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Evolution of Primary Agricultural Cooperative Credit Societies (PACS): From Rural Credit Institutions to Multi-Service Financial Centres in India

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Abstract: ***Primary Agricultural Cooperative Credit Societies (PACS) have served as the foundation of India's cooperative credit structure for over a century, playing a pivotal role in delivering institutional credit to the rural farming community. PACS have undergone substantial institutional transformation in response to changing agricultural needs, financial sector reforms, and government policy initiatives. While traditionally recognized as village-level credit institutions, recent reforms have repositioned PACS as diversified Multi-Service Centres capable of delivering a wide range of financial, agricultural, and community-based services. This paper examines the evolutionary journey of PACS in India, tracing their development from traditional rural credit institutions to contemporary multi-service financial centres. Adopting a descriptive-conceptual approach, the study synthesizes evidence from committee reports, policy documents, publications of the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), the Ministry of Cooperation, and relevant peer-reviewed literature. The review highlights the major phases of institutional evolution, key structural reforms, governance initiatives, digital transformation, and diversification of services that have redefined the role of PACS within the rural financial ecosystem. The study concludes that the ongoing modernization of PACS represents a significant shift in India's cooperative financial architecture. Their transformation into digitally enabled, multi-functional institutions has strengthened their potential to promote rural financial inclusion, improve access to government services, support agricultural development, and contribute to sustainable rural economic growth. The paper offers a comprehensive background for researchers and policymakers seeking to understand the changing role of PACS in India's evolving rural financial landscape.***

Keywords: Institutional Finance, Financial Inclusion, Multi- Service financial centres, Farmer – Centric Cooperative credit Structure.

1. Introduction

Agriculture remains a cornerstone of India's economy, supporting rural livelihoods, ensuring food security, and contributing significantly to national development. Despite the expansion of the formal banking system, timely and affordable institutional finance continues to be a challenge for many farmers, particularly small and marginal cultivators. Limited access to formal credit often compels rural households to depend on informal sources of finance, resulting in high borrowing costs and financial vulnerability. Strengthening institutional mechanisms capable of delivering accessible and affordable financial services has therefore remained a key priority in India's agricultural and rural development policies. Within this context, Primary Agricultural Cooperative Credit Societies (PACS) have emerged as the grassroots institutions of the cooperative credit structure, providing institutional credit and a range of essential financial services to farming communities.

Over time, the operating environment of PACS has changed considerably due to economic reforms, technological advancements, evolving agricultural practices, and increasing expectations of rural communities. These developments exposed several structural and operational challenges within the traditional cooperative credit model, prompting successive policy interventions aimed at strengthening the institutional capacity of PACS. Recent initiatives, including computerization, Core Banking System (CBS), Model Bye-laws, and the Government of India's vision of transforming PACS into Multi-Service Centres, have significantly broadened their functional scope. Consequently, PACS are increasingly evolving into integrated rural institutions capable of delivering financial, agricultural, digital, and community-oriented services through a single decentralized platform.

Although existing literature has extensively examined cooperative credit, agricultural finance, and financial inclusion, a comprehensive synthesis of the institutional evolution of PACS from grassroots credit societies to Multi-Service Financial Centres remains relatively limited. Examining this transformation is essential for understanding how legislative reforms, institutional restructuring, technological modernization, and service diversification have collectively reshaped the role of PACS within India's rural financial ecosystem.

Against this background, the present paper traces the evolutionary journey of PACS across distinct historical phases, examines the major policy reforms that have influenced their development, and analyses their emergence as Multi-Service Financial Centres. By integrating historical developments with contemporary policy initiatives, the paper provides a structured understanding of the changing institutional role of PACS and highlights their growing significance in advancing rural financial inclusion and sustainable rural development.

Evolutionary Phases of Primary Agricultural Cooperative Credit Societies (PACCS) In India

Phase 1: Foundation of Cooperative Credit (1904–1954)

The period from 1904 to 1954 represents the formative phase of India's cooperative credit movement, during which the institutional foundations of Primary Agricultural Cooperative Credit Societies (PACS) were established. Following the enactment of the **Co-operative Credit Societies Act, 1904**, cooperative societies were created to provide affordable institutional credit to rural borrowers, particularly small farmers who depended heavily on informal moneylenders. The subsequent **Co-operative Societies Act, 1912** broadened the scope of the cooperative movement by enabling the registration of both credit and non-credit societies, thereby strengthening the organizational framework of cooperatives across the country (Government of India, 1904; Government of India, 1912).

Although the number of cooperative societies increased steadily during the pre-independence period, their outreach, financial resources, and operational efficiency remained limited. Recognizing these constraints, the **All-India Rural Credit Survey Committee (1954)** undertook a comprehensive review of the rural credit system and recommended an integrated cooperative credit structure supported by active state participation and institutional coordination (Reserve Bank of India, 1954). It quotes "Co-operation has failed but co-operation must succeed". It suggested state partnership in terms of equity, governance and management (Kumar, R. (2012). These recommendations established PACS as the grassroots tier of India's cooperative credit system, laying the institutional foundation for their subsequent expansion and long-term role in agricultural finance (Kamenov, N. (2020).

Phase 2: Expansion of Cooperative Credit (1954–1982)

The publication of the All-India Rural Credit Survey Report marked the beginning of a significant expansion phase for PACS. During this period, the recommendations of the Survey were progressively implemented through the strengthening of the three-tier cooperative credit structure comprising State Cooperative Banks, District Central Cooperative Banks, and PACS. At the village level, PACS emerged as the principal institutional channel for providing short-term and medium-term agricultural credit while also supporting the distribution of fertilizers, improved seeds, and other agricultural inputs (Reserve Bank of India, 1954).

The Green Revolution of the 1960s and 1970s further enhanced the importance of PACS as institutional credit became essential for adopting high-yielding varieties, irrigation technologies, fertilizers, and mechanization. The expansion of branch networks, increased government support, and closer integration with agricultural development programmes significantly widened the outreach of PACS. However, rapid expansion was accompanied by growing concerns regarding loan recovery, managerial capacity, and financial sustainability, highlighting the need for institutional reforms to strengthen the cooperative credit system (Reserve Bank of India, 1969; Committee to Review Arrangements for Institutional Credit for Agriculture, 1981).

Phase 3: Institutional Strengthening and Financial Consolidation (1982–2004)

The establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982 marked a significant milestone in the evolution of India's cooperative credit system. Created based on the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and rural Development (CRAFICARD) in 1979 by Reserve Bank of India under the Chairmanship of Shri B. Sivaraman, NABARD assumed responsibility for policy planning, refinancing, supervision, and capacity building of rural financial institutions, including Primary Agricultural Cooperative Credit Societies (PACS). This institutional restructuring strengthened the flow of agricultural credit and improved coordination among State Cooperative Banks, District Central Cooperative Banks, and PACS (CRAFICARD, 1981; NABARD Act, 1981).

During this period, PACS continued to function primarily as providers of short-term and medium-term agricultural credit while expanding their role in distributing agricultural inputs and implementing government-sponsored rural development programmes. Nevertheless, several structural weaknesses became increasingly evident, including poor loan recovery, inadequate capitalization, weak governance, political interference, and limited managerial capacity. These operational challenges affected the financial viability of many PACS and highlighted the need for comprehensive reforms. By the early 2000s, it had become evident that strengthening the cooperative credit structure required not only financial assistance but also improvements in governance, professionalism, and institutional accountability, paving the way for the revival initiatives introduced in the subsequent phase.

Phase 4: Revival and Structural Reforms (2004–2021)

The period between 2004 and 2021 was characterized by extensive efforts to revive and restructure the Short-Term Cooperative Credit Structure (STCCS), with PACS at its foundation. The publication of the **Vaidyanathan Committee Report (2005)** represented a turning point by identifying the financial, institutional, and governance deficiencies affecting cooperative credit institutions. The Committee recommended a comprehensive revival package comprising financial recapitalization, legal reforms, improvements in governance, enhanced member participation, professional management, and greater operational autonomy. These recommendations were subsequently adopted by the Government of India in collaboration with State Governments and NABARD, leading to the implementation of one of the largest restructuring programmes undertaken in the cooperative credit sector (Government of India, 2005; Vaidyanathan Committee, 2004). Beyond financial revival, this phase emphasized strengthening institutional sustainability and restoring farmers' confidence in cooperative credit institutions. Measures aimed at improving transparency, accountability, internal controls, and business performance gradually enhanced the operational capacity of PACS. Although the extent of implementation varied across states, these reforms established a stronger institutional foundation for modernization and prepared PACS for the technological and functional transformation that followed in the next phase.

Phase 5: Digital Modernization and Institutional Modernization (2021–2023)

The period from 2021 to 2023 marked the beginning of a technology-driven transformation in the functioning of Primary Agricultural Cooperative Credit Societies. Recognizing the need to improve operational efficiency, transparency, and service delivery, the Government of India launched the nationwide computerization project for PACS, supported by NABARD, State Governments, and cooperative institutions. The initiative aimed to establish a standardized Enterprise Resource Planning (ERP)-based system that would integrate PACS with District Central Cooperative Banks and State Cooperative Banks through Core Banking System (CBS), thereby improving accounting practices, financial reporting, loan processing, and member services (Ministry of Cooperation, 2022; NABARD, 2023).

Digital modernization represented more than a technological upgrade and it signified a shift towards institutional modernization. Computerization enhanced operational transparency, reduced manual efforts and errors, facilitated digital record management, and strengthened the capacity of PACS to deliver financial services more efficiently. These developments also created the necessary digital infrastructure for expanding service portfolios, integrating government programme's, and preparing PACS for their transition into comprehensive rural service institutions.

Phase 6: Emergence of Multi-Service Financial Centres (2023–Present)

Since 2023, the role of Primary Agricultural Cooperative Credit Societies has undergone a significant transformation from traditional credit institutions to emerging Multi-Service Financial Centres. Guided by the Ministry of Cooperation's model bye-laws and supported by the nationwide computerization programme, PACS have been encouraged to diversify their business activities beyond agricultural lending. The revised institutional framework permits PACS to undertake a broad range of financial, agricultural, and community-oriented services, enabling them to function as integrated rural service providers rather than credit-only institutions (Ministry of Cooperation, 2023).

Under the new framework, PACS are increasingly involved in providing savings-related services, facilitating insurance and pension schemes, supporting Direct Benefit Transfer (DBT) programmes, operating Common Service Centres (CSCs), managing agricultural input distribution, warehousing, procurement, custom hiring centres, Jan Aushadhi Kendras, PM Kisan Samriddhi Kendras, and other community-based services, depending on local requirements and state-level implementation. This diversification has strengthened their relevance within the rural economy while reducing dependence on interest income alone. Consequently, PACS are evolving into integrated institutions capable of promoting financial inclusion, improving access to government services, supporting agricultural value chains, and contributing to sustainable rural development. This ongoing transformation represents a new institutional paradigm in which PACS function as comprehensive rural financial and service centres rather than conventional cooperative credit societies.

Challenges Driving the Transformation of PACS

1) Limited Business Diversification

Traditionally, PACS depended primarily on crop lending and the distribution of agricultural inputs. Such a narrow business model limited revenue generation and made many societies financially vulnerable, particularly in years of poor agricultural performance. The absence of diversified income sources restricted their long-term sustainability and reduced their capacity to meet the evolving financial and service needs of rural communities (NABARD, 2023).

2) Weak Financial Performance

Many PACS experienced persistent financial stress due to low recovery rates, accumulated losses, inadequate capital, and a high proportion of overdue loans. These financial weaknesses reduced their lending capacity and constrained their ability to function as self-sustaining rural financial institutions. Several committees, including the Vaidyanathan Committee, identified financial restructuring as essential for revitalizing the cooperative credit structure (Vaidyanathan Committee, 2004).

3) Governance and Professional Management

Governance challenges, including political interference, limited professional expertise, weak internal controls, and inadequate managerial capacity, adversely affected the operational efficiency of numerous PACS. Inconsistent implementation of cooperative principles and limited member participation further weakened institutional accountability, emphasizing the need for governance reforms and capacity building (CRAFICARD, 1981; Vaidyanathan Committee, 2004).

4) Technological Backwardness

Until recent years, the majority of PACS relied on manual record-keeping and fragmented information systems, resulting in delays, limited transparency, and operational inefficiencies. The absence of standardized digital infrastructure also restricted integration with higher cooperative banking institutions and government digital initiatives, highlighting the importance of nationwide computerization (Ministry of Cooperation, 2022).

5) Increasing Competition

The expansion of commercial banks, Regional Rural Banks, microfinance institutions, and digital financial service providers significantly increased competition within the rural financial sector. To remain relevant, PACS needed to improve service quality, diversify operations, and adopt technology-driven delivery systems that matched the changing expectations of rural customers (RBI, 2023; NABARD, 2024).

6) Need For Institutional Transformation

The cumulative effect of these challenges demonstrated that the traditional credit-centric model of PACS was no longer sufficient to address the increasingly diverse financial, agricultural, and developmental needs of rural communities. Rather than functioning solely as cooperative credit institutions, PACS required a comprehensive institutional transformation encompassing governance reforms, technological modernization, business diversification, and expanded service delivery. This recognition formed the basis for the Government of India's recent reform initiatives, which aim to reposition PACS as Multi-Service Financial Centres capable of supporting financial inclusion, agricultural development, and rural economic transformation.

PACS as Multi -Service Financial Centres: The Emerging Institutional Paradigm

1) Integrated Financial Service Delivery

The transformation of Primary Agricultural Cooperative Credit Societies (PACS) into Multi-Service Financial Centres has considerably expanded their role in delivering formal financial services in rural areas. While agricultural credit remains their primary function, PACS now facilitate a broader range of financial services, including crop and investment loans, insurance enrolment, pension schemes, Direct Benefit Transfer (DBT) facilitation, deposit-related services (where permitted), and digital financial transactions. Through coordination with District Central Cooperative Banks, State Cooperative Banks, commercial banks, insurance providers, and government agencies, PACS function as grassroots financial intermediaries connecting rural households with the formal financial system. Their extensive village-level presence improves service accessibility, reduces transaction costs, and strengthens financial inclusion by promoting greater institutional participation and economic security among rural communities (Ministry of Cooperation, 2023; NABARD, 2024; Reserve Bank of India, 2023).

2) Agricultural Input and Value Chain Support

Beyond institutional finance, PACS increasingly support agricultural production and value chain development by integrating financial services with essential farm support activities. The revised operational framework enables PACS to distribute agricultural inputs, manage warehouses and cold storage facilities, procure farm produce, operate Custom Hiring Centres, and promote allied activities such as dairy, fisheries, and animal husbandry. They also facilitate Farmer Producer Organizations (FPOs), input aggregation, and market linkages based on local needs. By providing these services through a single institutional platform, PACS improve farmers' access to resources, strengthen post-harvest management, encourage value addition, and contribute to more efficient and sustainable agricultural value chains (Ministry of Cooperation, 2023; NABARD, 2024).

3) Digital and Technology-Enabled Service Ecosystem

Digital transformation has become a key enabler of the Multi-Service Financial Centre model. The adoption of Enterprise Resource Planning (ERP), Common Banking Software (CBS), and standardized digital systems has improved financial management, record keeping, transparency, and regulatory compliance within PACS. Digital infrastructure also supports electronic loan processing, Aadhaar-enabled authentication, Direct Benefit Transfer (DBT), digital payment services, and real-time information management, improving operational efficiency and service accessibility. These technological advancements strengthen institutional governance, facilitate better coordination across the cooperative credit structure, and enhance the credibility and responsiveness of PACS within the rural financial ecosystem (Ministry of Cooperation, 2022; NABARD, 2024; Reserve Bank of India, 2023).

4) Community-Centric Rural Service Delivery

The functional expansion of PACS extends beyond financial and agricultural services to include a wide range of community-oriented activities. Under the revised policy framework, PACS can operate as Common Service Centres (CSCs), PM Kisan Samruddhi Kendras (PMKSKs), Jan Aushadhi Kendras, Fair Price Shops, LPG distributorships, water distribution centres, and other locally relevant service outlets, subject to statutory approvals. Delivering multiple services through a single village-level institution improves public accessibility, administrative efficiency, and institutional coordination while reducing dependence on multiple agencies. This integrated service model strengthens community participation, enhances institutional trust, and reinforces the role of PACS as decentralized hubs supporting inclusive rural development (Ministry of Cooperation, 2023; NABARD, 2024). Collectively, these developments represent a significant institutional transformation of PACS from conventional rural credit societies into integrated Multi-Service Financial Centres.

Future Prospects of PACS as Multi-Service Financial Centres

1) Expanding Institutional Outreach

The future effectiveness of PACS depends on expanding their institutional reach to underserved rural areas and ensuring equitable access to integrated services. Strengthening infrastructure, improving operational capacity, and establishing PACS in uncovered regions will enhance their ability to serve a wider farming population. Continued policy support and institutional strengthening can improve service accessibility while reinforcing the role of PACS as decentralized grassroots institutions that contribute to balanced rural development and deeper financial inclusion across diverse agricultural communities (Misra, B. S. (2010)).

2) Accelerating Digital Transformation

Future institutional growth requires PACS to strengthen digital capabilities beyond basic computerization. Greater integration of digital platforms, secure information systems, interoperable technologies, and efficient data management can improve transparency, operational efficiency, and service quality. Simultaneously, investments in cybersecurity, digital literacy, and staff capacity building will ensure the effective adoption of emerging technologies. A robust digital ecosystem will enable PACS to remain responsive to evolving member expectations and the changing landscape of rural financial services.

3) Strengthening Institutional Sustainability

Long-term sustainability requires PACS to develop financially viable and locally relevant institutional models. Future efforts should focus on efficient resource utilization, professional financial management, prudent risk assessment, and economically sustainable business activities suited to local conditions. Strengthening institutional resilience through diversified revenue sources and sound governance will reduce operational vulnerabilities while enabling PACS to continue delivering quality services and supporting rural development in an increasingly dynamic economic environment (Salamandra, A., & Manimehalai, N. (2016)).

4) Enhancing Governance and Professional Capacity

The future success of PACS will depend on strengthening institutional governance and developing professional management systems. Transparent decision-making, effective leadership, regular capacity-building programmes, and accountability mechanisms can improve institutional performance and member confidence. Strengthening administrative competence while preserving cooperative values will enhance operational efficiency and support informed decision-making. Such institutional capacity will enable PACS to respond more effectively to changing policy priorities and the evolving needs of rural communities (Kumar, R. (2012).

5) Promoting Convergence and Rural Partnerships

Strengthening collaboration with Farmer Producer Organizations (FPOs), financial institutions, government agencies, research organizations, and rural enterprises can expand the developmental role of PACS. Institutional convergence encourages knowledge sharing, coordinated service delivery, and improved access to agricultural technologies, markets, and public programmes. Such partnerships can enhance operational effectiveness while creating stronger linkages across the rural economy, enabling PACS to function as integrated institutions supporting agricultural and community development (Münkner, H. H. (2006)).

6) Building Climate-Resilient and Future-Ready Cooperatives

The long-term relevance of PACS will depend on their ability to adapt to emerging rural challenges, including climate variability, technological change, evolving farming systems, and shifting financial needs. Strengthening institutional flexibility through innovation, continuous learning, and strategic planning will improve resilience and preparedness. Supported by sustained policy initiatives and adaptive institutional practices, PACS can remain effective cooperative institutions capable of contributing to inclusive, sustainable, and resilient rural development in the years ahead.

2. Major Findings

PACS have undergone a fundamental institutional transformation, evolving from grassroots agricultural credit institutions into broader rural service institutions shaped by policy reforms, technological advancement, and changing financial needs.

- The Multi-Service Financial Centre model extends PACS beyond credit delivery, integrating financial, agricultural, digital, and community-oriented services within a decentralized institutional framework.
- PACS possess significant potential to deepen rural financial inclusion by improving access to formal credit, insurance, pensions, digital transactions, and government financial programmes among underserved rural communities.
- Digital transformation has emerged as a critical enabler of institutional modernization, with computerization and digital integration offering opportunities to strengthen operational efficiency, transparency, governance, and service accessibility.
- Diversification is central to the long-term sustainability of PACS, as locally viable activities across agriculture, value chains, warehousing, procurement, and allied sectors can strengthen financial resilience and institutional viability.
- The future effectiveness of PACS depends on a farmer-centric and locally responsive approach, where integrated services are aligned with member needs, supported by professional management, active participation, institutional trust, and sound governance.
- The emerging Multi-Service Financial Centre paradigm positions PACS as important institutional platforms for inclusive and sustainable rural development, linking financial inclusion, agricultural growth, digital advancement, rural entrepreneurship, and resilient local economies.

3. Conclusion

The evolution of PACS reflects a significant institutional transformation from grassroots agricultural credit societies to emerging Multi-Service Financial Centres. Their expanding role in financial services, agricultural value chains, digital delivery, and community development strengthens their relevance within India's rural financial architecture. The success of this transformation will depend on effective governance, technological capability, financial sustainability, and farmer-centric service delivery. Strengthened PACS can deepen rural financial inclusion while supporting resilient and sustainable rural economies. Thus, the Multi-Service Financial Centre model represents an important pathway for repositioning PACS as key institutions in India's inclusive rural development.

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