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Role of Primary Agricultural Cooperative Credit Societies (PACCS) in Promoting Financial Inclusion in Rural Areas

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Abstract: *Financial inclusion plays an important role in achieving inclusive growth, which is required for ensuring the overall sustainable growth of a country.This study aims to explore the importance of Primary Agricultural Cooperative Credit Societies (PACCS) in promoting financial inclusion among rural areas. Primary Agricultural Cooperative Credit Societies are grassroots-level cooperative credit institutions which serve financial services in rural India, providing credit, savings, and insurance tailored to rural needs, and promoting financial inclusion. This study conceptually explores how PACCS have influenced the financial behaviour and economic stability of rural households and evaluates their accessibility, functional effectiveness and the potential challenges faced in expanding their outreach and contribution to rural financial inclusion.*

Keywords: Financial Inclusion, PACCS, PACS, Rural Development, Rural Credit Institutions, Financial services in rural India, Cooperative banking

I. INTRODUCTION

A. Introduction to Financial Inclusion

Financial inclusion involves ensuring that individuals and businesses, especially those who are traditionally underserved or excluded from the formal financial system, can access valuable and affordable financial products and services in a responsible and sustainable manner. These offerings encompass savings, credit, insurance, remittances, and digital payment solutions. In India, financial inclusion has been a national priority for more than a decade, gaining significant traction through initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which has resulted in the establishment of over 50 crore bank accounts by early 2024. The Reserve Bank of India (RBI) and the Government of India actively support inclusive finance through the development of digital banking units, payment banks, and financial literacy initiatives. Financial inclusion is vital for diminishing income inequality, fostering entrepreneurship, and improving economic security, particularly in rural regions. As India transitions towards a digital economy, it is crucial to address the financial access gap to ensure inclusive and sustainable development.

B. Introduction to Primary Agricultural Cooperative Credit Society (PACCS)

Primary Agricultural Cooperative Credit Societies (PACCS) are essential grassroots financial institutions that facilitate the provision of credit and financial services to India's rural farming community. Operating within a cooperative framework, PACCS function at the village level, specifically addressing the short-term and medium-term credit requirements of farmers engaged in agricultural and allied activities, as well as rural households. These entities form the base of the three-tier cooperative credit structure, linking to District Central Cooperative Banks (DCCBs) and State Cooperative Banks (SCBs). As of 2024, PACCS continue to play a significant role in offering timely and affordable credit to small and marginal farmers, thereby diminishing their reliance on informal lending sources. PACCS enhance agricultural productivity by facilitating access to essential inputs such as seeds, fertilizers, and farming equipment, while also supporting self-help groups. Recent initiatives have focused on digitizing PACCS operations and improving

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their governance to boost their effectiveness in promoting financial inclusion and aiding rural economic development.(Ministry of Cooperation, 2025)

II. REVIEW OF LITERATURE

(D Kandasamy & B Baskar, 2025) "The Financial Health of MM. 117 Panjamadevi PACCS-A Studying Karur District of Tamil Nadu, India" Agricultureremains a cornerstone of India's economy, with 38.9% of the workforce engaged in self-employed agriculture in 2020-21, as reported by the Periodic Labour Force Survey. However, income from agriculture and livestock contributes only 43% to farm households, indicating a diversification of income sources. The prosperity of India is closely tied to agricultural progress. A micro-level study of PACCS reveals that encouraging members to diversify into income-generating activities has strengthened the financial health of PACCS, which have successfully increased membership, capital, deposits, and credit, leading to profitable operations.

(Hussein Nowfal, et al., 2025) "The Role of Agricultural Cooperatives in Enhancing Credit Access, Market Information, and Smart Farming Among Rural Farmer" This study investigates the impact of agricultural cooperatives on Credit Access (CA), Market Information (MI), and Smart Farming (SF) among rural farmers in Kerala. Using structured surveys from 421 cooperative and non-member farmers, the research employs t-tests, Chi-square tests, Pearson correlations, and regression models to assess the influence of cooperative membership. Findings reveal that cooperative members have greater access to credit, receive more frequent and reliable MI, and adopt SF practices at higher rates, leading to improved financial outcomes and environmental sustainability. The study underscores the pivotal role of cooperatives in promoting rural development.

(G Mishra & A Mishra, 2023) "Future Prospects of PACCS in Agricultural Financing" Agriculture has been central to India's development, yet rural credit access remains a challenge. As of March 2022, there are 95,000 PACCS across India, but only 63,000 are operational, serving 13 crore farmers with ₹2 lakh crore in credit. To meet demand, PACCS numbers should match the 3 lakh panchayats and handle ₹10 lakh crore annually. Despite support through schemes like DBT, ISS, and PMFBY, many PACCS suffer from NPAs, with less than half operating profitably. Strengthening PACCS through better coverage, savings culture, and credit discipline is key to rural financial inclusion and farmer welfare.

(MAK Tiwari & MN Agnihotri, 2023)"Evaluating the role of cooperative banks in promoting financial inclusion in India"The cooperative movement in India formally began with the Cooperative Credit Societies Act of 1904, aimed at providing short-term credit to farmers and reducing their dependence on moneylenders. Since then, cooperatives have played a key role in supporting India's agricultural and dairy sectors. This paper analyses the recent performance of cooperative banks in comparison to commercial and regional rural banks, focusing on credit disbursement to small and marginal farmers. Using secondary data from NABARD and the Reserve Bank of India, the study evaluates the role of cooperative banks in enhancing rural credit accessibility and financial inclusion.

(Kavita Laghate & Meghna Chotaliya, 2021) "Financial Inclusion and Inclusive Growth in India: An Analysis of Bank Branches, Deposits and Credits"Financial inclusion and inclusive growth are indispensable for the economic growth of a nation. Financial resources need to be distributed equitably to the unreached and poor sections of the society who have limited access to banking facilities. Pradhan Mantri Jan Dhan Yojana (PMJDY) is a policy initiative of the Government of India in this direction. In this paper, an attempt is made to understand the extent of financial inclusion through banking activities in India post implementation of PMJDY considering banking growth and resultant financial inclusion by means of major banking variables such as deposits and credits of banks in India before 2014 and after 2014 (the year of implementation of PMJDY).

III. OBJECTIVE

To examine the role of Primary Agricultural Cooperative Credit Societies (PACCS) in advancing financial inclusion among rural households and contribution of PACCS towards enhancing the financial well-being of rural communities by improving financial behaviour, fostering economic stability, and identifying key factors influencing their effectiveness.

IV. CONCEPTUAL FRAMEWORK OF FINANCIAL INCLUSION IN RURAL AREAS

A. Defining Financial Inclusion Within Rural Settings

In rural India, financial inclusion extends beyond just savings or borrowing; it includes services like insurance, money transfers, and electronic payments. The Reserve Bank of India (RBI) describes it as a method to deliver suitable financial tools and services at reasonable prices to rural communities, which is essential for improving daily lives. According to the 2018 Financial Literacy and Inclusion Survey, only around 24% of rural households in India could access formal lending sources, in contrast to 53% in urban areas.

B. Aspects of Financial Inclusion

Availability: This aspect focuses on the presence of banking facilities, such as physical branches, automated teller machines, and mobile banking options in rural locations. Even with advancements, rural India continues to lack sufficient on-site bank outlets.

Engagement: This gauges how often rural families utilize financial tools, including loans, protection plans, and savings. Figures from PMJDY show that over 40% of rural accounts are inactive, pointing to a disconnect between having access and actually using it.

Standard: This relates to how well financial products fit the needs of rural users. For example, many rural offerings are designed for farming, but there is an increasing need for more versatile products that support non-farming endeavours.

C. Obstacles to Financial Inclusion in Rural Areas

Major hurdles include:

- Infrastructure Shortfalls: The absence of banking services in isolated villages and poor internet access in rural zones.
- Low Awareness of Finances: Rural residents often fail to grasp the details of financial products, resulting in poor adoption rates.
- Cultural Hesitations: Deep-rooted traditions and dependence on unofficial lenders frequently discourage people from engaging with formal financial systems.

D. The Value of Financial Inclusion for Rural Economic Growth

Financial inclusion plays a critical role in rural economic advancement by allowing individuals to invest in areas like education, health, and enterprises. The United Nations Development Programme (UNDP) suggests that greater financial access could lower poverty levels by boosting household earnings by up to 30%, especially in rural settings.

V. ROLE OF PACCS IN PROVIDING FINANCIAL ACCESS TO RURAL HOUSEHOLDS

A. The Organization and Operations of PACCS in Rural Areas

PACCS function at the community level and are managed by local residents. Their main tasks involve supplying loans for both farming and non-farming activities, promoting savings, and delivering services. PACCS are highly effective in rural settings because of their in-depth local insights and the trust they build with members. The Cooperative Development Foundation reports that PACCS support over 90 million rural families in India, with a focus on small farmers and underserved populations.

B. Access to Credit and Loans via PACCS

PACCS are vital in offering short- and long-term financing to farmers at competitive interest rates, which are typically less than those from informal lenders. NAFSCOB data shows that about 70% of loans from PACCS go toward agricultural needs. These funds enable farmers to buy essentials like seeds, fertilizers, and tools, thereby improving their output. Additionally, PACCS often provide flexible repayment timelines, which are especially helpful during farming seasons.

C. Encouraging Savings and Investment in Rural Areas

PACCS motivate rural individuals to save by providing accounts with attractive interest rates that surpass those of standard banks. This is important since many rural households do not have a habit of saving, and PACCS help them create a safety net for unexpected events or future ventures. RBI figures indicate that rural deposits in PACCS reached more than ₹25,000 crore by 2021.

D. The Contribution of PACCS to Digital Financial Inclusion

The shift toward digital technology in PACCS has led to notable improvements. Numerous PACCS now feature mobile and online platforms that let rural users handle transactions, view their balances, and request loans. Initiatives like the Digital India Programme have boosted the use of digital finance, with around 30% of rural PACCS now offering mobile services. The implementation of Aadhaar-based payment methods has also simplified loan distribution and collection processes.(Moinak, 2024)

VI. PACCS AND FINANCIAL LITERACY IN RURAL COMMUNITIES

A. PACCS' Efforts in Boosting Financial Awareness

PACCS are instrumental in raising financial knowledge in rural areas through activities like workshops, discussions, and member interactions. They inform clients about the benefits of saving, handling debt, and purchasing insurance to manage risks tied to farming. Research from the Institute for Development and Research in Banking Technology (IDRBT) revealed that financial education efforts by PACCS increased savings by 12% in participating rural communities.

B. Education and Skill Development via PACCS

PACCS conduct programs to equip members with skills in financial management, effective use of loans, and understanding interest rates. These efforts enhance decision-making for rural families. For instance, in the Karnataka State Cooperative Bank, over 500 PACCS have delivered training on financial matters, impacting more than 3 million individuals.

C. Advancing Financial Inclusion Through Educational Initiatives

In partnership with local authorities and non-governmental organizations, PACCS organize awareness drives aimed at vulnerable rural groups, including women and small farmers. These drives address topics such as fundamental banking, insurance advantages, and strategies to prevent excessive borrowing. Platforms like Rural Self-Employment Training Institutes (RSETIs) are used by PACCS to provide training on financial handling.(Moinak, 2024)

VII. IMPACT OF PACCS ON ECONOMIC STABILITY IN RURAL HOUSEHOLDS

Increasing Rural Income via Credit Opportunities: PACCS aid in growing rural earnings by providing credit that helps farmers invest in inputs like seeds and machinery or support other income sources. The India Rural Development Report states that PACCS have raised farm incomes by 20-30% through accessible credit.

Expanding Rural Livelihoods and Business Ventures: PACCS act as a funding source for rural entrepreneurs and non-agricultural enterprises. They offer microloans for starting ventures like dairy operations, crafts, and small shops. This approach lessens reliance on farming and boosts family earnings. NABARD reports that over 1 million rural businesses have received funding from PACCS.

PACCS' Influence in Decreasing Dependence on Informal Lenders: By supplying loans with clear terms and lower rates, PACCS reduce the need for high-interest informal lending. The RBI's 2019 Financial Stability Report notes that informal lenders in rural India often charge 60-100% interest, compared to 12-18% from PACCS. This transition to formal systems strengthens the financial security of rural families.(Ministry of Cooperation, 2025)

VI. EMPOWERING WOMEN FINANCIALLY THROUGH PACCS

PACCS have been instrumental in boosting women's empowerment via SHGs, which give women the means to obtain credit and manage their savings. These groups also foster a community of mutual assistance, allowing women to take part in local improvement initiatives. Data from NABARD indicates that India has more than 8 million SHGs, with over half of them connected to PACCS.PACCS help promote gender equality by ensuring women have the same opportunities to use financial resources. This support creates broader benefits, such as enhanced family decision-making, improved education for children, and greater personal financial control. Research from the International Labour Organization (ILO) shows that rural women with access to PACCS' financial options saw their household earnings rise by about 15%.In various rural parts of India, women have leveraged PACCS loans to launch small ventures like food processing, sewing, and poultry rearing. In Madhya Pradesh, women from local SHGs used PACCS funding for dairy operations, resulting in a 30% boost in household earnings over two years.

VII. OBSTACLES ENCOUNTERED BY PACCS IN ADVANCING FINANCIAL ACCESS

Internal Operational and Structural Issues in PACCS: Numerous PACCS deal with problems stemming from obsolete facilities, poor management practices, and ineffective ways to collect loans. In many instances, PACCS lack modern tech tools, which restricts their capacity to serve more people.

Problems with Financial Underperformance and Non-Performing Assets (NPAs) in PACCS: Non-performing assets represent a major challenge for PACCS, as low rates of loan repayment cause financial uncertainty. According to NAFSCOB, NPAs in PACCS average around 7-8%, which limits their lending potential and threatens their long-term viability.

Restricted Reach and Lack of Digital Resources in Rural Areas: The absence of digital connectivity in isolated villages hampers PACCS' expansion. Without reliable internet, people in rural settings cannot make full use of online banking, which is key to expanding financial access.

Regulatory and Policy Barriers Affecting PACCS: The rules governing PACCS are often complicated, and varying policies can hinder smooth operations. Areas like lending rules, loan forgiveness, and cooperative oversight need clearer guidelines to help PACCS function effectively.(Malik, 2022)

VIII. STRENGTHENING PACCS TO ENHANCE RURAL FINANCIAL ACCESS

Suggested Policies to Improve PACCS: Authorities should streamline regulations, enhance oversight systems, and offer rewards for PACCS that successfully expand their services. Simplifying lending standards and strengthening risk assessment will aid in lowering NPAs.

Embracing Digital Tools and Innovations for PACCS' Expansion: It is vital to invest in digital systems, such as mobile banking and web-based loan requests, to make PACCS more efficient. Programs like Pradhan Mantri Gramin Digital Saksharta Abhiyan, which focus on improving digital skills, can close the gap in rural areas. As mobile devices and online access become more widespread, PACCS can use them to deliver quicker and easier services to rural residents. Apps for handling loan payments, tracking savings, and providing farming tips can greatly improve PACCS' offerings, leading to a more equitable and updated financial environment. Incorporating blockchain for transactions and digital wallets can minimize fraud, boost openness, and simplify operations. With these digital enhancements, PACCS can better provide prompt credit and financial solutions, supporting greater rural financial inclusion.

Enhancing Skills and Governance Improvements for PACCS: PACCS require strong governance changes to increase transparency and responsibility. This can involve detailed training sessions for employees, participants, and board members. Building better leadership skills is essential for efficient operations and long-term stability.

Training efforts might cover topics like financial oversight, client support, strategies for recovering loans, and digital technology use. Periodic evaluations and checks can ensure PACCS meet legal standards and perform at their best for members.

Fostering Partnerships with Financial Bodies and Government Programs: Working with major institutions, such as NABARD and Rural Development Banks, can give PACCS access to more funds and creative financial products. PACCS can also gain from initiatives like Mudra Yojana, which funds small businesses, and Stand-Up India, which aids female entrepreneurs. By utilizing these resources, PACCS can offer a wider array of services and reach more rural families.(Ministry of Cooperation, 2025)

IX. UPCOMING OPPORTUNITIES AND POTENTIAL FOR PACCS IN RURAL FINANCIAL ACCESS

Broadening PACCS' Involvement in Non-Farm Sectors: PACCS have mainly focused on agricultural loans, but as rural economies evolve, there is a rising demand for diverse services. Many rural regions are moving toward non-farm activities, including small manufacturing, retail, and services. PACCS can adapt by providing customized options like microloans, operational funding, and insurance for rural business owners. This shift would lessen reliance on farming and promote economic stability.

Establishment of 200,000 PACCS: The Indian government has ambitious plans to create 200,000 multipurpose PACCS over the next five years, seeking to ensure a cooperative presence in each panchayat. This venture is anticipated to substantially increase access to financial services in rural areas that are currently underserved.

Digitization and Computerization: An investment of ₹2,516 crore has been earmarked for the digitization of 63,000 operational PACCS. This initiative intends to boost operational efficiency, transparency, and accountability, enabling PACCS to provide a broader range of services beyond just traditional credit options.

Integration as Common Service Centres (CSCs): Under a Memorandum of Understanding with the Ministry of Electronics and Information Technology, NABARD, and CSC e-Governance Services India Limited, PACCS are being authorized to operate as CSCs. This shift will enable PACCS to offer more than 300 e-services, encompassing banking, insurance, and government services, thus enhancing their functionality and sustainability.

Unified Lending Interface (ULI): The Reserve Bank of India is preparing to introduce the Unified Lending Interface, a platform aimed at simplifying credit provision for small and rural borrowers. This initiative seeks to minimize credit appraisal durations and facilitate a consent-driven digital flow of information, which could potentially improve the lending capabilities of PACCS.(Indian Express, 2025)

X. CONCLUSION

In summary, Primary Agricultural Cooperative Credit Societies (PACCS) are crucial for expanding financial inclusion in rural India. They function as readily available, community-based financial institutions specifically designed to serve the needs of small-scale farmers. By providing timely credit, savings options, insurance, and support for income-generating ventures, PACCS have significantly bolstered the economic strength and financial stability of households in rural areas. Their localized presence and deep understanding of local challenges allow them to effectively fill the financial access gap in remote regions often underserved by larger banks. While PACCS face hurdles such as limited technological adoption, governance problems, and financial viability issues, they remain essential for inclusive growth. Enhancing their institutional capabilities, embracing technology, improving transparency, and aligning with national financial inclusion goals can greatly improve their impact and reach. Utilizing PACCS to promote financial literacy, responsible borrowing, and rural entrepreneurship can encourage sustainable development and reduce reliance on informal lending practices. As India strives for a more inclusive financial system, revitalizing and modernizing PACCS is paramount to ensuring that rural communities participate fully in equitable economic advancement.

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