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FEDERALIZATION OF COOPERATIVE BANKING IN PAKISTAN-
ITS IMPACT ON RURAL COOPERATIVES -A CASE STUDY OF PUNJAB PROVINCE

A Research Paper presented by

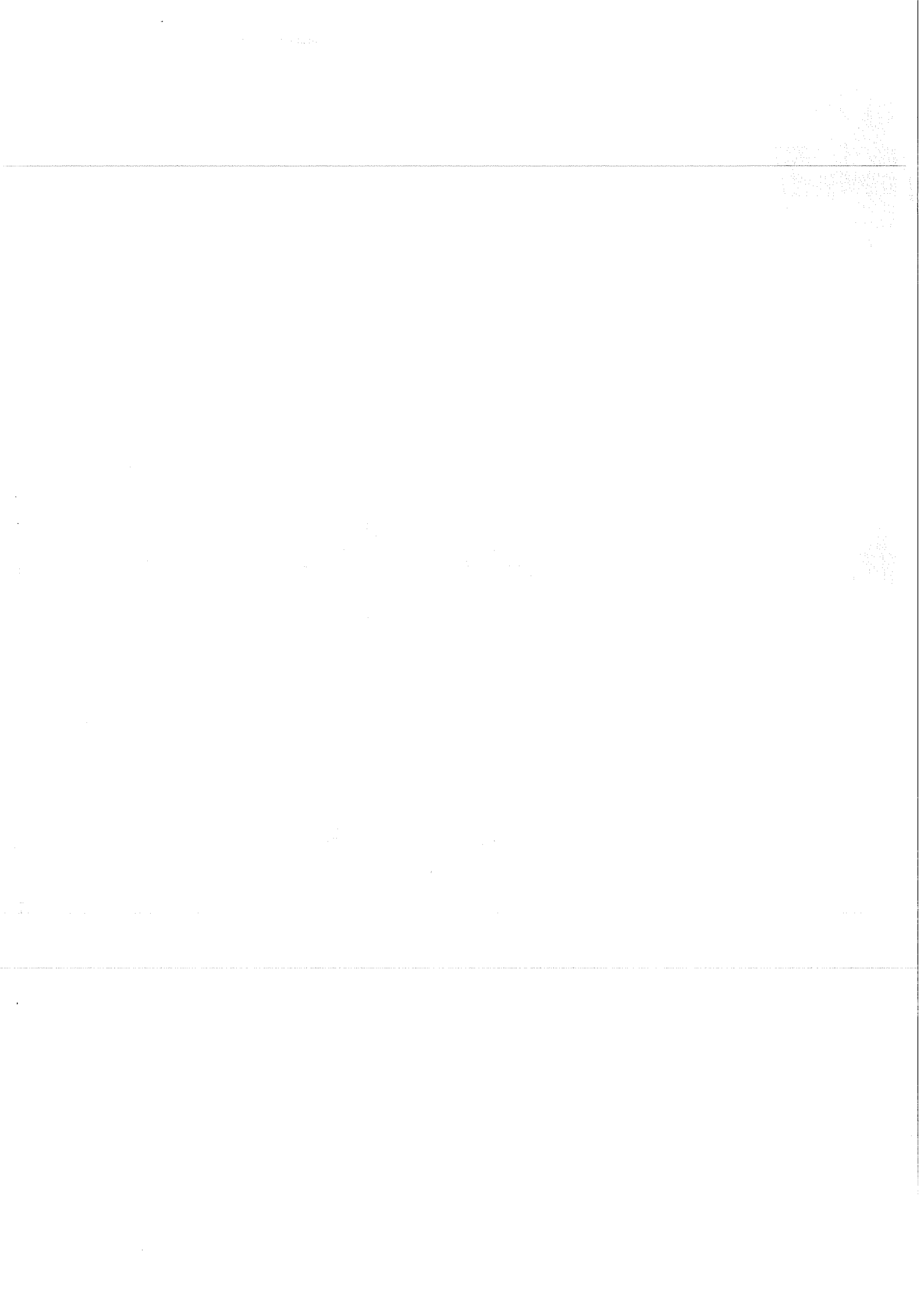
Farooq Haroon
(Pakistan)

in partial fulfilment of the requirements for obtaining the degree of

Master of Development Studies

Members of the Examining Committee

Prof. A. Saith
Prof. R.J. Apthorpe
Prof J.P.A. van Roosmalen



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A C K N O W L E D G E M E N T S

In writing these few lines I have no reason for being moved by considerations of modesty. The only consideration which weighs heavily, in fact with compelling force, is to be completely honest in expressing gratitude to those who deserve all the credit for whatever good points this Paper might possess. The fact that it still suffers from weaknesses is one evidence of my somewhat limited capabilities to benefit from knowledgeable guidance.

Dr Ashwani Saith, my patient and exceedingly tolerant supervisor, was painstaking in giving me the benefit of his sound and balanced views. That Prof. Raymond Apthorpe agreed to act as my second supervisor, read the first draft and discussed possibilities of improvement were all my undeserved privileges. To be completely honest I must also mention Dr W.J. Boelman. I cannot remember one occasion when he did not extend his prompt and willing help which, incidentally, was frequently sought. There is at least one other kind person at the Institute whose guidance, in fact since September 1981, I have taken for granted. Since his advice on the present occasion was strictly informal, I am not naming him. He is doubtless aware of how deeply grateful I am.

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INTRODUCTION

1.

Before I begin to study the subject itself, a few introductory lines appear necessary for the following reasons:

Every reader may not be equally familiar with Pakistan.

Every reader may not fully understand the pivotal position of Punjab Province within Pakistan.

A brief outline of the subject in the beginning may facilitate and simplify following the line of my arguments in this Paper.

PAKISTAN

2.

The creation of Pakistan on August 14, 1947 was the result of irresistible and massive pressure of Muslim Nationalism. The British colonial government, despite its initial reservations on the practicability and soundness of the demand, came around to the view-point of the Muslims and agreed to partition India. Pakistan came into being with two geographical units separated by 1600 miles of Indian territory. The Eastern Wing became independent Republic of Bangladesh at the end of 1971. Pakistan now comprises the West Wing of the original Pakistan of 1947.

3.

Pakistan has an area of 796095 square kilometers. The estimated population in 1981 was 83.78 million.¹ It is bound by Iran on South-West, by Afghanistan on the North West, by India in the East. The South is washed by the Arabian Sea. Pakistan has a predominantly Muslim population.

PUNJAB

4.

Punjab is one of the four provinces of Pakistan. It is located in the north eastern part of the country. It is, on more than one account, the most important province of the country. Punjab has an area of 205,345 square kilometers hence 25.79% of the total area of the country.² Its population is 47.11 million which is more than 56% of national population estimates for 1982.³ The population density is 229 persons per square kilometer as against the national average of 105.⁴ The vastness of its agricultural area continued to attract and support new settlements until well into the 1950s. It is also important to note that of the 18.80 million cropped hectares in the country in 1979-1980, 12.61 million hectares were in the Punjab province. This alone speaks volumes of the importance of the province to the country which leans heavily on its agriculture sector. This sector contributed 29.36% to the GNP in 1980-1981.⁵

5.

Punjab is thus not an ordinary province of Pakistan - it rightfully deserves the distinction of being most important to the national economy. It has the largest population of all provinces and other administrative territories, its contribution to the GNP is by far the largest and it has traditionally played a pioneering role in many areas of national development including cooperatives.

THE SUBJECT

6.

Like in other British colonies, the British government tried to popularise the cooperative movement in India. The reasons for selection of this policy, we shall see later. One important object of cooperatives, initially, was expansion of rural credit and channelling of rural

savings for agricultural hence rural development. Over the years since 1904, an elaborate system of cooperative banking had grown which carried on despite limited or general crises in the country before and after independence.

7.

In 1976, the government of Pakistan introduced fundamental changes in the system. It established a Federal Bank for Cooperatives and for the first time brought cooperative finance under direct federal control. This paper aims at studying these changes and how these have effected the rural cooperatives in the Punjab. The reason why I have highlighted the importance of the Punjab province is, primarily, to show that this case study is important enough to be ascribed some wider validity beyond provincial boundaries. The sample being so large and vital to the total context, such a general observation is difficult to resist.

8.

It is also intended to evaluate the impression that direct federal control over cooperative finance was motivated by:

- a) predominantly political considerations, in disregard of the adverse effect of the measure on cooperative institutions and the movement;
- b) the desire to assume direct authority over finances available in the cooperative sector of the economy, to direct large resources of the Punjab cooperatives to other provinces, notably Sind.
- c) a desire to wrest control over cooperative finance from the traditional rural elite and to create a new elite through exercise of patronage;

d) a straight-forward desire to strengthen and sharpen the developmental role of cooperative finance.

9.

This paper does not intend to study or analyse the class and power structures in rural Pakistan. This is too vast a field to be treated adequately in a paper of this size which in any case is devoted to study another field, though closely related. References shall thus be made to the class and power structures only generally to explain and strengthen an argument or a phenomenon when this is possible only in those terms. It is also not the intention to study the role of cooperatives in rural development. This is differently approached. The paper attempts to study another dimension. It addresses itself to study the overpowering influence of administrative considerations which result in bureaucratic take-over of what were originally conceived as 'popular' socio-economic institutions. The subordination of these to the over-riding political interests and the replication of the class and power structures in the character of these institutions.

10.

The paper is divided into three chapters. The first outlines the history of cooperation in India, later in Pakistan and its growth until 1976. The second chapter discusses the federalization itself. The third chapter explores the impact of federalization on rural cooperatives in so far as their source of finance was drastically re-structured. Finally, the conclusions re-capitulate and high-light the strength and weaknesses of the four hypotheses that have been set-up in para. 8. A few words about the data. There is little published literature on the later period of cooperative institutions in Pakistan. Some reliance has therefore to be placed on experience of those

who have worked closely and directly with these institutions
It has been kept in mind that this reliance should not be
complete but corroborative and explanatory. Reliance should
thus be both cautious and discrete.

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C H A P T E R 1

THE STATE OF RURAL INDEBTEDNESS

1. The destructive extent of rural indebtedness, its effects on agricultural production and on the Indian rural society, were subjects of numerous Government studies in the late 19th and early 20th centuries. Some of these studies shall find reference here. We must, however, make one preliminary remark here. We do not refer to the other studies owing either to non-availability of these or because these do not address themselves directly to the question of rural indebtedness or do so only indirectly. The latter thus diminishing their relevance to the present subject.

2. The grave situation created by the disastrous extent of rural indebtedness attracted the attention of the Royal Commission on Agriculture in India, 1927 and of the Punjab Provincial Banking Enquiry Committee, 1929. The Indian Government had thus a fair appreciation of the:

- a) informal institutions of rural credit;
- b) the propensity and need of the agriculturist to get into debt;
- c) the usurious nature of private credit. The hardship involved in its repayment as also collection. The harshness of its effects on the indebted households, agricultural production and the rural society.

3. Sir Malcolm Darling of the Indian Civil Service brought out a monumental book entitled "The Punjab Peasant, in

Prosperity and Debt" in 1925. This book is perhaps the first knowledgeable analysis of the precarious existence of the small agriculturist in Punjab under the British. While analysing the 'why' and 'how' of rural indebtedness Sir Malcolm writes:

"There are four main reasons why the peasant proprietor is obliged to borrow:

- The small size of his holding and the way it is split up, conditions which make it almost impossible for him to live without getting into debt, unless he is exceptionally frugal and industrious, or has some extraneous source of income.
- His constantly recurring losses of cattle from drought and disease.
- His ingrained improvidence, the effects of which are greatly aggravated by insecurity of crop.
- His extravagant expenditure upon marriage and other domestic ceremonies.

In addition there are two causes, that make borrowing easy, namely:

- The money-lender and his vicious system of business. The great expansion of credit due to high prices and the inflated value of land.

The first four cases explain why the peasant proprietor must borrow, the last two how he can borrow, and it is the combination of 'must' and 'can' that explains the great increase in debt in the last fifty years. Or, expressing it differently, we may say that the first four causes explain the existence of debt, the money-lender and his system, its continuance

and the expansion of credit, its volume."¹

4. Rural credit is classified in researches into long term, medium term and short term credit. While use of each of these may, and frequently does, vary - another distinction is more important. Credit may be obtained for productive or unproductive uses. It is the near absence of formal sources of agricultural credit and the seemingly convenient facility offered by the money-lender that draws the agriculturist into a vicious economic trap from which he cannot extricate himself. Even his heirs find themselves starting their agricultural career under the burden of ancestral debt. The uncertain nature of agriculture, the rigid and inflexible demand of government dues, the demands of an inelastic and custom-ridden rural society, adverse terms of trade of agricultural products (during depression between World Wars) and to compound it all, the vast illiteracy not only contributed to continuance of indebtedness but also its aggravation.²

5. The Government of Punjab appointed a Committee in 1932 with the specific object of studying the earlier Reports and making recommendations on the subject of indebtedness. The Committee on Indebtedness (here-after referred to as COI) in its report observed that "the continued fall in the prices of agricultural produce has made the pressure of debt on the cultivator heavier than it was then and the problem correspondingly more acute."³ The report recognizes that the institution of money-lender cannot be eliminated, that legislation can at best partially assist in 'controlling' and 'regulating' money-lenders against repetition of the system's 'worst abuses'.⁴ The Report thus recommended measures strictly within a context in which there could be "no question of attempting to stop lending of money to impecunious people with little

or no security to offer."⁵

6. The Committee, while rounding off its examination of the earlier recommendations and making its own, on how best to provide relief to the debt-ridden agriculturists, observed, "the Commissions and Committees whose reports we have been directed to study unanimously recommend cooperation as one of the surest remedies, if not the most important, for indebtedness" "nothing that can be done by Government to encourage thrift should be left undone, since it is primarily the lack of that virtue which leads to perpetual need for credit among cultivators of this Province, and credit, being almost invariably misused, is the fore-runner of chronic indebtedness".⁶

7. The report of COI makes two other important recommendations which are both important and interesting in so far as these looked far into the future and are no less valid today. It suggests that safeguards should be provided against misuse of cooperative funds by persons with influence in management. Secondly, it highlights the need for "remunerative occupation as an alternative to or in conjunction with agriculture" ... without which ... "there will be little prospect of permanent relief from debt."⁷

8. The Punjab Provincial Banking Enquiry Committee, 1929, had made an assessment of the Provincial agricultural debt in that year. It came up with a staggering figure of Rupees 1350 million.⁸ Two factors made this figure even more formidable. First, there was an identifiable trend of sharp rise in indebtedness. Between 1921 and 1929 there was an increase of 50% in the agricultural debt. This was found related to a sudden rise in the general standard of living, falling prices of agricultural produce and a number

of poor harvests.⁹ Secondly, "excessively wide credit being combined with excessively dear money".¹⁰

9. Usurious rates may be a little difficult to define but the money lender, in order to offset the in-security of the loans, stepped up the rate of interest. The borrower being aware of his ineligibility to receive credit from financial institutions at short notice, was also willing to pay high rates of interest. While rates varied from Province to Province, area to area, it was usually around 18½% in Punjab, these were considerably higher when security was not adequate.¹¹

10. The situation had developed to its 1929 level in a gradual manner and had not escaped notice of the Government. The measures initiated by Government to release the agriculturist from the strangulating grip of the money-lender took time to mature. It was a period marked by population increase beyond estimates, rise in the standard of living, fall in the prices of agricultural products and very limited operations of scheduled/commercial banks in the rural area.

11. The Enquiry Committee found out that of all sources of credit i.e. money-lender, agriculturist, Government, commercial banks and friends/relatives, the banks played a 'negligible' role.¹² The small land owner being too small to be handled and the large one too risky in view of the Land Alienation Act (which restricted transfer of secured land to non-agricultural castes). The most important source, according to the Committee, was the village money lender while the agriculturists with large land ownerships were fast beginning to assume and combine the money lender's role.

THE BEGINNING OF COOPERATION

12. The cooperative movement started receiving Government sponsorship around the close of 19th century. We shall not go into the history of indigenous cooperation which existed in pre-British or pre-1904 periods. As we intend to study cooperatives in the form that we recognise these in modern times, it would be reasonable not to go very far back into Indian history. By the beginning of 20th century, the institution of money-lender had apparently reduced the agriculturist, more specially the small one, to crippling economic dependence. The European experience strongly recommended Cooperation as the remedy for the Indian situation, as highlighted by official enquiries (irrespective of the dis-similarity between the two situations).

13. We would like to refer here to the work of the "Committee on Cooperation in India" appointed in 1915. We refer to this Committee because it represents perhaps the most authoritative official view on the beginning of cooperative movement in India. The official view is important because Governments in pre-dependence India and later in Pakistan have very closely sponsored and regulated the cooperatives from the start to the present day. After Sir Frederick Nicholson gave his Reports to the Madras Government in 1897 and 1899 on how the system of agricultural and land banks of Europe could be extended to India, similar studies were made in the United Provinces in 1900. The earliest Societies were established under the Companies Act of 1882 which soon proved unsuitable for the type of societies that were intended to be organized and developed. Special legislation was, therefore, enacted and 1904 "Cooperative Credit Societies Act" was promulgated.¹³

14 It is interesting to note that the first legislation for Cooperatives was for establishing 'credit societies' which demonstrates and confirms that credit disbursement (hence generation of savings) was the most important, if not the only pressing need, for which cooperatives were originally intended. The Provincial Governments took steps to achieve the intentions of the Federal Law. Though difference in local conditions led to varied types of societies and different forms of growth, nowhere "did the new doctrine fail to strike root."¹⁴

15. The Report of the Committee provides figures to show growth in cooperation between 1905 and 1912.¹⁵

TABLE 1

Year	No. of Societies	No. of Members	Amount of Working Capital (in rupees)
1906-1907	853	90844	2371683
1907-1908	1357	149160	4414083
1908-1909	1963	180338	8232225
1909-1910	3428	224397	12408312
1910-1911	5321	305058	23305500
1911-1912	8177	403318	33574162

(These are All-India figures, the first year excludes information on native states. Capital lent and borrowed between societies has been shown twice in the last column)

16. The speed with which the Credit Societies proliferated speaks of the need that these seemed to fulfil. The beginning was modest but the trends were encouraging. It was in 1927

that Sir Malcolm Darling, then Commissioner of Income-Tax for Punjab, in his evidence before the Royal Commission on Agriculture in India stated that his Department had observed that the "Professional money-lender is gradually reducing his business in the village".¹⁶ He considered "the rapid growth of cooperative credit societies"¹⁷ as one of the obvious reasons for this. The expansion of credit and the reasons for this is a subject large enough in itself. It should suffice here to say that credit expanded at a fast rate and the professional money-lender found that he was no longer, practically, the only source of rural credit. The foremost competitor being the larger land-owners themselves followed by cooperative credit societies.

17. In 1912 the original Cooperative Law was replaced by fresh legislation to provide legal cover for

- a) non-credit cooperative societies which could not be organized under 1904 Law since it provided only for the credit societies;
- b) higher tiers of cooperative credit societies, i.e. central cooperative bank, central banking unions, which were functioning without legal cover and were necessary to supervise, finance and control the original credit societies.¹⁸

18. In Punjab, the movement was a little slower in expanding than certain other parts of India notably in Madras and Bombay. The money-lender class was well-entrenched and clearly saw the new challenge. While in 1912, the number of societies in Punjab was 1769 with a membership of 93, 169 and a working capital of rupees 7.3 million, this does not tell the whole story. Though all twenty four districts were covered, in nine of these the number was less than ten.¹⁹ During the first World

War, while prices of agricultural products increased and the money-lender could develop additional avenues of business, solid Government support for the cooperatives led to rapid expansion. By 1918, the number of societies had increased to 4028 with a membership of 135027 and a working capital of Rs. 19.7 million.²⁰

19. The end of the War and return of demobilized soldiery to villages created a climate favourable to the spreading of cooperative movement. Liberal ideas, desire for better standard of living and resistance to exploitation were demonstrated by the soldiers returning from service abroad. The Punjab Usurious Act, 1918 also placed severe restriction on the capability of the money-lender to exploit the agriculturists. Between 1919 and 1929, the movement expanded and grew as it had not done before in the Punjab.²¹ During the pre-war depression, the recovery of debts due to the money-lender led to even more hardship.

The Government introduced legislation to protect the agriculturist but since this was also applicable to recovery of debts due to cooperative credit societies, the rate of recovery of cooperative dues fell as low as 13.6%.

20. During the second World War the cooperatives took on a new and an important role. Government entrusted the movement with the task of wheat purchases, whole-sale of sugar, kerosene oil, salt and cloth. While for the Government this meant using a reliable trading agency that would not aggravate or misuse the crises, it yielded large and sure profits for the cooperatives. The central cooperative banks found these operations far more lucrative than rural credit operations. It was thus not surprising that the financial institutions of the movement emphasized this more profitable field of operation.²³

21. At the time of independence, the Indian Punjab which formed part of Pakistan had an elaborate network of cooperative institutions, as is shown by the following table. It also shows the position seven years later.

TABLE 2

Type of societies	Year	Number of Societies	Number of Members	Working Capital (rupees)
Provincial Banks	1947	1	11,210	40.1 million
	1954	1	10,937	61.9 million
Central Credit/Banks	1947	50	11,724	61.9 million
	1954	61	14,893	129.4 million
Agricultural Societies	1947	9,920	315,081	25.2 million
	1951	11,096	401,765	48.3 million

22. Non-Muslims were predominant in trade, industry, commerce and banking. When they migrated to India at the time of independence, they left a vacuum that Pakistan hardly knew how to fill. The cooperatives infra-structure was chosen to fill the void. The societies and banks handled purchase of food grains, husking of rice, purchase and ginning of cotton, import and whole-sale of cloth on behalf of the Government. These were only some of the functions which the cooperatives undertook to help in a crisis. These also helped in the initial industrialization and set up nation's earliest textile, woolen and sugar industries.

23. The profits from these new operations were sizeable but there was also vital damage in disguise. Cooperative principles were set aside in the eagerness to undertake these new profitable ventures. Central banks extended their operations very wide but mainly through dealings with individuals and worse than that with non-members. The trained personnel of the cooperatives went over to operate the new ventures leaving a void, filled by quasi-trained staff.²⁶ The 1955 Cooperative Inquiry Report concluded that "while the new undertakings helped in restoration of trade and commerce in the country, these not only cause a very heavy strain on the already depleted resources of the Department but also turned their attention from the rural to the commercial side".²⁷

COOPERATIVE BANKING STRUCTURE

24. As we have tried to show earlier, the Cooperative movement was initiated in 1904 "with the express object of supplying credit to rural masses at a reasonable rate of interest"²⁸ and to promote thrift. These agricultural cooperative credit societies functioned like "elementary banks in the sense that these received deposits, advanced loans and opened accounts for their members."²⁹ In course of time, some of these primary societies had more deposits than could be gainfully utilized while others were short of deposits. As the number of societies grew, it became fairly impossible for the Government to operate a system for transferring resources from one category to the other. It was also seen that Joint Stock Banks were reluctant to advance money to the societies. Secondary cooperative societies thus had to be created for meeting the credit needs of primary societies.

25. Ordinarily, membership of secondary societies should have been confined to primary societies only. This was possible only in case of cooperative banking unions which had small areas of operation. A central cooperative bank was either meant to feed primary societies in a district or a tehsil (an administrative unit, about four to a district). Central banks pursued a policy of selective admittance to individual members primarily with the object of attracting deposits.³⁰

26. Soon a balancing role was required among surplus and deficit central banks. In 1924 a third tier was added to the structure. The Punjab Provincial Cooperative Bank was the "apex financial institution which could coordinate the finances of secondary institutions, receive surplus funds from certain central banks and advance loans to those which needed financial assistance".³¹ In addition to secondary societies, i.e. central banks/banking unions, certain primary societies also became affiliates of the provincial bank.

27. One other form of cooperative financial institutions was the mortgage bank. The experience and performance of these varied from province to province. These provided long term loans for

- a) redemption of mortgages;
- b) the improvement of land and methods of cultivation;
- c) the liquidation of old debts;
- d) the purchase of land in special cases.³²

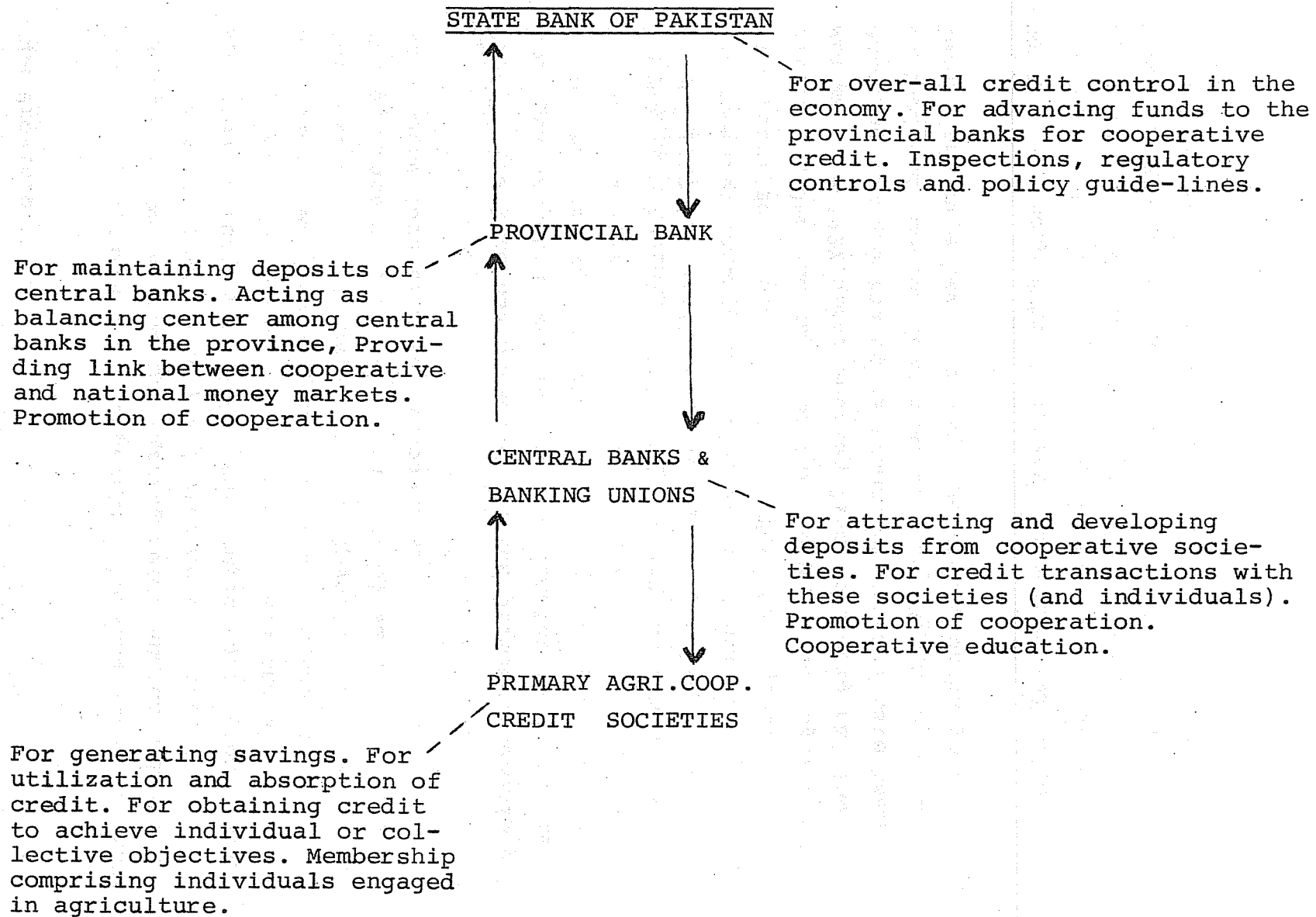
In the Punjab some of the mortgage societies relied on their own resources while others drew on the central banks like ordinary primary societies. These had only a

fractional impact on the total cooperative finance in the Province.

28. This three tier cooperative banking structure thus functioned to balance the varying needs and capabilities of the affiliated primary and secondary societies and operated as such until 1976. The simple three tier system shown later was arranged in a loose hierarchical order with each tier depending and drawing upon the other to the extent of its needs and the capability of the other. The elements of regulation and control were non-existent. In a sense each tier was autonomous.

29. The internal structure of the primary, secondary and apex societies was essentially similar in so far as these had very widely based electoral colleges for election of their managements. All these tiers function under the Cooperative Societies Act, 1925 - which is a modified version of the 1912 legislation mentioned earlier. The later Act was repealed through the 1925 Law but a number of 'savings' were provided through Section 72 for the societies already existing under the repealed law. Subordinate legislation was made in 1927 under Section 71 of the original law. Both the law and the rules framed thereunder have been revised and amended from time to time though the basic legal structure has remained essentially unchanged.

30. All cooperative societies are required to be registered by the registrar who is the principal government officer assigned the responsibility of developing, supervising and regulating the cooperatives in a province. He is head of the bureaucracy dealing with cooperatives. He exercises vast powers under cooperative laws.



31. Each society at the time of its application for registration is required to submit a copy of its proposed Rules of Business (referred to as bye-laws). These must be in line with the law, rules and general policy of the government on cooperatives. Though within these broad limits, each cooperative society is free to frame its own rules, these are commonly drawn on standard lines. Primary societies have direct elections for committees of management which are elected for a specified period of time and are responsible for running the society in accordance with the objectives set out in its bye-laws.

32. To see the manner of functioning of secondary societies, we have studied the constitution of the Central Cooperative Bank, Lahore (now dissolved). The pattern is broadly typical of similar other secondary societies. Each member had one vote in the general meeting and the membership was open to:

- a) all registered cooperative societies in the area of operation of the Bank;
- b) those individuals who sponsored the Bank at the time of its registration;
- c) all other individuals who are approved for admission as member by the managing committee of the Bank.

All members were required to have financial interest in the Bank equivalent to one share at least. The value of each share then was Rupees 25.³³

33. Two important aspects of the banking operations deserve mention here on account of what is to be discussed later in this paper. First, the objects of the Central Bank and secondly, some of the functions of the managing

committees. Performance of a Central Bank can be best evaluated with reference to these two aspects. The objects listed in the constitution of the Bank are:

- a) to facilitate operations of registered cooperative societies;
- b) advancing loans to individual members for 'necessary purposes' subject to certain limits and;
- c) to grant loans to non-members on certain specified terms and conditions.³⁴

The objects also include supervision and audit of registered cooperative societies which have financial dealings with the Central Bank; providing cooperative education to members of such societies and taking 'other measures designed to improve the work and extend usefulness of such societies'.³⁵

34. The functions of the managing committee included examining the maximum credit limit fixed for each cooperative society by the Registrar or his subordinate officials. The committee could reduce the limit but could not raise it. It could determine the conditions on which loans were advanced to individual share-holders. It had the power to decide on the period of repayment of loans, rate of interest on loans and arrange for recovery of loans/interest.³⁶ Within the limits of its bye-laws and those prescribed by the Registrar, the Bank had a fair degree of operational independence.

35. The Punjab Provincial Cooperative Bank was established in 1924.³⁷ Its objects were largely the same towards secondary cooperative societies (also some primary societies which became affiliated directly to the apex Bank) as of

the Central Bank vis-à-vis the primary societies. In addition, it aimed at acting as a 'balancing centre', in financial terms, for the cooperatives in its province.³⁸ The functions of the executive committee, which had a term of three years, were essentially the same as of the managing committees of the dissolved Central Cooperative Banks.³⁹

36. The membership of the provincial bank and its executive committee was different from that of central banks. Membership of the former is open to all cooperative societies in the province which own at least one share of the Bank. In addition the Registrar and Chief Auditor of cooperatives, Punjab and representatives of governments of Pakistan and Punjab are on the executive committee by virtue of the offices they hold and by nomination respectively.⁴⁰ The Registrar is the ex-officio President of the Bank. He presides over the general meeting of the Bank and the executive committee.⁴¹

37. The general meeting comprises all ex-officio and nominated members and members representing cooperative societies, elected through the district meetings.⁴² There is thus an element of indirect representation. Meetings of all member cooperative societies of each district are convened to elect delegates for the general meeting of the Provincial Bank. One delegate is elected for every fifty member societies or a part thereof.⁴³ The general meeting elects the members of the executive committee (one for each district), it discusses the financial situation of the Bank, it declares dividends, receives and considers the audit reports.⁴⁴ The important powers of

a) approving the budget;

- b) fixing maximum limit on liabilities that can be incurred during the next year;

can be exercised by the general meeting only with the approval of the Registrar.

38. The most significant aspects that demands emphasis is the direct control of the government over the Provincial Bank through its president and nominated members. Bye-laws are framed under the 1925 Law on Cooperatives. A number of functions are exercised with reference to the parent law in which government through the Registrar exercises extensive powers to control and regulate all types of societies including the Provincial Bank. This is in line with the original thinking of the government at the time of initiation of cooperatives. The British in India had always placed a very strong emphasis on official sponsorship without which it was felt that cooperatives would fail to grow and would be stunted by individual interests and personal motivations.

39. E.M. Hough who made a scholarly study of cooperation in India wrote "official nurture is not the ideal method of sustaining a cooperative movement, but in the Indian context the choice was, as it has been largely ever since, between a government initiated and government fostered effort and leaving the impoverished and often apathetic people with the alleviation of their wretchedness which most agree, cooperation can bring about. What has, however, been imperfectly realised in general is the vast responsibility which the underwriting of the cooperative effort involved and implied.

There was no over-powering obligation to start the movement in the absence of full conviction as to its

possibilities but, having started it, there was and is, an inescapable moral responsibility for its development on sound lines. That the responsibility has been discharged with varying degrees of inadequacy must be apparent to any serious student of the movement."⁴⁵

40. I feel that the above extract admirably sums up the situation. That the movement was neither spontaneous nor popularly launched should have become all too obvious from the discussion so far. It is not entirely correct to think that the government then had many alternatives. The problem of rural indebtedness, its effects on agriculture and rural society had left little choice with the colonial government. We have also mentioned that numerous enquiries had considered cooperation as the single most important answer to the problem. Cooperation thus became a development oriented relief programme of the administration. The will of the administrators to do right by cooperation need not be doubted here but severe officialization seemed to have produced societies but little by way of a genuinely popular movement. Yet, the number of societies, memberships amount of cooperative funds and organization continued to expand and that process continues even now. It might sound inherently inconsistent and shall endeavour that the later discussion sheds some light on this point.

41. Cooperation in the non-state sector is being deliberately kept outside purview of this discussion. Apart from the fact this has generally remained at low level of development, it remains confined to dealings with informal and non-official sources of finance. Cooperative banks could at best deal with such societies as individual because these have no existence under the Cooperative Laws.

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C H A P T E R II

FEDERALIZATION OF COOPERATIVE BANKING

1. In the last chapter, we have tried to sketch a brief over-view of:

- a) the adoption of cooperation as a Government policy and the background to that;
- b) the growth in what was/is called cooperative activity from 1904 to recent times;
- c) the tendency of governments to utilize the infrastructure of cooperatives for implementing some of its new programmes as also some of its routine operations;
- d) the cooperative financial institutions which financed the societies and the new but not strictly cooperative functions. The three tier banking system. The manner and extent of government control over each tier.

2. We now turn our attention to the practical, legal and administrative acts for federalization. On October 9, 1976, the President of Pakistan promulgated an Ordinance (no. XL of 1976). This form of legislation was found necessary because the National Assembly was not in session and the President was "satisfied that circumstances exist which render it necessary to take immediate action". (Preamble of the Ordinance). Though cooperation was a provincial subject under the 1973 constitution, the provincial assemblies had earlier, by resolutions, authorised the federal parliament legislate on and regulate cooperative banking (Preamble of the Ordinance).

The Ordinance provided legal cover for:

- a) establishing a corporation to be called "The Federal Bank for Cooperatives"¹
- b) the share capital of the new Federal Bank was to be entirely government subscribed i.e. by the federal government, State Bank and the four provincial governments;²
- c) Provincial Cooperative Banks in re-organized form;³
- d) dissolution of secondary cooperative credit societies i.e. central banks and unions and their undertakings "transferred to and vest in the provincial cooperative bank of the province within which such cooperative banks are registered."⁴

Before we go on to describe the circumstances which led upto the federalization and the manner in which the new law was enforced, we will describe the new cooperative banking structure. I prefer this sequence because the new organizational set-up will, hopefully, explain and help understand the former a little better.

The Federal Bank exercises the following important powers under Section 17(2) of the Presidential Ordinance:

- i) "make secured loans and advances to provincial cooperative banks, multi-unit cooperative societies and, subject to the regulations framed for the purpose, to the officers and staff of the Bank".
- ii) "assist the Federal Government and the Provincial Governments in formulation schemes for the development and revitalization of the cooperative movement in the country in general and the provincial cooperative banks in particular".

- iii) "assist provincial cooperative banks in preparing their seasonal and developmental loaning programmes and conduct appraisal and undertake feasibility study of projects covered by such loaning programmes".
- iv) "encourage the development of special cooperative projects the objects or area of operation of which may extend to more than one province".
- v) "organise training in cooperation and cooperative banking for the employees of the provincial cooperative banks and other cooperative societies".
- vi) "ensure proper utilization of loans obtained from the Bank".
- vii) "carry out research on problems of rural credit and on such other matters as have a bearing on the development of the cooperative movement in the country".

5. The Federal Bank also has the power to inspect, lay down policy guidelines and given directives in regard to banking business to a Provincial Bank. It can even supersede the board of directors of a Provincial Bank. The Federal Bank, acting through the State Bank of Pakistan, can prohibit a Provincial Bank from accepting deposits or restrict the acceptance of deposits where it is felt that a Provincial Bank is acting to the detriment of interests of public, depositors and its own.

6. The composition of the board of directors of the Federal Bank ensures a high representation for the federal government. The private nominated cooperators have a nominal representation of five. Cooperatives are not allowed to elect representatives to the board (as

in case of the Provincial Bank). In a board of 18 members, 13 are ex-officio i.e. the Governor of State Bank, all directors of the State Bank, the managing director of the Federal Bank and one representative of the Federal Ministry dealing with cooperatives. Two directors are taken from each province, of whom one each is non-official. The Federal Government additionally appoints one non-official person as director. The break-up of the board, thus, is:⁹

- 1) Directors holding other official positions under/in the Federal Governments _____ 9
- 2) Directors holding other official positions in the four provincial governments _____ 4
- 3) Directors who do not hold any official position in Federal or provincial governments but are nominated directly or on recommendations of the provinces _____ 5

7. What becomes obvious from the composition of the board is:

- a) that the government of Pakistan has not taken any chances with control over management of the Federal Bank. Even in the unlikely event of the four official members from the provinces joining up, along with the four private directors from the provinces, the government of Pakistan would still carry its view through. Such as eventually is, however, quite unlikely since the provincial flag can be raised only within recognized limits and seldom to the embarrassment of the federal government. This is even more strictly applicable to those who hold official

positions in the provinces;

- b) that five private directors are, normally, drawn from among those who are known to be active and prominent in cooperation. They are in no way dependent upon an electorate of cooperators of the province from which they are nominated. The fact that they are nominated and not elected, leads them to depend on the pleasure of the federal government;
- c) high level of 'bureaucratization' at the policy-making level. Board of directors is the highest body in the Federal Bank. Thirteen out of eighteen members are highly placed officials of the governments of Pakistan and its four provinces.

8. As we have seen in chapter I, until October 1976 the Provincial Cooperative bank was the apex financial institution for cooperatives. Thereafter, this was no longer strictly true. The Provincial Bank now is no longer at the top of a three tier system. In the province, the Provincial Bank is the upper tier in a two tier system with all primary societies dealing directly with the provincial bank. The latter is now like the provincial head office of any other commercial bank operating through a network of 'branches'. The former central cooperative banks and banking unions which were the most important tier in cooperative finance, have now turned into branches of the Provincial Bank with no independent or distinct entity. The local character of the central banks, which operated on a strictly local basis, has been destroyed. Their successor-in-interest are no more than branches of a bank, remote and distant from the

local environment in which the former operate.

9. Cooperative banking in Pakistan had a 'two tier system in Sind and North Western Frontier provinces and three tier system in other areas. In a two tier system, the primary societies are directly affiliated with apex banks while in a three tier system the apex banks are at the top, the central cooperative banks or central multi-purpose societies in the middle and the primary societies at the base'.¹¹ Two tier cooperative banking was thus not new in Pakistan. In two of the four provinces, this was already the case. It is not merely the elimination of one tier but the effects of it and the essential characteristics of the new structure which provokes both curiosity and interest.

10. On 10th July, 1982, I had the opportunity of having a long and interesting discussion with two very senior officials of cooperatives department in Punjab. Both of them have been working with cooperatives in Punjab for the last thirty years and have been in highly placed position throughout the pre-federalization and post-federalization periods. One of them is presently Secretary, cooperatives to Punjab government and the other a highly placed official of the Federal Bank, but more importantly, he was Registrar cooperatives, Punjab during federalization. The information they lay before me, though in the nature of personal impressions, is nevertheless experience of those who participated in decision-making and were exposed to strong behind-the-scene factors that led to drastic re-organization of cooperative banking in Pakistan. As stated in the introduction, cautious reliance has to be placed on such information. In a sense such information is necessary to analyse and understand government data in

in its true perspective.

11. During this discussion in the cooperatives department, I could not escape their impression that federalization was intended to and actually did effect cooperative finance in Punjab more substantially than all other provinces. Punjab province was (and still is) (reference hypothesis b), page 3) considerably more developed in terms of cooperative institutions and operations as is evident from the table below:

TABLE 3: AGRICULTURAL COOPERATIVES¹²

1975-76	PUNJAB	SIND	N.W.F.P.	BALUCHISTAN
societies (no)	12579	421	2672	79
membership (000 nos)	604	80	116	2
credit (rs. in million)	79.90	5.15	6.78	negligible

12. The performance of cooperative banks in other provinces, notably in Sind and Baluchistan were in marked contrast with their performance in Punjab. In comparative terms, however, the performance and impact of the Punjab Banks on the rural economy were far wider as also deeper. The administrative infrastructure in Punjab was also considerably more developed since before independence. The central cooperative banks were the most vital link in the cooperative credit structure in the pre-federalization period.

The two cooperative officials observed that the State Bank of Pakistan was ever so critical of the commercial operations of the cooperative banks outside the sector. It prescribed restriction on cooperative credit but for a long time Punjab resisted the attempts of the state bank to assert its authority as the premier credit planner for the economy.

13. At a later stage, the State Bank managed to assert the authority to inspect the provincial and central cooperative banks. This aggravated the situation. The inspection by the State Bank revealed not only irregularities but also that the commercial operations of cooperative banks were not conducted on the secure lines characteristic of commercial banking in the country. These hazardously insecure operations of the cooperative banks became justification for further state bank intervention. In 1958, Punjab agreed to and asked for appointment of a banking Advisor from the State Bank. The appointment seems to have generated intense ill-will. The hostile atmosphere pre-empted all chances of an objective working relationship. It is not the intention here to apportion blame for the lack of a working relationship. We mention it because the two officers felt very strongly about it. The State Bank (I was told) had a further cause for complaint when the banking Advisor was removed from his office under rather unpleasant circumstances within a year of his appointment.

14. A word here on what the two officers had to say about the Sind province. Cooperative societies in Pakistan, especially the cooperative banks, were the political preserves of the influential elements in rural society. There was an undefined but clearly discernable connection between

large landed ownerships and control over central cooperative banks. Both these positions opened doors to political power. Those exercising this control invariably had political ambitions. Cooperative banking gave them avenues to exercise tremendous patronage which helped in building up a political career. In Sind, as in Punjab, the cooperative banks were strong-holds of the rural elite. While it may be true that they did not owe their wealth and influence to their control of cooperative banks, the latter tremendously strengthened their predominance in rural society, which is essentially factional in composition.

15. When Zulfiqar Ali Bhutto started his political campaign against the government of field marshal Ayub Khan in 1966, he faced hostility or at best indifference from the rural elite. In Sind, the province where he himself owned large estates, he ran into a wall of opposition. His foremost opponents and the supporters of government in rural Sind also controlled cooperative banks and Bhutto got a fair idea of immense political power that this carried for the incumbants. The manifesto of his Pakistan People's Party, therefore, understandably included an intent, *inter alia*, to reorganize the cooperative structure. This fitted well in his programme for promoting social justice and re-distribution of economic opportunities making these equitable. This is notwithstanding the fact that cooperative societies and banks did tend by and large to be inequitous in terms of distribution of benefits, and truly replicated the distributional and power structures in the society generally and the rural society in particular. The benefits being largely monopolized by the dominant factions.

16. Soon after assuming power as President in December, 1971 Bhutto brought the first change in the cooperative structure. A presidential order was promulgated on March 15, 1972¹³ which put into effect the following important changes:

- a) all individual members of the provincial and central cooperative bank were excluded. They were reimbursed for the shares they held;¹⁴
- b) all members of the management committees of cooperative banks who had held office for two consecutive terms were removed from their position for a specified period before becoming eligible to seek re-election;¹⁵
- c) where the number of members losing their seats on the managing committee exceeded one third of the total membership of the committee, the latter were dissolved and replaced by an administrator appointed by government until a new committee was elected;¹⁶
- d) persons who were engaged in trade, as a profession, became in-eligible to become or remain members of agricultural credit and agricultural marketing societies.¹⁷

17. The order appears to be pointing clearly in an unmistakable direction. The idea behind it was to overthrow the class which had used or misused the cooperative credit institutions as personal fiefs to strengthen and underwrite their own predominant role in the rural society. This intention is confirmed by the effect. The secretary cooperatives informed me that in Punjab, all the 29 cooperative banks were hit. As a result of removal of the veterans and old guards, all management committees stood dissolved. New

elections, the secretary said, were held amid fierce politicking and large scale use of political power. As a result, except in Jhelum District, nominees and protegés of the political party in power get into effective control of management committees of all cooperative banks.

18. Bhutto may have been motivated in his action by a genuine desire to give a new orientation to cooperative banking but in the process he was able to really hurt the feudalistic old guards who had withheld their support from him at a time when he needed it and asked for it. We cannot help feeling that it may be simplistic to explain the beginning of a process in terms of revenge and bitterness. This seems to strengthen hypotheses a) and b) at pages 3 and 4 but federalization came fifty-four months later than this phase.

19. The Secretary cooperatives was of the view that the Punjab banks were functioning well and that it was the weakness of the Sind banks which corroborated and deserved the criticism of the State Bank. Sind government was unwilling to guarantee the borrowings of its Provincial Cooperative Bank and the State Bank did not find the Bank sound enough to be eligible for large credits. This is borne out by the table below showing the cooperative agricultural credit in Punjab and Sind in 1973-74, which is approximately the time and stage presently under discussion. It also indicates the relative financial soundness of cooperative banks in the two provinces. While this takes us back to hypotheses b) at page 3, the only and indeed the best course is to see the performance of cooperative finance in Punjab and other provinces, notably Sind. Table 4 seen with table 3 highlight the inter-provincial disparity but no more.

TABLE 4: COOPERATIVE FINANCE IN SIND AND PUNJAB¹⁸

1973-1974 (rs. in mullion)	COOPERATIVE FINANCE	
	PUNJAB	SIND
Share capital	45.14	25.42
Reserves and other funds	41.40	13.85
Loans and deposits held	140.65	75.94
Credit advanced	208.61	10.30
Profit during the year	2.93	0.388

20. The table seems to substantiate the pride which Punjab took in the vigorous viability of its cooperative banks. The State Bank during this stage (I was told by the secretary) recommended a merger of the central cooperative banks into the provincial bank and not their dissolution. Even merger was considered 'inadvisable' by the provincial cabinet in its meeting on 23.10.1973 since it tended to undermine the cooperative character of the movement.

21. The legislation of federalization was sent to all provinces for their views before it was enforced. Punjab cooperative department opposed the proposed legislation (I shall not divulge the deliberations of the provincial cabinet since these have a confidential status which I must respect). We shall, however, refer to a Working Paper prepared by the Cooperative Department¹⁹ that adequately sets out the views of the official and specialized agency for development, control and management of cooperative

institutions.

22. The proposed legislation was opposed by the cooperatives bureaucracy in Punjab on the following grounds:

- a) the resolution to authorise and request the Federal Parliament to regulate and legislate on cooperative banking was moved in the Punjab Legislative Assembly on 30.3.1976. A number of members had at that time apprehensions, from both sides of the floor, that the cooperative movement may pass into the control of federal bureaucracy as a result of the proposed law. The finance minister had then given an assurance in the House that the new law shall provide for 'decentralization and democratization'.²⁰
- b) the new structure will 'eliminate local leadership'²¹ and deprive most cooperators of participation at decision-making levels;
- c) the new structure 'will retard capital formation at the grass roots'²² and be of little help to small farmers. The small cooperators will have little say at the level of the provincial bank;
- d) the proposed structure allowed little initiative and freedom of action to the provincial bank with most vital powers concentrated in the Federal Bank. The latter, in formulating policies, may not give due consideration to special local and regional requirements;
- e) the proposed structure did not recognize the inter-provincial differences in population, number and membership of cooperative societies and the volume of operations undertaken by these. Punjab deserved higher representation on the Board of Directors

on these bases.

23. No noticeable modification was made in the proposed law. The provincial coordination committee, in its meeting held at Murree on July 28, 1976, recommended the enforcement of the proposed legislation. The Presidential Ordinance on federalization was promulgated on October 9 and enforced on October 19, 1976. The manner in which the new laws was enforced also deserves attention. The Registrar Cooperatives in a letter on October 4, 1976 to the Government had warned that the dissolution of the central cooperative banks "would create panic amongst the depositors and the employees of the banks and may create a rush for drawal of deposits."²³ Though this possibility was discussed with the Minister, no action was considered possible or necessary.

24. Officials of the cooperatives department were assigned to various banks to physically enforce the dissolution and change over in the character of the central banks and unions. Magisterial and police assistance was also sought for physical enforcement of the new system.²⁴ The task assigned to the officials deputed by the department amounted to virtual take-over of the banks. Detailed instructions²⁵ were given to such officials for ensuring that on the appointed day all business was concluded and closed to facilitate a new beginning under the new system. Special police guards were requested at the banks for the fear that 'depositors may create a problem'.²⁶

25. After the dissolution on October 19, it was on November 29, 1976 that a certain percentage of the deposits could be withdrawn from the new branches of the provincial bank. The instructions by the provincial bank on that date were issued after a study of realisable assets and liabilities

of each cooperative bank. Depending on the viability of each bank, the permissible percentage varied between 0% to 88%. No government guarantee was extended in the new law to the depositors as was done in the nationalization of commercial banks in 1974. No withdrawals were thus allowed, nor was any assurance handed out to the depositors, until a month and eleven days after dissolution. Even then a depositor could withdraw only a specified percentage of his total credit. This percentage was revised from time to time as the evaluation of realisable assets became clearer. By January 1977, some of the dissolved banks were permitted to pay back their depositors completely.

26. The general manager of the Punjab Provincial Bank informed me, during discussion in his office at Lahore on July 27, that three banks still remain whose depositors have not yet been paid back. Except these, all other central cooperative banks have fully discharged their liabilities. He seemed to take considerable pride in this achievement because this has been possible, according to him, only through the continuing confidence of the cooperator who did not rush on the Banks and because of sound investment in real estate by the dissolved banks during the past 50 years or so.

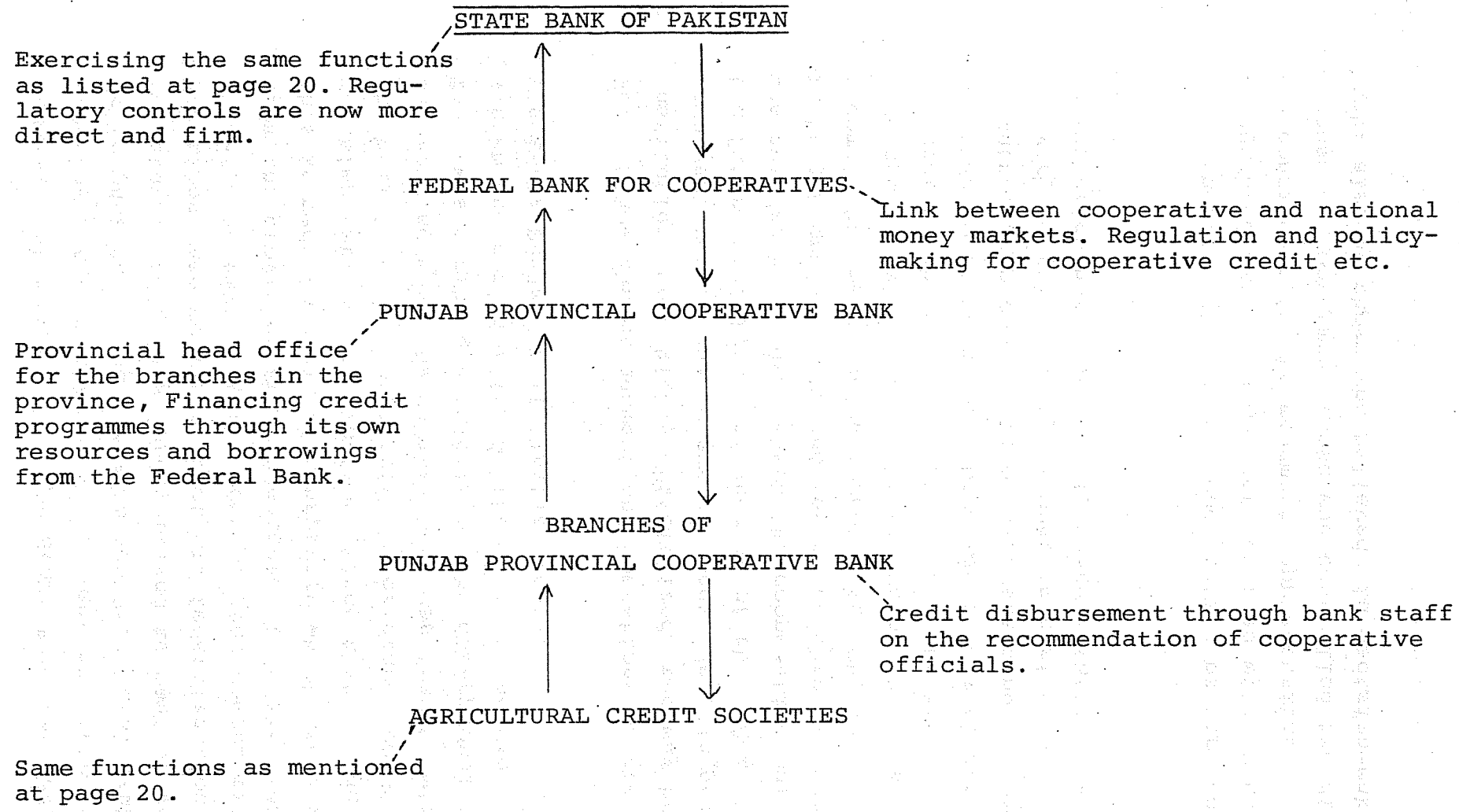
27. He complained of the discriminative government policy which closed its eyes to the effect that such unilateral and abrupt restructuring would have on a popular movement. He felt that government should have guaranteed discharge of liabilities as it did in nationalizing commercial banks in 1974. He felt that this omission seriously undermined the confidence of the people in cooperative institutions and it was only the resourcefulness of cooperative functionaries and the deep confidence that cooperators reposed in them

that the structure was saved from collapsing. In his view, the high standing of the official agents for cooperatives in public, saved the cooperative institutions (he kept repeating to me that even in those dark days when no withdrawals were possible and deposits were frozen, he was able to attract Rs. 0.5 million deposits for his branch, he was then manager of the dissolved Multan Central Cooperative Bank, which, after federalization had been turned into a branch of the provincial bank).

28. The Punjab Provincial Cooperative Bank is now the only cooperative bank functioning in the province through its branches. It is interesting to note that the Federal Bank for Cooperatives is not a cooperative institution. It is not established under the cooperative law. It is a company brought into existence through special legislation.

In a certain sense, the three tier system still exists so that the new structure is in no way simpler or stream-lined. We shall return to this in some detail in the next chapter. The cooperative banking structure since October 19, 1976 is organized on the following lines (see page 45).

29. As we have tried to show earlier, the lowest tier merely implements the policies of the middle tier. The role of the branches should better be left to the next chapter. We have, earlier, discussed the functions of the top and the middle tiers. The secretary cooperatives gave me the distinct impression that the Federal Bank used its vast powers to cripple the operational efficiency of the middle tier and reduce it to a level of total dependency. Before federalization, the Provincial Bank borrowed directly from the State Bank and passed on the funds to the central cooperative banks for their credit programmes. Now, the



Federal Bank borrows from the State Bank and adds its own handling / agency charges to the lending rate of the latter while passing on the funds to the Provincial Bank. The cooperative officials (and I talked to many in senior positions) are convinced that the federalization was intended to take away the control over cooperative finance from the provinces and concentrate it at the federal level. This is made to smell of conspiracy which might well be too simplistic an explanation. Since this was generally the belief in the cooperative bureaucracy, co-existence and working with the Federal Bank was fraught with problems. There was striking unanimity on the disapproval of the new system and condemnation of the role of the Federal Bank vis-à-vis Punjab in its initial years.

30. Since the management and operations of cooperatives institutions were highly officialized, the way bureaucracy receives, reacts and adapts to a new idea, largely determines the future usefulness and success of that idea. Federalization was just such an idea which the cooperative bureaucracy in Punjab opposed, stopped resisting when it became a fait accompli but never quite accepted it. The initial years, more specifically during the tenure of the first managing director of the Federal Bank (he was the banking advisor referred to in para 13), there was a general atmosphere of mutual suspicion, lack of understanding, accommodation and working relationship, I must emphasize that there is no intention here to apportion responsibility in the matter.

31. Federal control over cooperative banking was thus inaugurated amid an atmosphere charged with mutual suspicion, low confidence in the movement, apprehensions on future and a sense of loss among those who controlled the dissolved bank: also by those who believed in decision-making at

the local level where cooperative finance was needed and utilized. The senior cooperatives bureaucrats are clearly of the view this was the true situation in October, 1976.

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C H A P T E R I I I

IMPACT OF FEDERALIZATION ON RURAL COOPERATIVES

1. In the last chapter, we have described the re-organization of cooperative banking as a result of the federalization, the circumstances that led up to this restructuring and the manner in which the change was carried through. By now, we feel that the background has been adequately sketched to facilitate a study of federalization's impact on rural cooperatives. We will make two preliminary observations first:

- a) the establishment of the Federal Bank, for the first time, brought cooperative banking under direct control and regulation of the Federal Government. Until then, the provincial bank was the top cooperative bank hence most decisions (mildly restricted by limits imposed on borrowings from the State Bank) on cooperative credit were taken either at the central or provincial cooperative banks levels. Federalization took most of this decision-making away to the federal level. Earlier, the provincial bank afforded the vital link between cooperative banks and the national money and credit markets. Now this link was eliminated and the provincial bank was itself connected to the national money market through the Federal Bank. The State Bank, for cooperative credit, deals only through the Federal Bank;

b) the new Law did not alter any organizational and operational aspects of the primary cooperative societies. Yet the new Law drastically restructured the financial institutions on which most operations of these societies depended. It is only logical that this would ordinarily lead to a quantitative or/and qualitative change in the operations of these primary agricultural cooperative societies.

2. We shall first see the trends in cooperative credit in the pre-federalization phases. To indicate the importance of credit in the rural cooperative sector, we shall reproduce below some figures that should demonstrate the relative importance to the rural population of the various types of cooperatives. The idea being to show the true importance of credit in the rural cooperative sector.

3. The first set of figures related to the last year before federalization and the second relates to 1981, i.e. after the impact of federalization had stabilized and firmed up.

TABLE 5: TYPES OF AGRICULTURAL COOPERATIVE SOCIETIES IN PUNJAB

	CREDIT	SERVICE	DEVELOPMENT	MARKETING
AS ON ¹ 30.6.76	12658	1923	522	66
Membership	633674	95456	57573	4786
AS ON ² 30.6.81	20054	1858	468	32
Membership	780812	72129	47794	3358

4. The above comparison of the major purposes of agricultural cooperatives shows that the number and memberships of all types of societies has declined since federalization with the exception of credit societies. This suggests that credit cooperative societies continue to fulfil their purpose i.e. these are still satisfactory as a channel to a vital agricultural input. We must hasten to add, however, that this is only one possible conclusion. Another important and possible explanation could be that while the number and membership of credit societies are growing some of the older societies are becoming dormant through un-sound operations and default in repayments. We may mention that this is quite common and the cooperative statutes specifically refer to such sick societies. The official classification of these societies in terms of financial strength dates back to 1920s.

5. Financial viability of societies is thus an important part of each Annual Report on Cooperatives. For the 12658 credit societies on June 30, 1976 the break-down was:³

- i) A class societies - those which can function independently and which never defaulted in repayments. These could approach cooperative banks directly without departmental recommendations. 547
- ii) B class societies - those which are short of funds and are defaulters to an extent of less than 33% of members under debt, which have not paid interest and principal for 12 to 24 months. 2506
- iii) C class societies - those which have defaulted in repayments but are capable of maintaining accounts, recovering loans and are generally sound. 7752

iv) D class societies - those which are dormant after default of at least 3 years and are unfit to receive further loans.	427
v) New societies which have not completed a year of operation and are thus unclassified.	520
vi) Societies under liquidation.	<u>906</u>
	<u>TOTAL 12658</u> =====

6. Another comparison to identify trends and to supplement the data in Table 5 is the volume of cooperative credit from year to year during the two phases.

Table 6 below shows cooperative credit disbursed in the agricultural sector three years preceding and three years following the federalization.

TABLE 6: COOPERATIVE AGRICULTURAL CREDIT⁴ (Rs. in million)

PRE-FEDERALIZATION		POST-FEDERALIZATION	
1973-74	Rs. 132.63 ⁺)	1977-78	Rs. 111.80
1974-75	Rs. 70.56	1978-79	Rs. 334.23
1975-76	Rs. 79.90	1979-80	Rs. 580.02

+) includes special federal funds for restoration of flood damages.

TRENDS OF COOPERATIVE AGRICULTURAL CREDIT

7. The volume of cooperative agricultural credit has thus consistently increased over the years but it will be hasty to conclude that this is solely attributable to federalization of cooperative banking. It is important that one should also look at the policies of the government on agriculture and agricultural credit. We have provided some basic statistics in the introductory remarks to show the importance of agriculture for Pakistan's economy. Agricultural development is important, inter alia, for producing sufficient food-grain for the growing population, it is also important for boosting exports since Pakistan is essentially an exporter of primary products. As for the credit policy, Table 7 below should be highly illustrative.

TABLE 7: AGRICULTURAL CREDIT IN PAKISTAN⁵ (Rs. in million)

1	2	3	4	5	6	7	8
YEAR	ADBP		COOPERATIVE		COMMERCIAL BANKS ⁺		TOTAL
	Annual Average (share)	% Change	Annual Average (share)	% Change	Annual Average (share)	% Change	
1955-60	7.35	2844	32.00	88	-	-	52.00
1960-65	40.30 (31%)	448	72.00 (56%)	125	-	-	128.00
1965-70	89.62 (55%)	1122	59.00 (36%)	(-) 18	-	-	164.00
1970-75	230.46 (46%)	57	73.00 (14%)	24	179.00 (36%)	-	504.00
1975-80	545.68 (29%)	137	290.00 (16%)	297	1206.00 (65%)	305	1855.00
1979-80	711.55 (24%)	41	708.64 (23%)	126	1580.00 (53%)	31	3008.97
1980-81 Achievement	1066.00 (27%)	50 ⁺⁺	1127.00 (28%)	59 ⁺⁺	1800.00 (45%)	14 ⁺⁺	4003.23

+) Percentage changes over previous 5 years Annual Average.

++) Percentage 'change' change over 1979-80.

4. We will now like to show the performance of the three main credit agencies in the Punjab province and also how this compares with credit disbursement in other provinces. Table 8 below shows their comparative performance.

TABLE 8: AGRICULTURAL CREDIT DISTRIBUTION IN PUNJAB 1980-81⁶
(Rs. in million)

	Production Loans % share of total	Development Loans % share of total
Federal Bank for loans	<u>1048.58</u> 94.24	-
Commercial Banks	<u>297.78</u> 42.66	<u>158.17</u> 37.30
ADBP	<u>68.53</u> 45.82	<u>602.30</u> 75.60

Note: The fourth source of agricultural credit - direct government loans has not been shown owing to its nominal volume.

9. It is clear from the above table that the Federal Bank has participated in a very big way in credit disbursement in the Punjab. Production loans are short term and advanced for purchase of inputs. In fact 94.24% of Federal Banks, total loaning for the purpose was in Punjab province and only 5.76% in all other provinces. It is also obvious from table 8 that commercial banks, and more specifically the ADBP, are assuming responsibility for the development credit. It is interesting to note that 72.18% of production loans by all banks are advanced in Punjab while 61.75% of the development loans are advanced

disbursed in this province. It is worth noting that Sind, which is the next largest recipient of credit from these banks, got 9.36% and 21.24% of the total production and development credit.⁷ This very seriously weakens hypothesis b) at page 3.

10. To emphasize the last point made in the foregoing para, we would like to reproduce another table. Table 9 shows the importance of Punjab for the credit agencies.

TABLE 9: PROVINCE-WISE DISTRIBUTION OF AGRICULTURAL CREDIT⁸
(Rs. in million)

1980-81	Punjab	Sind	NWFP	Baluchistan	Total
Production	1414.89	383.44	139.83	22.16	1900.22
Development	760.47	261.54	188.21	21.17	1231.39
Total loan	2175.36	644.98	328.04	43.33	3191.71
Percentage	68.16	20.21	10.28	1.36	100

11. Prominent features of agricultural credit can only be briefly discussed here but these must find mention because its development and the policy behind it are a dynamic frame-work within which cooperative credit has developed. The latter directly depends on the credit policy of government since 1976.

- a) agricultural credit has expanded at a tremendous rate in Pakistan which underlines a deliberate government policy in that direction;
- b) the two earliest institutional arrangements made by the government for a) above were the establishment of the Agricultural Development Bank of Pakistan (ADBP) and the initiation of commercial

banks into agricultural credit in 1972-73;

- c) the third institutional arrangement was the setting up of the Federal Bank for Cooperatives so that the cooperative sector was also merged into the agricultural credit market. The latter is now directly controlled and regulated by the Federal Government;
- d) the formulation of agricultural credit policy is no longer ad hoc, it is deliberate and comprehensive. Since 1972, a high powered National Consultative Credit Council has been established, chaired by the Governor of the State Bank, which advises the government on 'credit expansion within safe limits' and sets specific targets for agricultural loans.⁹ The Agricultural Credit Advisory Committee of the Council is also chaired by the Governor State Bank which signifies its importance. It comprises federal and provincial experts, representatives of credit agencies and agriculturists;¹⁰
- e) the State Bank has special lending rates to encourage investment in agriculture. Lower rates of interest make agricultural credit operations attractive for the credit agencies and concessionary for agriculturists. To ensure achievement of targets, the State Bank ensures a special interest free deposit equivalent to the short-fall from a Bank when it defaults in achieving its mandatory target;¹¹
- f) major objects of the policy continue to be:¹²
 - i) reaching a larger segment of farmers;
 - ii) improving credit availability for the small farmer;
 - iii) simplifying procedures, making credit economical and related to productivity;
 - iv) re-vitalization of cooperative credit.

g) during 1979-80, the Federal Government decided to advance interest free credit for production to small farmers. The volume of such loans has become sizeable. The Federal Bank for Cooperatives alone advanced Rs. 816.67 million, free of interest, during 1980-81 compared to Rs. 461.65 million in the preceding year.¹³

12. Within the frame-work of the National Agricultural Credit Policy, the Punjab province is the foremost beneficiary owing to its very large agricultural sector. Table 9 is indicative of its massive share in the total credit advanced in the agricultural sector. One point that I hope to have put across through the preceding data and discussion is that the national monetary policy has consistently been for expansion of agricultural credit. Data also shows that Punjab has all along received by far the largest share of the ever-expanding agricultural credit and the Federal Bank for Cooperatives is only one of the three more important sources of institutional agricultural credit. Volume of agricultural credit has clearly increased from all three agencies.

13. In the pre-federalization phase (1970-75), the average annual credit disbursement in the cooperative sector was 14% of the average annual credit by all agencies. It is also worth noting that this share of the total was as high as 85% during 1950-53; 56% during 1960-65 and 36% during 1965-70.¹⁴ During the post-federalization phase the average cooperative credit annually in terms of share of the total agricultural credit indicates the following trend¹⁵

- a) during 1975-80 - 16% of the total
- b) " 1979-80 - 23% " " "
- c) " 1980-81 - 28% " " "

14 Cooperative credit in Pakistan has thus steadily increased in absolute and relative terms since 1975-80. This coincides very closely with federalization but the steady expansion in cooperative credit should not be seen in isolation but in the total context of agricultural credit. It will be too hypothetical to presume or argue that the situation would be different if the Federal Bank had not been established or if the old structure of cooperative banking would not have risen to the demands of the national credit policies, had it been allowed to continue. Either presumption would be difficult to substantiate specially since cooperative banking is one part of a larger whole which was being propelled upwards with a tremendous boost from the government. This seems to strengthen hypothesis d) at page 4 i.e. the development motivation behind federalization.

LOCAL AND CENTRALIZED BANKING FOR RURAL COOPERATIVES

15. Since the Presidential Order of 1972 (referred to earlier), all individual members of secondary cooperative societies had been excluded. As a result, only societies remained affiliated with cooperative banks even before 1976. Cooperative agricultural credit, since 1972, is thus disbursed only among societies. The beneficiaries of expansion in the credit are the growing number of cooperative societies. It appears that since federalization, the agricultural cooperative societies have a much better access to credit than before. We have, nevertheless, little basis for suggesting that this is solely or mostly due to federalization. Perhaps the discussion to follow will shed some light.

16. We would now like to discuss the organizational superiority of the new system of cooperative banking or the lack of it. One good way of analysing it was to elicit the views of those who have worked with both structures. This is to be analysed in conjunction with one's own appraisal of how far the new system was organizationally more suitable for the achievement of its objectives. I had the opportunity of long discussions with the vice-president of Punjab Provincial Cooperative Bank on July 29 and 31, 1982. He holds the highest office that is available to a non-official in the provincial bank and as such his views deserve serious consideration.

17. We shall first provide a brief introduction to his background before coming to his views. We must mention that he is highly typical of the class that dominates cooperatives in the province and controlled the cooperative banks when these existed. His record will have striking similarity with countless others in Punjab. The vice-president is scion of a prominent and influential rural family from Kasur. His father remained president of the Lahore Central Cooperative Bank from 1950 to 1972 when the presidential order placed limits on tenures and he had to step down. He was elected president in his father's place and continued as such until dissolution of the central banks in 1976. He was elected VP of the provincial bank in 1978. Since the law (an Ordinance of 1981) requires him to step down for three years after two terms, he plans for a close relation to step in while he sits through the mandatory period before returning to his old job. He is as confident of his own re-election as of the election of anyone else he sponsors. His past performance seems to demonstrate that this confidence is not misplaced. He has solid support of influential cooperators who will

rally behind him when called upon as they did a generation earlier behind his father. The solidarity of his faction, based on common economic interests, is the best guarantee of its pre-dominance as shown in the last more than 30 years.

18. Such are the loyalties and camp affiliations among cooperators in this province, built up deliberately and consciously through series of good turns and politicking to cultivate, muster and retain a permanent support. Every district and its sub-division in Punjab has comparable stalwarts who have dominated the cooperative scene since far back in history. The management is either with them directly or it looks up to them. To discuss that further one would have to go into basic facts of power and class structure in the rural society which are the only comprehensive explanation of phenomenon like the personality we are describing.

19. In the vice-president's office, on July 31, I met one Mr Mohammad Alam. The old gentleman told me that he had been director and vice-president of the Pakpattan Central Cooperative Bank from 1940 to 1972. He was also nominated director of the Federal Bank for a three years term. He regretted that the bureaucracy disliked his candid view which is why he was out of office now. The management of cooperatives has been, in short, a preserve of rural elite. We need not go into the relationship between cooperatives and politics. In Punjab, these go hand in hand. One is the means and the other the end and vice versa. Political families have long associations with cooperatives; it is also true the other way around.

20. I discussed, primarily, two points with the vice-president. First, what was the object of federalization and what effect this has had on cooperative societies. Secondly,

what are the advantages of the present system and how it compares with the earlier structure in terms of usefulness to the cooperative societies. We shall list his views below which, incidentally, were generally shared by Mr Muhammad Alam:

- a) Bhutto desired complete control over the patronage that could be exercised through cooperative banking. He was keen on building and strengthening support for himself in the country-side. Cooperative banking was a very effective source of rural credit that had a well-developed and elaborate infrastructure in the rural area. The potential, for helping his partymen and attracting others through use of cooperative finance, was promising. In other words the financial institutions of cooperatives were dissolved (replaced by a new and a different system) to use its successor for creating political support for the regime. It was, hence, predominantly a political decision rather than economic or developmental. There was also a punitive element inherent in the decision. Bhutto was resentful of those who had refused him support or had opposed him in his struggle for power. He was not willing to let them continue controlling such politically important institutions.
- b) The effect of federalization on cooperative societies is mostly qualitative. As far as the availability of credit goes, this is much greater since the establishment of the Federal Bank. In fact, there is so much pressure for meeting mandatory credit targets that the entire official cooperative structure strives to meet it at all cost even if this involves compromising on the security of loans. Achievement of targets being the foremost

consideration, other economic and banking considerations are thrown overboard. Since federalization, the cooperative societies have done remarkably well in terms of credit absorption (as distinct from proper utilization).

In Punjab, according to the vice-president's cautious estimate, about 30% of cooperative societies were 'one man societies'. This implies that one person or a small group of two or three members monopolize the benefits accruing to the Society. Other members exist only in name, for meeting procedural requirements. Mr Muhammad Alam thought that the number of such societies was as high as 90% of the total. It was their view that such societies have flourished since federalization. The post-federalization system being remarkably conducive to the proliferation of such societies.

Although figures are not readily available to show the non-agricultural operations of the Federal Bank, its operations are primarily agricultural. As a matter of policy, the board of directors of the Federal Bank has, from the beginning, discouraged non-agricultural operations and focused its resources on agricultural sector. The Chief Auditor of cooperatives informed me, during a discussion in his office on July 31, that even the viable industrial units run by cooperatives have to turn to commercial banks for meeting their financial requirements and the Federal Bank refuses to commit funds even in profitable and safe industrial operations of cooperatives.

c) From a purely economic stand-point, federalization was a sound decision though it was unnecessary to dissolve the central banks. These could have been retained so that the local character of these financial institutions was not lost to the cooperative movement. By integrating cooperative banking into the national credit market, the former has been exposed to the modern banking practices and procedures. Earlier, cooperative banking had functioned in a closed field and in isolation, it still retained its early 20th century character. This was in no way suited to the modern times. The Bank officials, despite their practical experience, were less than half-educated in what is modern banking. This is true even now since it was not possible to shed off most of the higher staff without causing human hardship and dislocating work while there was no let-up in the pressure for crop loaning.

There was complete lack of harmony and cooperation between the Federal Bank and the Punjab bureaucracy related to cooperatives. The first managing director of the Federal Bank suffered from the hostility and suspicion of the Punjab set-up. Federal Bank was reduced to a state of helplessness. None of its resolutions were allowed implementation in Punjab. The Federal Bank wanted greater participation of the local branch managers in the loaning operations. Its efforts were blunted by the Punjab bureaucracy. The Federal Bank laid down a new loaning procedure, to bring the existing procedure somewhat in line with requirements of adequately securing the loans. This has not been enforced to-date because the Punjab bureaucracy considers

it cumbersome.

The vice-president supplied me with a copy of a memorandum prepared by the Federal Bank on 11.9.1978 on the subject of 'Inspection of Punjab Provincial Cooperative Bank'. The memorandum lists various instances of lack of a working relationship between these two important institutions for cooperative finance. The memorandum states, "The inspection was started on 24th February 1978. Its progress remained slow because of the unwilling attitude of the staff in furnishing books, records and other information required for completing inspection." (page 1)

The memorandum mentions instances of mis-management, unsound investments, poor record-keeping and unsatisfactory banking procedures despite repeated advice by the Federal Bank on these points. The Federal Bank regretted that the provincial bank "does not have a team of qualified and competent officers at its Head Office, most of the Zonal Offices and the branches. The staff has miserably failed to reorganize any aspect of the Bank, be it administration, accounts, personnel, branches, loaning or any other important portfolio." (page 12)

(I also had the opportunity of studying a note prepared by the Punjab cooperatives department intending to place on record a history of excesses of the Federal Bank against the Punjab Bank. The note observes in conclusion that "the managing director (of the Federal Bank) perhaps has some old grudge and is out to destroy the entire cooperative movement in the Punjab". The note reads essentially as denunciation of the managing

director of the Federal Bank. The reason why I refer to these two official documents is to emphasize the state and extent of confrontation between cooperative bureaucracy in Punjab and the Federal Bank, more specifically its managing director. Its intensity remained unabated until the first managing director completed his tenure and left office in 1981. The result of this confrontation was lower operational efficiency and both institutions could not give off their best to the client cooperative societies. In the ultimate analysis it was the latter which suffered or at least had lower benefits due to infighting between the two.)

The local character of the dissolved central cooperative banks, the vice president felt, does not exist in the branches of the provincial bank. The bye-laws of the Punjab Provincial Cooperative Bank provide for a district advisory committee under section 43 and 44. The membership of this committee is largely nominated and has a very loosely expressed advisory role in respect of branches in its district. It is in no way an adequate substitute for the efficient management by locally elected management committees of the dissolved central cooperative banks. These latter committees, comprising leading local cooperators, not only exercised effective powers in relation to banking operations, these were deeply familiar with local conditions and requirements with little need to rely on bureaucratic decisions which incidentally is the unfortunate situation now.

- d) The vice-president sketched a pessimistic scenario of the bureaucratic role in the movement today.

He complained of corruption at most stages. He felt that federalization has enhanced the incidence of mal-practices and bureaucratic excesses. As a result of passing the management from locally elected cooperators to the cooperative bureaucracy, the loaning operations have come to depend on exercise of bureaucratic discretion rather than local knowledge of eligibility, genuineness of need, performance of the cooperative society etc. Now, grant of loans depends largely on the indulgence of the local bureaucracy of cooperatives.

Maximum credit limits are sanctioned, on application, by the Inspector of Cooperatives or Assistant Registrar up to Rs. 1.00.000.00. This sanction is presented to the local branch manager who does nothing beyond issuing a bank draft. This is presented to the supplier of the agricultural input required by the society. The branch manager has no role in the loaning operation beyond this and no responsibility for recovery. The field staff of cooperatives department share the bounty with the cooperative societies especially where these are 'one man societies'.

The vice-president observed that most traders of agricultural inputs in Punjab are in business because inputs originally supplied to cooperatives on credit are commonly sold to them at very favourable rates. Fertilizer supplies to cooperatives, for instance, is at special reduced rates. The trader, when retailing such fertilizer, is confident of a sizeable profit but while this fertilizer is shown as supplied on credit in the cooperative sector, it is in fact utilized outside it. The credit disbursed in kind is thus converted

into cash and unproductively used for purchase of cars, on marriages etc. The vice-president thought that cooperative credit was being widely misused because there is no popular participation and the bureaucracy is sponsoring those who collude with them in mal-practices. Petty cooperative officials are abusing cooperatives with help from such locals who are keen to earn easy money without qualms on the propriety of the means. Cooperative loaning is hence being used for personal aggrandisement by the two. The vice-president was bitter about the situation because the cooperators were helpless owing to a high degree of bureaucratization of the system.

21. Another example of how the system was being misused through twisting of facts and distortion of statistics by the bureaucracy was in the matter of recovery of loans. Since 1977, recovery rate of credit advanced for only one crop was 76.06%. For the remaining seven crops, the rates of recovery vary between 93.27% to 96.88%.¹⁶ In case of loans advanced by the commercial banks in the farming sector, the rate of recovery in Punjab last year was as low as 32%.¹⁷ During 1973-74 and 1974-75 the rate of recovery for cooperative loans in agricultural sector were 30.02% and 34.11% respectively.¹⁸ During 1972-73 the rate was 35.89%.¹⁹ It was 30.5% and 31.8% during the 1971-72 and 70-71 respectively.²⁰ In the last year before federalization, the rate of recovery was no more than 35.37%.

22. It is clear that between 1970-71 and 1974-75 the rates of recovery have varied between 30.02% and 35.89%. How has it jumped to a steady 90% plus in two years, when other loaning agencies like commercial banks are still struggling

at 32%. (As an executive officer in the field between 1978 and 1981, I am aware of no special efforts by the cooperative bank to recover its loans).

The ADBP and the Commercial Bank have far more elaborate arrangements. These pay the provincial government for appointing special recovery staff, give them large incentives and logistic support. In comparison, cooperative banks efforts pale into insignificance. The situation intrigued me and more so because I was not getting a direct answer to my queries.

23. It is not the intention here to belittle the efforts by the cooperatives department to step up rate of recovery. We need not doubt that these efforts are well-meaning and comprehensive yet one has to close one's eyes to hard realities of the rural situation to believe that the improved recovery efforts can make a difference of nearly 300% in a matter of months.

24. I learnt later on the authority of the vice-president that this was quite easily explained. The funds for loaning are received from the Federal Bank in addition to provincial bank's own resources. A target for recovery is already fixed and to achieve this the defaulting societies are sanctioned another loan but instead of actually disbursing it, this is diverted and reflected under recoveries. The vice-president revealed that sometimes a part of funds received from the Federal Bank, is returned after a few days shown as recoveries of previous loan. A part of the cooperative credit every year is thus shown as disbursed but actually only on paper and is in fact used to pay off outstanding loans to the Federal Bank. Such manipulations are, the vice-president felt, characteristic of bureaucratic way of functioning. They employ these devious

machinations without reluctance simply to show that cooperatives are consistently doing better than before.

25. Earlier, the cooperatives bureaucracy did not have such direct control over cooperative banking and the central cooperative bank had considerable operational independence. The responsibility of the cooperatives department for the performance of cooperative banking is now direct. The bureaucracy, the vice-president suggested, cannot afford to show a performance less outstanding than the privately run cooperative banking system which, at least to the extent of their own resources, acted independently some of the time. The new system allows no such possibility and on it depends the operations of rural cooperative that I set out to discuss.

26. The views of the vice-president may seem cynical. It must be kept in mind that he has, by no means, lost everything owing to the new system. Until he retains his position (10 to 15 years, according to him) he has a place in the present system. The rest, and most, of the former heavy-weights of cooperative banking have found a place on advisory committees in the district and are mostly concentrating at the primary societies level. Are they acting as spearhead of malpractices that I have discussed? It is difficult to get an authoritative answer because the bureaucracy will not admit and substantiate the malpractices in a system controlled by itself. Making a direct probe on one's own, bypassing the bureaucratic set-up, would mean carrying the inquiry down to village level hence a huge task. The question will thus remain unanswered. Given, however, the skewed power structure and intense factional commitments, it will not be un-

reasonable to assume that those exercising power would still be claiming a disproportionately large share of benefits from the expanding finance. One indication of this is contained in the phenomenon discussed here in paras 21-24. The difference between the pre-federalization and post-federalization rates of recovery of cooperative dues may largely represent the disguised benefits accruing to the powerful factions under the new system. Ends may have undergone little change but the means were bound to undergo a change with the restructuring of the formal institutions.

CONCLUSIONS

The discussion here and with those having long and meaningful associations with cooperatives, either as government officials or as non-official cooperators, assist in arriving at the following conclusions on the subject:

i) COOPERATIVES AND THE RURAL ELITE

The movement was started for the relief of debt-ridden peasantry. The colonial administration governed the countryside through active help of the local elite. Without this solid support, a handful of British and native officers could not dream of governing a country as vast as India. The support of the elite was inevitably sought for all government programmes, and it was rarely denied, be it rural re-construction, control of rural crime, a Viceroy's Relief Fund or contribution to a war effort. Cooperatives, for success in rural area, needed support of the elite. In course of time, the advantages accruing to this class from the new system began to justify the support that was initially given because the government had decided to popularise the movement.

The rural power structure, as also the national, was (and is) skewed and inequitous. Cooperative institutions were hence monopolized by the elite. The financial institutions were sources of massive patronage in addition to being financially rewarding for those who controlled these. In cooperative institutions other than banks, the privileged class was able to claim and usurp what was due to the less-privileged and the socio-economic system facilitated it.

ii) COOPERATIVES AND BUREAUCRACY

Cooperative movement was initiated under close government supervision. The rural population was not considered sufficiently motivated or capable of organizing and managing modern cooperatives, independent of government supervision. This led to officialization of the movement. The bureaucratic organization, therefore, expanded rapidly over the years. The number of cooperative societies, nevertheless, grew and so did the membership. Progress was all along computed in numerical terms and the development of cooperative movement has been made synonymous, in official appreciation, with the growing number of societies. From a typically bureaucratic viewpoint, increase in number of societies, membership and volume of financial operations are considered adequate measures of the development of cooperative movement. There is nothing that I observed or heard from veteran cooperative men that even vaguely suggested a distinction between the two.

Every field officer of the cooperative bureaucracy, in this scheme of things, must

ensure a progressive increase in the number of societies, volume of financial operations, etc. Any decrease would have to be explained. No connection is fused between organizing new cooperative societies and the need for cooperative education and motivation to cooperate. Between 1978-79 and 79-80, 10.314 new cooperative societies were registered which meant increase of 41.59% within a year.²¹ This campaign was launched to introduce cooperatives in every village of the province. The important fact to note is that education and motivation was not a part of this campaign. It was typically more in the nature of an administrative task that had to be completed and accomplished within a specified time.

The point that we would, therefore, like to emphasize is that, by and large, there is a well organized and a large bureaucratic machinery in the fore-front and the movement is tucked away in the back-ground. From the beginning, the bureaucratic role has been predominant and the bureaucracy has all along 'administered' the cooperatives. There is an obvious conceptual contradiction inherent in the situation. It is difficult to see how the two can be reconciled. I cannot help feeling that officialization has been carried too far to allow a popular and voluntary movement to function and grow as such.

It is difficult to say that cooperative banking was popularly run. The managements were non-official but control was concentrated in a handful of prominent families. It will, therefore, be erroneous to treat the management of the dissolved cooperative banks as even remotely popular.

What was certainly true is that these managements were more susceptible to popular pressures and alive to local situations. The bureaucracy in Pakistan is not credited with such responsiveness. This, in fact, is its most common criticism, be it in cooperative or any other sector.

It is obvious from the discussion in chapters II and III that the new banking structure is highly bureaucratized. The bureaucracy cannot function if the cooperative societies do not exist and the latter have not been allowed to function without the former ever-since 1904 hence a working relationship is forged between the two not so much in the interest of the cooperative movement but for continuing a system having some advantage for both.

There was indignation among leading cooperators against federalization because the bank which they controlled were dissolved. Also, there were no avenues for them to exercise authority in the new banking structure. The cooperative bureaucracy was hostile because the new law seemed to transfer power out of the province to the Federal Bank. The cooperative bureaucracy consolidated their control over the new system through:

- a) clamouring to protect the provincial interest;
- b) severe criticism of the Federal Bank for hostility to cooperative movement in Punjab and for asserting its authority in an area of which best knowledge was available only with the provincial bureaucracy.

Though there are allegations and counter-allegations, the simple truth appears to be that the new Federal Bank was endeavouring to enter a new field and the cooperative bureaucracy, being already well-entrenched there, was unwilling to

let authority slip through their fingers. The only serious defect in the new system is the elimination of local character of cooperative banking. It is true that the managements, though drawn locally, tended to be crowded by the socially and economically powerful rural families. The new set-up did not remedy it but cut it out and replaced it with bureaucratized control. It is true that the hold of the elite on cooperatives could only be broken through transforming the overall rural and national power structure. Yet, measures such as the legislations of 1972 and 1981 could go a long way in diminishing the control of the elite and creating conditions for participation of the rank and file of cooperators. The new structure has little avenue for effective participation of non-officials. It appears unlikely, therefore, that an intensely bureaucratized structure at the top would contribute to the growth of popular, participative and voluntary organizations under its aegis. It is not surprising that there is talk of 'One man societies' and other instances of mis-utilization of cooperative resources.

iii) WHY CENTRALIZED COOPERATIVE BANKING

By 1973, Z.A. Bhutto had succeeded in installing his own men on the management committees of almost all local cooperative banks. He had thus exercised patronage and could continue to exercise it through his party-men who occupied key positions in the banks. This consideration, therefore, was no longer valid in 1976. If it was revenge that he sought from the elite, he had more than wreaked it. It

appears, therefore, highly improbable that there were any significant emotional considerations behind federalization of cooperative banking (reference hypotheses a) and c), para 8, page 3.

What sounds reasonable is that Bhutto intended wide and deep accrual of benefits from cooperative credit. He has received massive support from the peasantry in the elections and he took great pride in having a broad-based support of the poor. The elite joined him after his initial successes but he always preferred being identified with the less privileged. This premise is re-inforced by his decision to induct commercial bank into agricultural credit in 1973. There is a clear indication that he desired a rapid expansion in the volume of agricultural credit with a definite bias for the small farmer. Cooperative banking before 1976 was not closely integrated into the national agricultural credit operations. After the nationalization of commercial banks in 1974, cooperative banking system stood out like a sore thumb for those who planned and implemented the agricultural credit policies. It, therefore, had to be made a part of the government machine to sharpen its responses to official policies on agricultural credit (reference hypothesis d) , para 8, page 4).

It seems highly unfair to make federalization look like a conspiracy against Punjab province. The statistics and discussion in chapter III clearly demonstrate that Punjab continues to absorb a very large proportion of the total credit in cooperative sector. Despite serious problems which the Punjab bureaucracy has faced in working with the Federal Bank, Punjab continues to be the major beneficiary

of the cooperative agricultural credit (reference hypothesis b), para 8, page 3).

iv) RURAL COOPERATION UNDER THE NEW BANKING SYSTEM

Cooperative credit in agricultural sector in Punjab has jumped from Rs. 38.69 million for the summer (KHARIF) crop in 1978 to Rs. 364.53 million²³ for the same crop in 1981. The beneficiaries are quite obviously the rural cooperative societies. The number of cooperative societies too has gone up from 22,289 to 41,037 (all types) in the same period.²⁴ Roughly the same is true of the membership. Quantitatively, the cooperative societies in the rural area should, therefore be providing a vastly more efficient service for their members since federalization. I have, however, already mentioned the difficulty in attributing the expansion in cooperative credit to federalization.

Cooperative movement as such, in my assessment, has apparently suffered a qualitative set-back since federalization. There is little ground for lauding the cooperative character of societies in the pre-federalization phase. The low degree of cooperative character and the in-equitous distribution of benefits were no secret. To the extent of primary societies, there is no organizational or operational change since federalization. In banking, the elitist character of management has been eliminated through dissolving local banks. Decisionmaking at the level of provincial and federal cooperative banks is overwhelmingly bureaucratized. In Pakistan, bureaucracy tends to have strong identifications and leanings with/towards the dominant interests in society. Direct bureaucratic control over the new institutions of

cooperative finance has made cooperative societies, their development and operations closely subordinate to the policies of the bank which finances their operations. Government has pursued a deliberate policy of expanding cooperative sector with a view to stepping up use of modern agricultural inputs, but without backing it up with corresponding educational and motivational programmes. This leads to serious inadequacies in the cooperative societies. A certain number of persons brought together, or shown in official records as forming a cooperative society, is by no means sufficient to fulfil the spirit of cooperation. The fact that bureaucracy dominates and controls all operations from registration to liquidation detracts seriously from the spirit of cooperation.

Cooperatives are being used primarily as vehicle for extending use of modern agricultural inputs and agricultural development. There is no evidence to suggest that government is keen on any other role for rural cooperatives. The new banking system assists the government in promoting which-ever function of cooperatives it decides on (reference hypothesis d), para 8, page 4).

I cannot help concluding that the new banking system has completed the process of bureaucratic control over all aspects of rural cooperatives thus leading to further qualitative deterioration in what is described as cooperation.

A distinction must, however, be made between the growth of cooperation as a movement and the huge infusion of agricultural credit through the official and officially controlled infra-structure which can be more aptly described as 'cooperative

organization' as distinct from institutions of a 'cooperative movement'. Whatever rural 'cooperation' had survived seventy-two years of growing officialization, has been administered a rude shock by federalization. 'Cooperation' has lost more ground to official organization, as a result federalization of its finance, than it did during all earlier crises and set-backs.

RETURN TO THE HYPOTHESES

References have been made to the four hypotheses set up (in the introduction) throughout the latter part of this paper. While Bhutto may have been driven originally by considerations of vendetta, these should have been satisfied by the 1972 legislation. Thereafter, the old elite had switched their support towards him and he had his own party supporters in the managements of cooperative banks. It is also demonstrated by the statistics in chapter III that Punjab province remained throughout, the largest beneficiary of cooperative credit programmes. There is thus little basis for supporting the theory of provincial preferences. The last hypothesis appears to be closest to real objectives. Pages 77 and 78 (iv) strengthen this impression. This is without detracting from the validity of what has been said at the beginning of this page. It is also without any reflection on the degree and intensity of bureaucratization of cooperative institutions, notably financial institutions.

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