31         | 17826.81         | 4261.68         | 25316.78         |
| <b>SD</b>   | 22.44                  | 90.69               | 97.60           | 2754.09          | 676.93          | 3864.05          |
| <b>CV</b>   | 402.96                 | 6580.114            | 7620.081        | 6067990.841      | 366587.728      | 11944714.9       |
| <b>CAGR</b> | 7.09%                  | 0.11%               | 0.89%           | 7.58%            | 8.10%           | 7.40%            |

(Source: Annual Report NAFSCOB)

The table presents an analysis of the performance of a Primary Agricultural Credit Cooperative (PACS) in India over the five years from 2017-18 to 2021-22, focusing on metrics such as total members, share capital, reserves, deposits, and borrowings. During this time, membership grew steadily from 137 to 193, with a compound annual growth rate (CAGR) of 7.09%, indicating robust expansion. Financially, the total share capital saw minimal growth, with a CAGR of only 0.11%, while reserves showed a slight increase at a CAGR of 0.89%. Conversely, deposits increased significantly from ₹14,824.6 lakhs in 2017-18 to ₹21,366.27 lakhs in 2021-22, with a CAGR of 7.58%, reflecting strong member confidence and higher savings rates. Borrowings also rose markedly, with a CAGR of 8.10%, indicating a growing dependence on external funds to support lending operations.

Statistical analysis indicates that while deposits and borrowings exhibited considerable variability, share capital and reserves remained relatively stable. Overall, the PACS demonstrated positive trends in membership and financial growth, particularly in deposits and borrowings, which are essential for its operations. However, the fluctuations in these financial indicators point to a dynamic operational environment, revealing both strengths and areas needing further stability.

Variability in deposits and borrowings might be linked to external economic conditions, such as fluctuations in agricultural income due to weather conditions or market prices, which affect members' ability to save and repay loans. Additionally, reliance on borrowings suggests that the PACS may have needed to secure external funds to meet the rising demand for credit among its members, which could have been driven by increasing costs of agricultural inputs or investment in new farming technologies. The relatively stable share capital and reserves suggest cautious financial management, possibly due to a focus on maintaining long-term sustainability amidst these external pressures.

**Table:5 F-Test Two-Sample for Variances**

| Details             | Deposits           | Borrowings  |
|---------------------|--------------------|-------------|
| Mean                | 17826.814          | 4261.676    |
| Variance            | 7584988.551        | 458234.6603 |
| Observations        | 5                  | 5           |
| df                  | 4                  | 4           |
| <b>F</b>            | <b>16.55262949</b> | -           |
| P(F<=f) one-tail    | 0.009367432        | -           |
| F Critical one-tail | 6.388232909        | -           |
| P two-tail          | 0.018734863        | -           |

The calculated F value (16.55) exceeds the F critical value (6.39), and the p-value (0.009) is less than 0.05, leading us to reject the null hypothesis. This indicates a significant difference in variances, with Deposits showing much greater variability than Borrowings.

**Table: 6 Purpose Wise Analysis of Loan Issues to Loan Recovery (Agriculture & Non-Agriculture)**

(Amount in Lakhs)

| Year    | Loan Issued |           | Loan Outstanding |           | Loan Overdue |           | Loan Recovery |           |
|---------|-------------|-----------|------------------|-----------|--------------|-----------|---------------|-----------|
|         | Agri.       | Non-Agri. | Agri.            | Non-Agri. | Agri.        | Non-Agri. | Agri.         | Non-Agri. |
| 2017-18 | 342.37      | 2304.32   | 531.25           | 2784.42   | 172.82       | 416.92    | 207.14        | 2194.95   |
| 2018-19 | 866.25      | 2862.56   | 944.02           | 2972.79   | 121.08       | 1011.35   | 452.76        | 2674.21   |

|             |                 |           |           |          |          |          |               |           |
|-------------|-----------------|-----------|-----------|----------|----------|----------|---------------|-----------|
| 2019-20     | 1055.89         | 20321.89  | 1017.75   | 16242.1  | 130.88   | 581.14   | 911.62        | 3350.73   |
| 2020-21     | 1031.13         | 25824.5   | 40.36     | 20307.61 | 173.93   | 122.41   | 917.64        | 2516.06   |
| 2021-22     | 207.99          | 24662.58  | 37.33     | 20958.86 | 918.5    | 551.47   | 207.2         | 2696.45   |
| <b>Mean</b> | 455.22          | 15195.17  | 514.142   | 12653.16 | 303.44   | 536.66   | 539.27        | 2686.48   |
| <b>SD</b>   | 398.09          | 11695.78  | 471.84    | 9104.36  | 344.66   | 321.51   | 357.03        | 421.94    |
| <b>CV</b>   | 12678285.0<br>6 | 109433010 | 178105.57 | 66311468 | 95033.07 | 82693.83 | 101974.6<br>4 | 142424.55 |
| <b>CAGR</b> | -0.09%          | 60.66%    | -41.20%   | 49.74%   | 39.67%   | 5.75%    | 0.01%         | 4.20%     |

(Source: Annual Report NAFSCOB)

The table offers a thorough breakdown of loans given, received, overdue, and recovered for the non-agricultural and agricultural industries between 2017–18 and 2021–2022. While non-agricultural loan issuance saw a large spike in 2019–20 and continued to be high in the following years, loan issues in the agriculture sector has been comparatively constant over time. However, loan recovery in both sectors has distinct patterns even though the amount of non-agricultural loans issued is greater. While the recovery of agricultural loans fluctuates slightly but is generally stable, the recovery of non-agricultural loans fluctuates more significantly, maybe as a result of the higher loan volume extended and the turbulence in the economy throughout these years.

According to performance data, the agriculture sector appears to have more trouble repaying overdue loans. This was evident in 2021–2022, when the amount of overdue loans reached a considerable peak of ₹918.5 lakh, which was higher than in prior years and suggested possible difficulties with agricultural loan repayment. Non-agricultural loans similarly exhibit a high early percentage of overdue, but towards the conclusion of the period, they get more under control. While loan issues in the agriculture sector is growing negatively (-0.09%), the Compound Annual expansion Rate (CAGR) for non-agricultural loans granted is substantially higher (60.66%), indicating strong expansion. This discrepancy indicates a change in emphasis towards non-agricultural financing, which may be the result of increased demand in that industry or a diversification plan.

**Table: 7 t-Test: Paired Two Sample for Means**

| Details                      | Loan Issued Agri.   | Loan Recovery Agri. |
|------------------------------|---------------------|---------------------|
| Mean                         | 455.224             | 539.272             |
| Variance                     | 236625.0782         | 127468.2953         |
| Observations                 | 5                   | 5                   |
| Pearson Correlation          | 0.300706975         |                     |
| Hypothesized Mean Difference | 0                   |                     |
| df                           | 4                   |                     |
| <b>t Stat</b>                | <b>-0.368827305</b> |                     |
| P(T<=t) one-tail             | 0.36547447          |                     |
| t Critical one-tail          | 2.131846786         |                     |
| <b>P(T&lt;=t) two-tail</b>   | <b>0.730948939</b>  |                     |
| t Critical two-tail          | 2.776445105         |                     |

The paired t-test results indicate no significant difference between the means of Loans Issued for Agriculture (455.224) and Loan Recovery for Agriculture (539.272). The calculated t-statistic (-0.3688) is less than both the one-tail (2.1318) and two-tail (2.7764) critical t-values, and the p-values (0.3655 one-tail, 0.7309 two-tail) are greater than 0.05. Therefore, we fail to reject the null hypothesis, suggesting that the differences observed in means are not statistically significant.

**Table: 8 t-Test: Paired Two Sample for Means**

| Details                      | Loan Issued Non-Agri. | Loan Recovery Non-Agri. |
|------------------------------|-----------------------|-------------------------|
| Mean                         | 15195.17              | 2686.48                 |
| Variance                     | 136791262.4           | 178030.6834             |
| Observations                 | 5                     | 5                       |
| Pearson Correlation          | 0.41419061            |                         |
| Hypothesized Mean Difference | 0                     |                         |
| Df                           | 4                     |                         |
| t Stat                       | 2.426413686           |                         |
| P(T<=t) one-tail             | 0.036130173           |                         |
| t Critical one-tail          | 2.131846786           |                         |
| P(T<=t) two-tail             | 0.072260346           |                         |
| t Critical two-tail          | 2.776445105           |                         |

The paired t-test results suggest a marginally significant difference between the means of Loans Issued for Non-Agriculture (15,195.17) and Loan Recovery for Non-Agriculture (2,686.48). The calculated t-statistic (2.4264) is greater than the one-tail critical t-value (2.1318) but less than the two-tail critical t-value (2.7764). The one-tail p-value (0.0361) is slightly below the 0.05 significance level, indicating that we can reject the null hypothesis in a one-tail test, suggesting a significant difference in the direction of the mean. However, the two-tailed p-value (0.0723) is above 0.05, indicating that the evidence is not strong enough to conclude a significant difference without direction.

### **A Case of T. Palayam PACCS**

T. Palayam Primary Agricultural Cooperative Credit Society was started on June 20, 1956, and activities began on December 19, 1956, with 27 members, and currently functioning with “A” class 1797 members and 3606 “C” class members in the Abishegapakkam village, Ariyankuppam Commune in the Union Territory of Puducherry. In the past, the T. PACCS has functioned well by fully meeting its agricultural member's needs. At present, personal jewel loans up to Rs.8.00 lakh are offered to their members. In addition, it has been providing consumer loans of up to Rs.1.00 lakh to government employees and employees working in cooperative societies since July 5, 2017, to meet the loan requirements of the above employees. This society receives tractors with government subsidies and provides work to the members. T. Palayam PACCS also received awards from the Former President of India Shri. Pranab Mukherjee has been honoured with a shield by the National Cooperative Development Corporation for the Outstanding Service Award 2012, the Shield for Outstanding Services in the years 2012, 2013, and 2014 by the Government of Puducherry



received from the Chief Minister of Puducherry, and the Best Association for the year 2016-2017 presented by the Minister of Cooperatives, Government of Puducherry.

Regarding the Loans and Deposits, the society got permission from the Puducherry Cooperative Department to start their banking services on November 17, 1993. Through this, deposits are received from the public and members. The villagers become accustomed to saving and meeting their needs by opening savings accounts. This society has been providing crop loans to the farmers under the society's jurisdiction through crop credit cards since 2001 as crop loans. In addition, they have been giving priority to small and micro-entrepreneurs for the members below the poverty line and providing loans of low rate interest jewel loans to farmers. Similarly, jewel loans are being extended to non-agricultural members.

### **Types of loan issued by the T. Palayam PACCS**

The T. Palayam Primary Agriculture Cooperative Credit Society extend a variety of loans to address the specific financial needs of its members. A key product is the Paddy Crop Loan, offered through the Kisan Credit Card (KCC) scheme, which supports farmers in covering their agricultural costs. T.P PACCS also provide low-interest non-agricultural jewel loans, enabling members to secure funds for non-farming purposes by using gold as collateral. Another essential offering is the Women's Self-Help Group (SHG) Loan, aimed at promoting women's economic empowerment by supporting small-scale businesses and self-employment. Furthermore, consumer loans are made available to government employees, assisting them in meeting personal financial obligations. Lastly, the Weaker Section Loan serves economically vulnerable members, offering credit on favourable terms, thereby fostering greater social inclusion and economic support.

In the 2021-2022 year, the T. Palayam Primary Agricultural Cooperative Credit Society had a total membership of 5,469 individuals. This included 1,798 A-class members, 1 B-class member, and 3,670 C-class members. The society's share capital during this period amounted to ₹2,253,940, with contributions of ₹718,765 from A-class members, ₹1,399,000 from B-class members, and ₹136,175 from C-class members.

The society's total deposits for the year were ₹66,573,247, comprising ₹8,125,163 in savings deposits, ₹58,285,584 in fixed deposits, ₹133,000 in recurring deposits, and ₹29,500 in staff security deposits. Additionally, the society had total borrowings amounting to ₹1,727,054 and a working capital of ₹86,097,728.

During the 2021-2022 year, the society issued various loans totalling significant amounts. This included ₹101,612,500 in Jewel Loans, ₹3,210,000 in Consumer Loans, and ₹785,000 in Other Short Term Loans. No loans were issued under the KCC, SHGs, or Weaker Section Loan categories.

The total loan outstanding for the year was ₹69,603,234. This included ₹66,996,000 in Jewel Loans, ₹1,917,234 in SHGs Loans, and ₹690,000 in Other Short Term Loans. No outstanding loans were recorded under the KCC category.

The society faced an overdue amount of ₹3,251,984, which included ₹1,194,550 in Consumer Loans, ₹1,917,234 in SHGs Loans, and ₹140,200 in Weaker Section Loans. There were no overdue amounts for KCC, Jewel Loans, or Other Medium Term Loans during this period.

Loan recovery efforts for the year were successful, with the society recovering a total of ₹97,977,800. This amount included ₹89,100,100 from Jewel Loans, ₹7,846,500 from

Consumer Loans, ₹1,015,000 from Loans on Deposit, and ₹16,200 from Weaker Section Loans. No recoveries were made under the KCC, SHGs Loans, MT PADCCO, or MT Milch categories.

Overall, the T. Palayam Primary Agricultural Cooperative Credit Society achieved a net profit of ₹1,965,701 for the 2021-2022 year.

### **Problems Faced by Primary Agricultural Cooperative Credit Society (PACCS)**

**Financial Metrics' Inconsistent Growth:** Although PACCS's deposits and borrowings in Puducherry have increased, there is a great deal of variation in these metrics. The reserves have only grown by 0.89%, while the share capital's compound annual growth rate (CAGR) is a pitiful 0.11%. On the other hand, borrowings have climbed by 8.10%. This irregular growth pattern shows a reliance on external finance while internal resources, such as share capital and reserves, expand at a far slower pace. Due to their potential inability to sustain a steady basis of internal resources to fund its operations, PACCS is left vulnerable financially.

**Increasing Dependency on Borrowings:** To fulfil the rising demand for loans from both the agricultural and non-agricultural sectors, PACCS in Puducherry are becoming more and more dependent on borrowings. This is a risky course of action because increased borrowing can put a burden on society's ability to maintain its financial stability, particularly if loan recovery rates do not rise. Over-reliance on outside funding may also increase PACCS's vulnerability to outside economic shocks like shifts in lending availability or interest rates.

**Transition from Agriculture to Non-Agricultural Lending:** This transition in lending from agriculture to non-agriculture is a noteworthy trend, as evidenced by the increase in non-agricultural loans and the decline in agricultural loans to almost nothing in certain years. Concerns are raised concerning PACCS's primary goal of assisting with agricultural endeavours in light of this change. Although branching out into the non-agricultural sector can open up new doors, it could take away from their primary goal of assisting small and marginal farmers, particularly in rural areas where agricultural financing is essential for a living.

**Low Loan Recovery Rates:** There are alarmingly high loan recovery rates, especially in the non-agricultural sector. The number of loans granted for non-agricultural uses is substantial, but the rates of recovery have not kept up. This raises the possibility of past-due loans piling up, which might be detrimental to PACCS's liquidity and financial stability. Loan recovery in the agriculture sector has varied and stayed rather stable, suggesting that farmers might be having trouble repaying their loans because of erratic revenue from their farming operations.

**Insufficient Focus on Risk Management:** Financial measures including deposits, borrowings, and loan recovery exhibit a significant degree of unpredictability, indicating that PACCS operates in a highly dynamic environment. Nonetheless, it appears that little attention is being paid to risk management techniques to reduce the financial risks brought on by loan defaults, borrowing from outside sources, and reorienting priorities to non-agricultural industries. For these societies to be sustainable over the long run, effective risk management is essential.

**Obstacles to Capital Growth and Member Retention:** Despite an increase in membership, PACCS may not be drawing in a substantial amount of new member investment based on the slow growth in share capital. This can be because members aren't encouraged to contribute more capital, or it might be a reflection of the general state of the economy, which restricts rural residents' ability to contribute to cooperative organisations. The long-term financial stability of PACCS is compromised by weak capital growth, which increases their reliance on external borrowing.

### **Strategies to Strengthen PACCS**

**Enhancing Risk Assessment and Loan Management:** The data showed notable differences in loan recovery and issues, especially between loans for agricultural and non-agricultural purposes. Variations in loan recovery point to the need for more advanced credit risk assessment and loan monitoring systems. PACCS can enhance the recovery process and reduce loan defaults by implementing risk-based credit evaluation. Additionally, monitoring tools will make it easier to keep track of past-due loans.

**Financial Services Diversification:** Long-term capital stability concerns are indicated by the share capital's negligible expansion, despite steady growth in membership and deposits. To tackle this issue, PACCS must broaden the scope of its financial products beyond conventional agricultural loans. To lessen its need for agricultural loans, PACCS can diversify its revenue streams by entering non-agricultural markets and providing services like savings plans, insurance, and loans for small businesses. Additionally, a more balanced financial portfolio will result, in boosting resistance to hazards unique to a certain industry.

**Digital Transformation:** The implementation of technology might potentially address operational inefficiencies, as evidenced by the observed discrepancies in loan recovery and financial performance. Processes can be streamlined, data management can be improved, and transparency can be increased by implementing digital technologies including automated loan processing, mobile applications, and core banking systems. Through frequent information and reminders, digital platforms will improve loan recovery rates, promote improved loan monitoring, and increase members' access to financial services.

**Training and Capacity Building Programs:** Variability in financial metrics, like deposits and borrowings, indicates deficiencies in financial governance and management. Members and staff must be better prepared to handle these variations. The internal capabilities of PACCS will be strengthened via training initiatives that emphasise governance, financial literacy, and operational best practices. Ensuring that members are better informed and engaged, will help to improve overall performance and facilitate better decision-making.

**Enhancing Accountability and Governance:** The inconsistent patterns in loan issuance and recovery show that there may be governance issues in the PACCS operational setting. These problems can be resolved by enhancing governance through more stringent audit procedures, openness, and member involvement. Enhancing accountability will help PACCS lower

financial risks, lower non-performing assets (NPAs), and build a stronger, more stable operating base.

**Increasing Non-Agricultural Loans:** The notable rise in non-agricultural loans, especially in the last few years, suggests that the need for financial assistance in non-agricultural industries is increasing. PACCS ought to take advantage of this chance to help rural businesses that don't revolve around agriculture. By doing this, the loan portfolio will be more diversified and the risk associated with an excessive reliance on the agriculture sector—which is susceptible to outside influences like climate change and volatile commodity prices—would be diminished.

**Improving Member Engagement and Participation:** PACCS ought to concentrate on raising member involvement in decision-making procedures in light of the organization's consistent membership growth throughout time. Increasing member participation in governance will promote greater responsibility, increase confidence, and increase investment in the expansion of the cooperative. PACCS can improve member engagement and loyalty while securing long-term viability by making sure that members feel important and involved.

**Better Loan Recovery Mechanisms:** Although there has been some improvement, there is still a lot of variation in loan recovery rates. By providing customisable repayment plans, automated payment reminders, and incentives for on-time payments, PACCS can enhance recovery mechanisms. Tracking defaults early and keeping loans from becoming non-performing assets can be accomplished by establishing a specialised loan recovery team and implementing routine monitoring.

**Adding New Revenue Streams:** Given the difficulties in growing share capital, PACCS must look at other sources of income. Incorporating novel goods such as insurance, remittance services, or agri-tech solutions can boost profits and offer members value-added services. PACCS's financial stability will be improved and its over-reliance on traditional loan activities will be decreased by diversifying its revenue streams.

## **Conclusion**

The T. Palayam PACCS case is a prime example of the crucial role of Primary Agricultural Cooperative Credit Societies in promoting rural development. The cooperative's wide range of loan offerings, which includes SHG loans, jewel loans, and agricultural credit, shows that it is dedicated to meeting the various financial needs of its members. The cooperative's capacity to strike a balance between lending for agricultural and non-agricultural purposes shows adaptability to the changing economic environment, particularly as rural economies become more diverse than just agriculture. The cooperative's relevance as a local financial institution is highlighted by its ability to provide a wide range of financial products and by the consistent increase in deposits. The cooperative has strengthened the region's economy by skilfully fusing more modern, non-agricultural loans with more established agricultural support. A deep awareness of rural financial requirements is shown in the increase of

jewel loans and the emphasis on Self-Help Groups (SHGs), which go beyond crop loans to promote wider economic participation.

Nonetheless, PACCS faces difficulties in preserving its financial stability, as seen by the examination of loan recovery, particularly in the agriculture sector. Recovery rates have varied despite large loan issues, indicating the need for enhanced risk reduction and loan management procedures. In addition, concerns over the long-term viability of this change are raised by the growing dependence on non-agricultural loans, especially in areas where agriculture is still a major source of income. The financial performance of PACCS points to an increasing role for cooperatives in the growth and inclusion of rural finance, both in Puducherry and throughout India. The capacity of cooperative societies to provide a wide range of financial services will be essential as they continue to adjust to the evolving rural economy. In areas such as Puducherry, where the cooperative sector is strongly ingrained in the community, PACCS can be extremely important in supporting sustainable development, inclusive growth, and lowering rural poverty. Cooperatives must find a balance between conventional agricultural financing and new financial services that address the shifting economic conditions in rural India if they are to have the greatest possible impact.

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