

Transforming Primary Agricultural Credit Societies Into Village Knowledge Centers (VKCs) –

An Approach Paper

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Abstract

This Approach Paper sets out the need for financial inclusion of the rural community for India's development and the important role that the ICT can play in this endeavor. We suggest an integrated framework for the use of the ICT for delivery of rural services in a cost-effective, financially viable and sustainable manner. We also outline the business & technology model for rural services with banking and ICT as core infrastructure by promoting PACS as Village Knowledge Center (VKC).

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I. **Background & Objectives**

Rural banking in India has been the subject of study Survey Committee Report in 1954, literally thousand of reports have examined and investigated the problems relating to the credit delivery for agriculture and rural area.

Primary Agricultural Credit Societies (PACS) have played crucial role in the development and evolution of co-operative societies and overall agricultural development in India since 1904 when the first Co-operative Law was enacted,

The Government of India (Gol) has sought World Bank assistance to support a comprehensive reform program to transform India's Rural Cooperative Credit System (CCS)—comprising over 108,000 village level Primary Agricultural Societies (PACS), 367 District Central Cooperative Banks (DCCBs) and 30 State Cooperative Banks (SCBs)—into robust and reliable providers of finance to the rural poor, particularly small and marginal farmers.

In January 2006, Gol announced a reform package designed to transform the potentially viable CCBs into democratically governed, efficiently managed, financially sustainable, self-reliant entities that can provide a wider range of financial services to the rural poor on more affordable terms. States are free to participate in the package on a voluntary basis, provided they agree to implement a set of far-reaching and time-bound legal, regulatory and institutional reforms to address the governance and operational weaknesses affecting CCBs.

At the same time, as the majority of the Indian population lives in rural areas, there is an urgent need to deliver citizen services to them in a cost effective way with assured quality.

The criticality of this need may be seen from the fact that even with concerted and extensive attempts to meet the credit needs of the farmers for agricultural operations etc., informal agencies including money lenders are currently providing substantial portion of the total credit to this sector.

Besides, the agricultural credit flows themselves are inadequate and the gross capital formation can be improved only if substantial amount of investment funds flow to the rural areas.

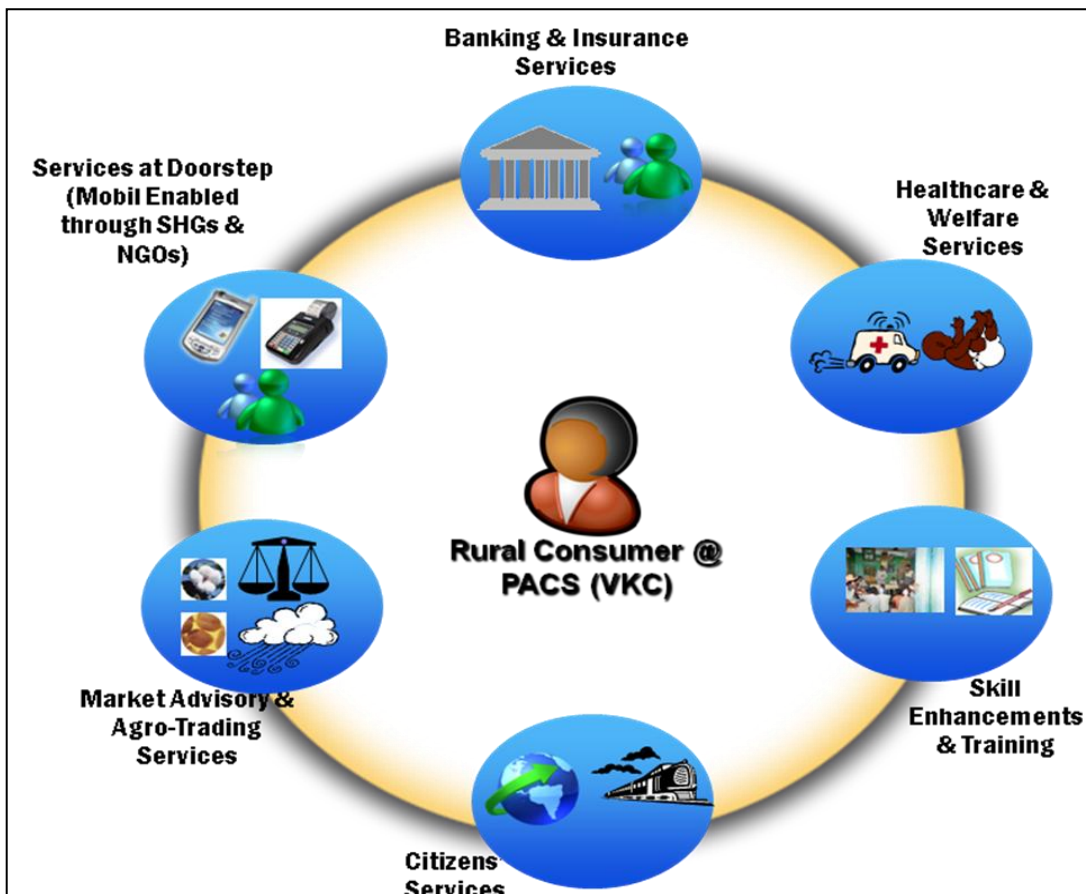
This Paper provides an overall business and technology approach for transforming Primary Agricultural Societies (PACS) into not only well governed financial institution but also as value added services provider to the local community.

Providing these services in a unified, cohesive and cost effective environment is equally important.

II. PACS as Village Knowledge Center (VKCs) – A Multi-Agency Business Approach for Rural Services

Promoting PACS as Village knowledge Center allows Rural Customer to look at PACS for short and long term needs through multi offerings including Financial Services, Citizens' Services, Agro Advisory & Market Information and Educational & Support Services.

This Approach would attract the rural customers and village community to PACS as Village Knowledge Center for multiple services and develop loyalty. In the long term, a rural consumer would be less influenced by informal channels such



as local money lenders.

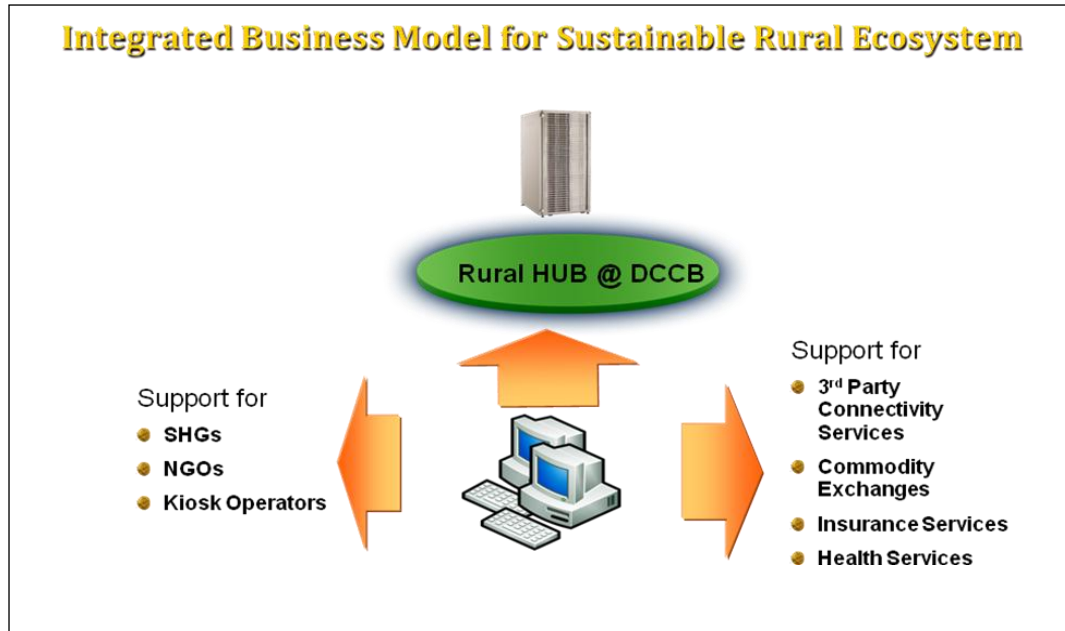
As the physical infrastructure already exists for the PACS, they are evolved as model centers of transformation of rural economy.

Rather than dependency on financial revival packages, PACS can evolve into highly independent commercial business center offering multiple services, apart from banking and financial services.

This Approach involves the following:

- Tying up with 3rd Party Business Entities for Services Offerings.
- Multi-Agency Services Delivery Approach through NGOs & SHGs.

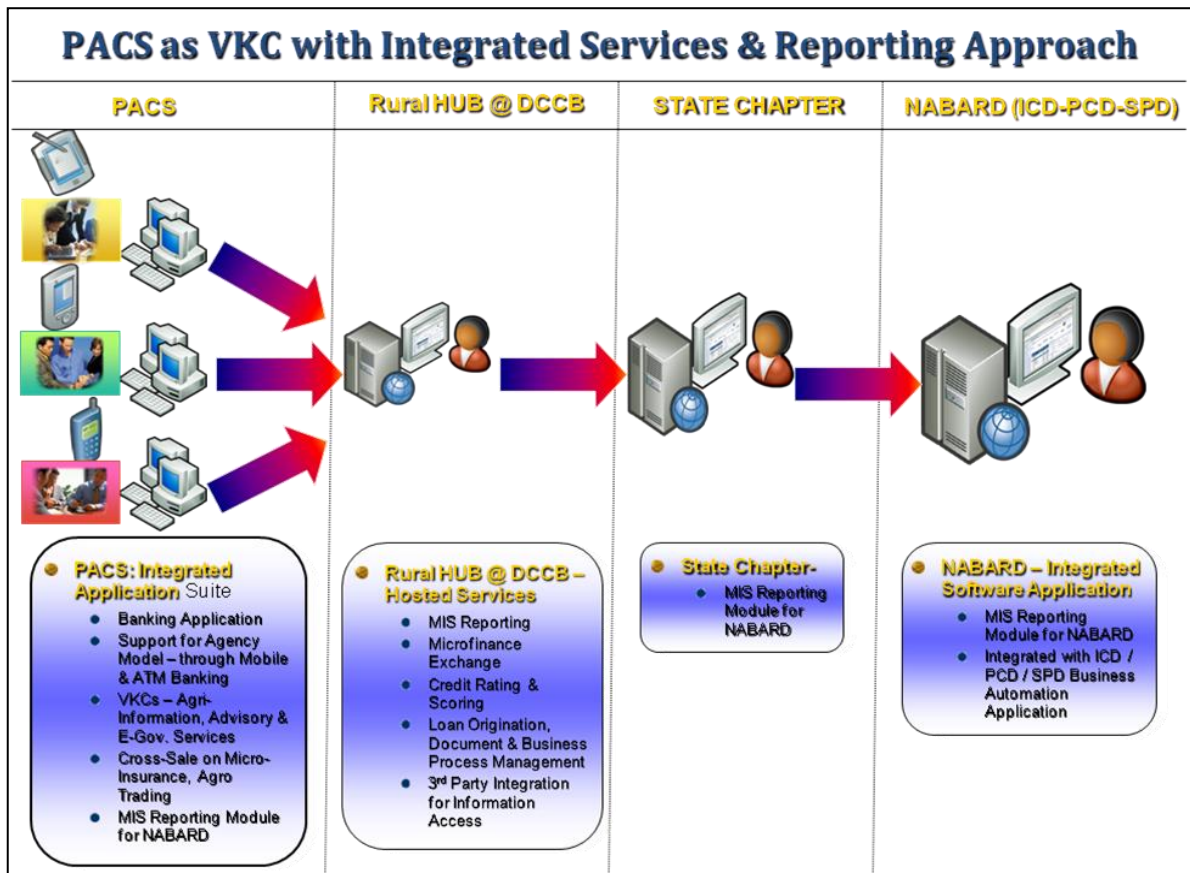
The same can be evolved through the use of entrepreneurship for achieving effectiveness, efficiency and economy in the performance of the rural information infrastructure, rural information services and other follow-up functions e.g. credit rating of rural individuals and analytics for decision support.



III. PACS as Village Knowledge Center – A Technology Approach

For achieving financial inclusion and economic growth, the Information and Communication Technology can play an important role by increasing effective access and improving delivery and governance in services.

Against this background, the key issue is how technology can be harnessed for improving the efficacy of the Services with the minimal of the transaction costs involved.



Proposed technology approach is a 4 tier Approach as highlighted above and involves following modules at each of the highlighted tier:

- **Tier 1: PACS: Integrated Application Suite**
 - PACS Banking Application
 - Support for Agency Model – through Mobile & ATM Banking
 - VKCs – Agri-Information, Advisory & E-Gov. Services
 - Cross-Sale on Micro-Insurance, Agro Trading
 - MIS Reporting Module for NABARD
- **Tier II : Rural HUB @ DCCB – Hosted Server**
 - MIS Reporting

- Microfinance Exchange
- Credit Rating & Scoring
- Loan Origination, Document & Business Process Management
- 3rd Party Integration for Information Access
- **Tier III: State Co-operative Department**
 - MIS Reporting and Analysis Services
- **Tier IV: NABARD**
 - MIS Reporting and Analysis Services
 - Integrated with ICD / PCD / SPD Business Automation Application of NABARD

The Model relies on ICT based Solution in which the banking & other value added services delivery can be done using integrated technology and communication platform.

The following key technology guidance principles used in this model are:

- a) Software solution development using open, interoperable standards supporting XML based web Services through service oriented approach. The same could be based on WS-I interoperability specifications.
This would easily allow integration of 3rd party services for data and information interchange such as commodity exchanges, banking, financial and insurance services organizations.
- b) Automating the workflow, the records management, follow-up and recovery through out-of-the box process automation tools.
- c) Integrated support for multi-form factor devices such as PDAs, laptops supporting off-line and on-line operations.
- d) Integrated MIS Reporting and Analysis Tools supporting at each tier viz. PACS -local, DCCB – Hub level, State level and NABARD level.

The key benefits expected from this Approach are as follows:

- Benefits to Customers
 - Access to multiple services at single location
 - Services at doorsteps through Mobile
 - Overall rural economic growth
 - Benefits to Stakeholders
 - Better, faster and robust information consolidation.
 - Faster Analysis and Decision making
 - Better governance and financial health monitoring of PACS.
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