

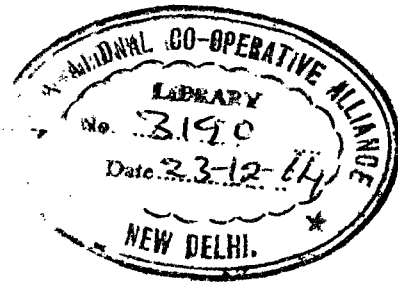
REPORT OF THE CONFERENCE
ON COOPERATIVE CREDIT
HELD AT LAHORE

27TH NOV.-2ND DEC.
1961

I. C. A. NEW DELHI

REPORT
of the Conference on
COOPERATIVE CREDIT

held at Lahore, West Pakistan, 27th November to 2nd December 1961



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from November 27th - December 2nd, 1961

Background - Pakistan

A Conference on Cooperative Credit was jointly organised at Lahore in December 1961 by the ICA Education Centre and the West Pakistan Cooperative Union. After publication of the Credit Enquiry Commission's Report in 1959, certain problems facing the Cooperative Movement in Pakistan had come to the forefront and the Cooperators in Pakistan desired to compare their experience with Cooperative Movements of other countries which also faced similar problems. Hence, at the request of the West Pakistan Cooperative Union a Conference consisting of representatives from Pakistan, India and Japan was organised to explore the possibility of evolving a coordinated structure, and devising methods for the speedy development of Cooperative Credit Movement in Pakistan.

Before partition of the Indian Sub-continent, money-lending, credit agencies, banks and industries were in the hands of minority communities in areas which comprise present-day Pakistan and which migrated to India after partition. As a result of this exodus trade and industry in Pakistan were almost paralysed. Hence, the burden fell on the Cooperatives to finance part of the trade and industry to avert the crisis. In this process the Cooperative Banks were involved in financing traders and individuals. As conditions have now returned to normal, the question of withdrawing the operations of Cooperative Central Banks from the commercial field is being considered. A second problem facing the Cooperative Movement in Pakistan is the question of reorganising the Cooperative Credit Structure as a whole. The provinces of Punjab, Sind, and North West Frontier have different credit structures. In Punjab there is a three-tier structure with the Apex Bank at the top, Central Cooperative Banks at district level and Primary Societies at the base. In other Provinces the two-tier system prevails. The Credit Enquiry Commission recommended abolition of the Central Cooperative Banks to maintain a two-tier structure all over the country, but the Government of Pakistan did not agree with this recommendation and planned to retain the Central Banks at the district level. The decision of the Government to organise Central Cooperative Banks at the district levels raised a number of problems relating to management, mutual supervision, lending to the farmers, medium and long term finances, etc.

Another problem was the question of membership of Central Cooperative Banks. Should it be open only to the Societies or should it consist of individuals as well as societies? The Credit Enquiry Commission recommended complete elimination of individual membership from Cooperative Banks. The problem of fixing the rate of interest also came to the forefront as the Commission had recommended 7% as the maximum rate at which the ultimate borrowers should receive loans from the Primary Cooperative Societies.

A very important question put before the Conference was the problem of recovery of loans from members. Recoveries were poor in Punjab as transfer of land for discharging financial obligations was prohibited. In Sind, recoveries were higher as land could be sold and loans could also be recovered as arrears

of land revenue. The problem before the Conference was: should coercive measures be used to recover loans or should the recovery be made dependent on the strengthening of a sense of mutual knowledge and responsibility among members? Should the Cooperative Department have any role in respect of recovery of loans from members?

In the field of agricultural credit, besides the Cooperatives, there are other agencies like the Agricultural Development Bank which was established in 1959. This Bank was originally started with a view to provide short term and medium term credit for agricultural purposes. It also provides credit in areas in which cooperatives were not developed. The Agricultural Development Bank and the Cooperatives almost work as competitive agencies in the field of rural credit. The problem before the Conference was of evolving a functional relationship between the Cooperative Societies and the Agricultural Development Bank. As both the agencies together provided only 15% of the total requirements in respect of agricultural credit, both of them have vast scope for expansion of their credit activities.

The Urban Cooperative Banks were functioning in cities like Karachi and Hyderabad. These banks are financing big industries and also have opened branches at far away places. The State Bank of Pakistan wants these banks to be brought within its jurisdiction as, in the opinion of the State Bank of Pakistan, they were indulging in commercial lending. The Credit Commission on the other hand recommended that these organisations should not be permitted to use the word "Bank" at all. The managements of the Urban Cooperative Banks feared that if the recommendations of the Credit Commission were accepted, it would have an adverse effect on the deposits of all the Urban Cooperative Banks in Pakistan.

The last question put before the Conference was of Personnel Management. The Primary Credit Societies were not able to employ paid staff. Also chances of promotion were not very bright within the Movement. The question of forming a cadre or integrating the staff of the Cooperative Societies was therefore introduced at the conference.

Japan

Average family borrowing in Japan is much less than the average savings. 50% of the credit requirements of the farmers are met by Agricultural Cooperative Societies. Linking of credit with marketing, purchasing and processing had a healthy effect on credit expansion. Since the land reforms in 1947-50, sale of land has been prohibited. Hence, land cannot be mortgaged for borrowing purposes. Cooperative loans, therefore, are given against personal security. The members also agree to buy and sell through the Cooperative Society.

The Central Cooperative Banks and Prefectural Agricultural Cooperative Federation cannot give loans beyond a period of five years. The long-term finances, therefore, are given through the National Apex Bank for Agriculture, Forestry and Fishery. There is a three-tier structure in Japan. The rate of interest to be paid by the ultimate borrower is about 10%. Crop insurance, (including cattle) has been introduced in most of the areas. A separate Bank exists in Japan for industrial cooperatives for small and medium scale industries. Because of the high standard of living and cent per cent literacy the recovery of loans is not a serious problem in Japan.

India

A three-tier Cooperative Credit Structure exists in India in most of the States with Apex Bank at the top, Central Cooperative Bank at the district level and the Primary Credit Society at the lowest level. In a few cases there are more than one Central Cooperative Banks at the district level. The structure at the Primary level is not uniform but in recent years attempts are being made to create economically viable units. Usually the population of 3,000 is considered to be the best area of operation for a Cooperative Credit Society. Although there are limited and unlimited liability societies in the country, the present trend is towards organising limited liability societies.

In India, the Reserve Bank of India finances the Cooperative Credit Societies to the extent of 200 crores through the Apex and District Central Cooperative Banks. It lends to the Apex Banks at 2% below the bank rate prevailing at any particular time. Lending at primary levels varies from 4-1/4 to 9%. The Reserve Bank of India also takes a promotional interest in the Cooperative Movement of the country. For stabilising the Cooperative Credit structure, a Credit Stabilisation Fund has been instituted in the Bank. Long-term finance for agricultural purposes is provided by the Land Mortgage Banks. These banks issue debentures which are guaranteed by the Government, and supported by the Reserve Bank of India, State Bank of India and the Life Insurance Corporation. A Long Term Operations Fund also exists in the Reserve Bank of India from which it subscribes to debentures of the Land Mortgage Banks. A proposal to set up an Agricultural Development Corporation for special long-term finances for river valley projects, plantation areas etc., is under consideration at present.

Emphasis is being placed on the development of Cooperative Marketing and Processing activity in the country and attempts are being made to link Cooperative Credit with marketing so as to ensure prompt recovery of loans and fair prices for produce of the members.

The Report of the Conference which follows, tries to bring together the main points which emerged out of the discussions. The descriptive part has been cut down to the barest minimum. Emphasis is given on the views which were expressed on various problems before the Conference.

District Central Cooperative Banks Vs. Branches of Apex Cooperative Banks

The question of deciding upon a suitable agency at the district level for extending credit to the Primary Cooperative Societies was discussed at great length. During the discussions two alternatives were suggested. The first course is the three-tier system in which the Apex Cooperative Banks extends credit to Primary Cooperative Societies through the agency of the Central Cooperative Banks. The Apex Bank does not directly lend to Primary Cooperative Societies except in a few cases where the Central Cooperative Banks are not able to finance the primaries to the full extent of their needs. The Central Cooperative Banks at the district level are federal in character and all the borrowing primary Cooperative Societies are members of these Banks. The other system is of a two-tier structure in which the Apex Cooperative Bank lends direct to Primary Cooperative Societies through its branches at the district and taluka levels. The Conference discussed the merits and demerits of the two patterns of organisation in Pakistan.

A number of arguments were put-forth in support of both the systems by delegates at the Conference. Advocates of the two-tier system claimed that a strong Apex organisation at the Centre was in a better position to serve the primaries as it is in a position to command greater resources. The Apex Organisation can mobilise the resources at the higher levels and make them available for use for the Primary Cooperative Societies at the lowest level, at which it has not been possible so far to infuse the habit of saving among members. It is also possible for the Apex Bank to borrow money from the market on the strength of its resources and make available adequate finance to the primaries for agricultural operations.

One of the forceful arguments put forward in support of the Branch Banking System was that the Apex Cooperative Banks were in a position to maintain a higher standard of efficiency with the help of trained and efficient staff for running the branches at the district level. The District Central Cooperative Banks, it was claimed, may not be able to maintain such efficient staff owing to the inadequate resources and the lack of means for training such personnel at the district level. It is also possible for the Apex Banks to maintain a common cadre of trained personnel for manning the branches of the organisation.

It was also pointed out in support of the two-tier system that the primary societies will be able to lend to the ultimate borrower at a lower rate of interest if the expenditure involved in running an independent bank at the district level was eliminated.

Similar arguments were also put-forth in support of the three-tier Cooperative Credit Structure. It was pointed out that experience in some districts in Maharashtra (India) had shown that with the establishment of Central Cooperative Banks at the district level the development of Cooperative Credit Movement had been speeded up as these Banks were federations of Primary Cooperative Societies, and were in a position to command confidence of the local population. The Central Cooperative Bank were also able to understand the problems of the member organisations in a better way as the leadership of this bank was drawn mainly from the area in which the bank operated. It was also pointed out that if the Central Cooperative Banks develop on proper lines, they will be able to play an important role in the development of local leadership at the primary and secondary levels of the Cooperative Movement.

The suitability of the three-tier structure with regard to the loan operations of the primary societies was also discussed. It was argued that it may not be easy for the Apex Bank to maintain contacts with the primary societies and this may hinder the process of assessing the correct demands of the Primary Cooperative Societies. The representation of Primary Cooperative Societies at the Apex level may also not be very adequate and the Apex Bank may not be able to formulate the policies exactly related to the problems and needs of the members of Primary Cooperative Societies. It was also argued that the Central Cooperative Banks may be able to stimulate the growth of democratic forces within the Movement and gradually help in the establishment of a healthy Cooperative Movement on democratic lines.

The Conference also discussed the question of rate of interest on loans in both the two-tier and three-tier systems. It was likely, the Conference felt, that in a few cases the Apex Banks may have been able to lend at a lower rate of interest through its branches, but by and large, there will not be any great difference between the rates of interest in these two systems. The experience in the State of Maharashtra in India also suggests that even after

the establishment of separate Central Cooperative Banks in districts it is possible for the Cooperative Credit Societies to lend to their members at rates previously charged by Apex Banks.

The general feeling was that in the initial stages and till local leadership has been developed fully, a two-tier arrangement could work by opening branches of Apex Bank at the district level. However, with the development of Cooperative Movement and with the increase in the demand for decentralisation there would be a case for converting the branches of Apex Banks into Central Cooperative Banks. It was also thought that whatever the structure, it is possible to intensify the efforts for meeting the adequate demands of the members of the Cooperative Societies by strengthening the resources and increasing efficiency in administration.

Structure at the Primary Level

The need for strengthening the structure at the lowest level has been universally recognised. To achieve this objective one of the main aims of future endeavour should be the establishment of viable units of cooperative services and business. Such units must be able to render effectively, on an appreciable scale, the functions and services which are expected of Primary Cooperative Credit Societies.

The test of viability should be the ability to bring about extension of adequate credit to a widening range of producers, to provide essential material and implements for production purposes, to attract deposits and to ensure that the loans are utilized for production purposes. If a primary society is able to provide these services, without depending on Government for an unlimited period it can be said to have attained viability.

If the Primary Societies are not able to carry out the above functions, it is because they have not been able to strengthen their financial position. Most of the societies are not able to meet even the bare minimum demands of members with regard to production credit. For the development of a strong and healthy credit structure, the existence of sound primary societies is necessary. The primaries shall have to develop their organic strength to maintain a sustained credit policy. The urge for developing internal strength may diminish if increasing reliance is placed on borrowing funds from outside the primary organisations. Strengthening of share capital and increasing the deposits are the two vital means of achieving self-reliance.

As the Cooperative Movement is essentially intended to promote thrift and self-reliance it has to pay greater attention to the problem of mobilising the local resources. The failure of primary credit societies to attract rural savings to any appreciable extent is mainly due to their inability to inspire, by their financial strength, confidence in rural investors.

The distinguishing characteristic of Cooperative Credit Movement is the emphasis laid on thrift, self-help and mutual aid at the different levels of the structure, including the primary borrower in the village. It is in this context that importance of owned capital in relation to the total working capital is required to be reviewed. Judged by past performance, it is evident that the process of mobilisation of resources by share capital contribution will be very slow unless individual share capital holding is related to the members borrowing from the credit society. If a link is established between the members' shareholding in and his borrowing from the society it will be easier for the society to

gradually increase the share capital and thereby secure the confidence of the members in the organisation. This can also serve as a margin of security for the creditors and as a cushion against contingencies and bad debts. It is therefore necessary to impress upon the members, through education, that the share capital contributed by them is not only evidence of their active participation in the society but is also helpful in giving an added strength to the credit structure as a whole.

Equally important is the question of attracting deposits to the Cooperative Credit Organisations at the primary level. The success of the movement will be judged, in the ultimate analysis, by the extent to which it has succeeded in fostering self-reliance at the primary level. This can only be achieved by attracting surplus in the villages to the society. The problem of attracting deposits is closely linked to the question of rural savings. An analysis of the present expenditure ratio of items other than food and clothing will show that the villagers do spend a certain portion of their income for various purposes other than the bare necessities. This suggests that there is a possibility of successfully tapping surplus income in rural areas through cooperative channels. The question usually asked is whether there is surplus in rural areas at all. The problem is not of having surplus but rather of the wrong approach of the villager in utilising his income. The fact is that the rural population lacks in propensity to save and here the cooperative organisations can play a very useful role by educating their members and persuading them to channel their savings through cooperative organisations.

As most of the primary societies have a very weak capital base it is usually not possible for them to employ an independent secretary for its day to day work. Eventually, when the societies will increase their financial strength it will be possible for them to have independent staff. In the mean time, the group secretary system, which has been successfully tried in many parts of India and Pakistan, may be a suitable alternative to employing separate staff.

The loan operations of credit societies and the utilisation of loans by members are at present supervised by officers of the Cooperative Department. This system is prevailing because most of the cooperative societies are organised at the initiative of the departmental personnel and hence the local leadership is ignorant about the true role of a cooperative organisation. Supervision, to be effective, has to be in the hands of persons who are in a position to recommend loans. For this type of work the staff of the Central Cooperative Banks should be more suited than the departmental personnel. Also, the Central Cooperative Banks have a vital interest in the recovery of loans given to members and it is, therefore, more appropriate that the responsibility for supervising the utilisation of loans should be with the Cooperative Banks.

Individual Finances by Central Cooperative Banks

Most of the Central Cooperative Banks in Pakistan are of mixed type having both the societies and individuals as their members. These banks finance individual members as well as traders for various purposes. As a result of the partition of the Indo-Pakistan sub-continent, there was dislocation in the banking structure in Pakistan and traders and individuals found themselves without adequate facilities for obtaining finances for various purposes. In these circumstances the Central Cooperative Banks were requested to finance individuals and traders and this practice is continued so far. The Central Banks also lend to individual farmers with large holdings as these farmers are not able to secure adequate finances from the Primary Credit Cooperative Societies. Most of the primary credit societies are not able to meet the bare minimum requirements of the average

members and hence if they were to finance the farmers with large holdings, the bulk of the credit available from primary societies will go to rich farmers. Hence, until the time the Primary Cooperative Societies are able to meet the requirements of all the farmers, the Central Cooperative Banks may be required to finance the farmers with large holdings direct. This may have an adverse effect on the loaning policy of the Central Cooperative Banks towards the primary societies. It is likely that the primary societies may not be able to borrow adequate sums from the Central Cooperative Banks as a result of direct lending by these Banks. However, it may also be argued that the Central Cooperative Banks are responsible for meeting the needs of all the farmers and hence they may have to continue the policy of lending directly to such farmers.

In principle, individual finance by Central Cooperative Banks is wrong. The Central Banks are federations of Primary Cooperative Societies and as such the primaries have a prior claim on the funds of these Banks. Therefore, the Central Cooperative Banks should gradually reduce the finances given to individual farmers and try to channelise their lending through the Primary Credit Societies.

The question of forming separate societies for big farmers was also discussed at the Conference. If the big farmers are not able to get adequate finances for their farming operations from the Primary Credit Societies, they should have the option of forming separate societies to secure their requirements for production purposes. In Sind, such societies have already been functioning for a long time. It is likely that if separate societies are formed for the big farmers, these societies will borrow large sums from the Central Cooperative Banks and the smaller societies may not be able to secure adequate finances for their loaning operations.

The question of big farmers not getting adequate finances from the Primary Cooperative Societies takes us to the problem of liability in a Cooperative Society. One of the reasons why big farmers remain outside the orbit of a primary credit society is the practice of having liability. The unlimited liability makes all members collectively responsible for repayment of all the debts of the primary credit societies. As such the big farmers are not inclined to join these societies. Perhaps, limited liability may attract such farmers to the societies; but the question can only be solved if the primary societies increase their financial strength and strengthen their resources and create a good base for loaning operations on a larger scale. It will always be in the interest of the Cooperative Movement, which seeks to reduce class distinctions within a community, to have one society for all farmers in a village rather than having more societies for various class of people. The rich farmers can also contribute very effectively in the efforts to strengthen the primary societies by channelling their surplus funds to these organisations. If they support the primary credit society by increasing the deposits and enlarging its base of share capital, such societies will be able to meet most of the demands of the farmers of the village. The big farmers can also play a very useful role in the growth of able leadership at the primary level. The primary unit suffers from lack of good leadership and this is one of the most important reasons why the societies have not been able to consolidate themselves.

Recovery of Loans

The discussions in the Conference on the subject of loan recoveries revealed that the Primary Cooperative Societies experience a number of difficulties in the recovery of loans from members. The delay in recovery adversely affects the

working of societies, the Central Cooperative Banks and as a matter of fact the functioning of the credit structure as a whole. Among the important reasons for slow recoveries were lack of supervision on the proper utilization of loans, inadequate finances by primary cooperatives, absence of cooperative marketing facilities and the inefficiency of the agencies responsible for recovering the loans.

One of the important draw backs in the credit policy of the Indo-Pakistan Sub-Continent is that, by and large, the grant of loans to individuals at the primary level follows landed property rather than the productive purposes for which the loans are taken. A system by which borrowers are required to have one or two sureties is also prevalent in most of the areas of this region. In these circumstances, a tenant requiring a loan for a credit-worthy purpose is not able to obtain loans under the existing practice if he does not own lands or is not able to get sureties who own lands. This is a great disadvantage to tenant farmers who are honest and industrious. It thus has an adverse effect on agricultural production. It is likely that after land reforms are carried out in all areas the farmers may be able to offer the mortgage of his land for securing loans from Cooperative Societies. But the objectives of a Cooperative Organisation is not to seek mortgage of lands of members to pay loans but to help the members in increasing the production capacity of their farms. It is, therefore, necessary for the cooperative organisations to cover the class of farmers who are tenant cultivators and make arrangements for giving them loans for production purposes, as it is not a wise policy to judge the creditworthiness of the members and ultimately of the society, chiefly by value of immovable assets possessed by the members. In a cooperative society the creditworthiness of the member should be assessed on the basis of his repaying capacity which in turn will depend upon his earning capacity and his surplus income. This basis for repaying capacity is also more appropriate in countries where programmes for reconstruction and developments are in the offing. If such a basis is accepted for evolving the credit policy, the credit of a member will depend on the extent to which he secures loans for production purposes and brings about an increase in his income and in his repaying capacity.

Another method of ensuring proper utilization of loans by members and its repayment is so far as possible, the supply of needs of the farmers in kind. The cooperative societies can supply the members fertilisers, seeds, implements in kind and deduct the cost of these articles from the amount of loans sanctioned to the members. In taking upon itself the responsibility to supply these articles the society will not only ensure proper utilisation of loans but will also be doing useful services to its members and also incidentally earning a small income for itself.

The capacity of a member to repay the loans largely depends upon his capacity to increase his production with the borrowed funds. Given adequate finances and other material required by him to produce on the farm it is possible for an average farmer to create a capacity to repay and also keep a reasonable share of his income for the maintenance of his family. In the absence of increase in production capacity, which largely depends on his getting adequate finances from the society, a farmer has to approach money lenders and other agencies for supplementing his income from time to time. Borrowing from outside agencies compels the farmer to give priority to these agencies while making repayments from his farm income. Hence the societies will have to endeavour to increase the percentage of loans given to members for production purposes so as to ensure prompt recoveries from members. In places where

experiments in adequate finances have been made, it is found that the members are able to repay the societies fully at the end of the harvesting season.

Another important aspect in respect of recovery of loans is the extent of involvement of a member in the working of the Cooperative Societies at the primary level. The members will be more interested in prompt recoveries if they have a larger stake in the affairs of the society. This means that the society must try to attract deposits from members, increase their share capital and get them involved more and more in the working of the society.

One of the most important methods in securing prompt recoveries of loans is the linking of credit with marketing in the cooperative structure. There is a significant trend in recent years in the Cooperative Movement of the Indo-Pakistani Sub-Continent for the development of Cooperative Marketing. The linkage of credit with marketing in areas where it has been tried, has helped to speed the process of recovery besides ensuring better prices for the produce of members. The Marketing Cooperative Societies, wherever formed, enable the primary credit societies to recover the amounts from the sale proceeds of the produce of members marketed by them. Such linking also leads to a better understanding amongst Cooperative Societies at all levels and is a very healthy step in the direction of horizontal integration of the Movement. The Marketing Cooperative Societies also enable members to make their produce suitable for sale by processing it wherever possible. Facilities for storage of commodities when they cannot be marketed with advantage also increases the possibility of getting increased returns for members from his farm produce and thereby increases his capacity to repay. Land reforms and improved methods of production can only be listed as other methods of increasing production and eventually increasing the capacity of the farmers to repay.

Coercive Measures

In some areas of India and Pakistan, the recovery of loans of cooperative societies are effected through the Revenue Departments. Cooperative Legislation in some parts enables the Revenue Department to recover the loans from members as arrears of land revenue. Although this practice may have facilitated recoveries to a certain extent, it is unfortunate that the Cooperative Societies should have been required to seek the help of the Revenue Department in getting back their money loaned to their own members. Also recovery of dues as arrears of land revenue is bad in principle and incorrect in practice. If the Cooperative Society is not able to recover the loans independently, it may at the most seek the help of the Cooperative Department, in getting back the money from the members. Also the practice of selling lands of defaulted members should be discouraged as the objective of the society is not just to lend money but to help members in increasing their production. This problem is linked to the question of effective supervision and proper utilisation of loans by members. Ordinarily, proper utilisation of loans itself should create a capacity among members to repay the amount borrowed from the societies. Coercive methods for recovery may not be very helpful and should only be resorted to when necessary.

In Pakistan an interesting programme has been initiated for bringing about intensive developments in agriculture. This programme is known as "Crash Programme". In areas covered by this programme, all-out efforts are being made to increase agricultural production. The introduction of this

programme is a suitable opportunity for bringing about an effective coordination between credit and marketing activities within the Cooperative Movement. The long-term needs of the farmers will also have to be taken into consideration in these areas with a view to increase the production potential of the farms.

Rate of Interest

The rate of interest charged to the ultimate borrower varies from place to place and it is difficult to fix a uniform rate of interest for all primary organisations. The rate of interest should depend upon the rate of borrowing and the expenditure incurred by the Cooperative Organisations at various levels and should be permitted to vary from place to place according to the local conditions.

Safeguards for Emergencies

Even if all due precautions are taken in respect of credit operations, marketing the produce of members and recovery of loans, it is likely that the loans may not be recovered owing to unexpected conditions created by famine and other emergencies. In such circumstances, credit structure could be saved only if there are built-in safeguards to absorb the shocks caused by unexpected calamities. One of the methods of safeguarding the interest of farmers and Cooperative Societies in such calamities is the insurance of crop and cattle by farmers. Attempts have been made from time to time to introduce crop and cattle insurance on cooperative basis. However, owing to the vast areas to be covered by insurance, lack of existence of strong cooperative insurance organisations and the dependence of agriculture on the vagaries of nature, it is very difficult to make the insurance of cattle and crop an attractive proposition both to the farmers as well as to the Cooperative Societies. However, if Cooperative Insurance is introduced in selected areas and if it proves effective in providing adequate safeguards in emergencies it will create a very good example of the utility of insurance and will automatically induce other farmers to take to cattle and crop insurance.

Another method of providing safeguards for such emergencies is the creation of various funds for meeting the demands created by unforeseen circumstances. A beginning has been made in India in this direction with the starting of the Credit Stabilisation Fund in the Reserve Bank of India. Such funds are also being started by the Cooperative Societies at the Apex Central and Primary levels. The creation of such funds enables the societies to convert short term loans into medium or long term loans when the members are not able to repay the short term loans in time. This also enables the cooperative societies to recover the loans without dislocating their normal credit operations and the farmers to continue their farming operations uninterrupted.

Finally, the question of recovery of loans is also very closely linked with the loyalty and attitude of members towards their Cooperative Societies. Unless the members realise their responsibility in respect of the support that needs to be given to the society, it is difficult for the society to make progress. The loyalty of members could be ensured only if they understand their true role vis-a-vis the Cooperative Society, and this means that sufficient attention has to be paid to the education of members. Whatever the economic activities of the Cooperative Organisations, they have to be supplemented by educational efforts as the Cooperative Society is not only an economic organisation but an organisation formed for raising the status of the members in the society as a whole.

Relations with Other Credit Agencies

In Pakistan, besides the credit cooperatives, a number of organisations function for extending credit to farmers for production purposes. These agencies are the Agricultural Development Bank, the Small Industries Corporation and the Urban Cooperative Banks. In addition, taccavi loans are given by the Government to agriculturists for improvement of land, and at times when there are natural calamities.

The Agricultural Development Bank (formerly the Agricultural Development Finance Corporation and the Agricultural Cooperative Bank) extends credit to farmers through its branches at the taluka level. The credits given are in the shape of medium and long term loans. Short term loans above Rs.1000 are also given. The Bank also undertakes general banking business and is expected to give loans for buying of implements and marketing of agricultural produce. Loans against pledges and mortgages are also advanced. However, as this bank has to cater to the needs of the whole country, it is not possible for it to penetrate further into the rural areas at this stage.

As the Cooperative Movement in the country is able to meet only ten per cent of the total demand for agricultural credit, there is vast scope for the Agricultural Development Bank to grant credit for agricultural production. The conference discussed at length as to how the Bank could supplement the efforts of the Cooperative Societies in providing credit to all the creditworthy agriculturists. Fear was also expressed that the existence of various types of organisations leads to duplication of efforts and overlapping of functions in the field of Cooperative Credit. However if we have a close look at the problem it will be evident that there is scope for all these organizations working in the field and the question of overlapping of functions need not arise. The question is how best the activities of both these organisations could be coordinated so that they function as complementary to each other. Elimination of competition may not solve the problem of providing adequate credit. It is true that in the Indo-Pakistan Sub-Continent, the Governments have recognised the Cooperative Organisations as the agencies best suited for disbursement of credit to the farmers. Although at present the Cooperative Organisations are not the most efficient credit organisations it should be the endeavour of all agencies responsible for Cooperative Development to see that these bodies, in view of the special relevance they can have in helping the farmer, should develop into efficient economic units so as to gradually take over the entire loaning operations for agricultural production. In the mean time there is scope for all the organisations in this field.

The Agricultural Development Bank can concentrate very effectively on giving medium term and long term loans. If it is possible to do so, the necessity for starting a separate land mortgage bank in Pakistan may not arise. The Agricultural Development Bank can also grant loans for supply and marketing facilities to the farmers. It can usefully lend for developing subsidiary occupations for the farmers. These occupations could be village and cottage industries and allied economic activities in the rural areas. Also, till the Cooperative Organisations are able to meet the credit needs of the big farmers for production purposes, the Bank can continue to lend to such farmers as before.

The Agricultural Development Bank can play a very useful role in the development of the Cooperative Movement while continuing its operation of various types. It could also act as a promotional agency for the development of Cooperative Societies. The ultimate aim of this organisation should be the gradual withdrawal from the rural areas and its replacement by the Cooperative Credit Organisations.

In the Indo-Pakistan Sub-Continent the Cooperative Organisations get generous help from Governments by way of loans, subsidies and grants. In some areas the Governments have also accepted the principle of state-partnership in the Cooperative Organisations with a view to increasing the financial strength of these organisations. The State partnership is to be gradually withdrawn when the Cooperatives are able to stand on their own. However, despite of all these efforts, these organisations do not seem to grow in strength and have fallen into the habit of banking upon the government for assistance. It is not unlikely that to justify their need of Government help these organisations may never develop their resources and fulfill their obligations to the farmers. The critics of the Cooperative Movement might ask as to what extent an enterprise, although inefficient, should be maintained. It is likely that only faith might lead us to support the Cooperative activity. If this is the case, it will have a very adverse effect on the growth of the Cooperative Movement.

Although the Conference agreed in principle that there might be more than one organisation at the higher levels, it was felt that at the primary level there should be only one credit agency. All the credit to the farmers should as far as possible be channelled through the Cooperative Organisations even though the source for giving this credit may not be from within the Cooperative Movement. In areas, however, where the Cooperative Societies themselves are not developed, the Agricultural Development Bank may be required to give loans to farmers including short-term loans for production purposes.

A suggestion was also made that the Apex Cooperative Banks and the Agricultural Development Bank should be merged so that a single organisation might be responsible for providing Agricultural Credit to the farmers in the country. Whatever be the merits of the various arguments for and against the functioning of more than one credit organisations, it should be realised that the important thing in the credit policy of a country is the defining of objectives of such a policy. If the objectives are clearly defined, it should be possible for all the organizations to aim at the same goal viz. increasing agricultural production to the best advantage of the farmers. Then it should not be difficult to reconcile the activities of all the organisations in the field.

The taccavi loans given by the Government are mainly distress loans and may not come in the way of Cooperative Organisations. However, it is necessary to restrict the scope of these loans to the conditions created by natural calamities. If the Government decided to advance such loans for improvement of lands it should be an accepted policy of Government to channel these loans through Cooperative Organisations.

The Urban Cooperative Banks in Pakistan are located mainly in the Western Section of the country. Most of them are working on the same basis as commercial banks except for the fact that some of them advance loans to small industries. The majority of them advance loans to traders and industrialists. Loans are also advanced on mortgages. In India, some of the Urban Cooperative Banks have taken the role of financing the small scale industries and majority of them are organised to help the small traders and middle class people with regard to their credit needs.

It is difficult to visualise the role of the Urban Cooperative Banks in respect of agricultural credit. However, they have a function to perform in financing small scale industries in the rural areas and thereby helping the

farmers to supplement their income. If these banks are able to mobilise savings in urban areas for financing such activities, in rural areas it will be a very helpful supplementing activity to the credit operations of the Central Cooperative Banks and Primary Cooperative Societies. The financing of traders by urban banks may automatically affect the Consumers Cooperative Societies as traders are generally in direct competition with the various Consumers Cooperative Organisations functioning in the rural areas. Hence, it is necessary for the urban banks to rephrase their loan policy so as not to hinder the progress of the Consumers Cooperative Societies.

The Conference also discussed the problem of financing the Housing Cooperative Societies. The financing of Housing Cooperatives required long term finance and the Urban Cooperative Banks or other credit agencies were not suited for the purpose. It was necessary to have a separate Cooperative Organisation for financing Housing Cooperative Societies as in the case of India. In India the housing societies are also financed by Life Insurance Corporation of India and various credit agencies in the field especially the Cooperative Banks. In spite of all the efforts of the credit organisations, housing activity is not able to benefit from the cooperative structure to the extent expected and there is an urgent need for intensifying credit facilities in respect of Cooperative Housing Societies. In addition to the loans given by the credit agencies, it is necessary for the government to help the societies in acquiring lands and in securing material for construction of houses. Besides financing and help in supplying materials, it is also necessary to ensure rigorous standard of housing in the country so as to help in providing a decent standard of housing to all classes of people.

In some countries like Sweden, the Cooperative Movement has played a very useful role in promoting the growth of housing on sound lines. The Government also advances loans for building houses, but these loans are channelled through Cooperative Organizations. Very rigorous standard of housing are insisted upon. Fifty percent of the loans given are free of interest. The local authorities help in planning housing schemes and Cooperative Organisations are well-equipped in the technical matters pertaining to the construction of houses. The most important thing about housing activity in Sweden is that it is treated as a continuous activity and not as an activity to solve a temporary problem. A constant incentive to build houses is provided to cooperative societies and its members.

Personnel Management

The question of personnel management and problems relating to training and administration in the Cooperation Societies is of vital importance to the Cooperative Movement. The efficiency of the Movement could be ensured only through a trained cadre of employees and a healthy management structure at various levels. The system of recruiting employees in the movement to the various posts in the Indo-Pakistan Sub-Continent varies from place to place. But by and large, most of the societies at the lower level recruit their own staff. In case of societies at the higher levels, the Chief Executive Officers and Managers are Government servants who have been sent on deputation to work with the Cooperative Societies. In a few States in India and Pakistan, direct recruitment of senior officers is made by the Cooperative Movement itself.



The question of recruitment of staff is very relevant to the problem of efficiency in the Cooperative Movement. On the one hand, if the societies are permitted to recruit their own staff, it is sometimes likely that suitable persons are not appointed for the post; on the other hand, if appointments are made by other agencies, the right of the Managing Committee to appoint its own staff is violated. However, in order to bring about a better coordination within the Cooperative Movement, it is necessary to evolve some sort of a cadre for organisations below district level and provide employees to various Cooperative Organisations out of this cadre. The senior officers are usually appointed by the Government. However if a suitable machinery is evolved within the Cooperative Movement to select personnel for various types of Cooperative Organisations, it would be possible to provide efficient staff to all sections of the Movement as and when required. This recruitment activity can very well be linked to the education of personnel selected, and only after they are educated will they be sent to the cooperative societies for various purposes.

It is likely that State partnership may compel the Government to insist on the society to accept a Government officer as an Executive Officer. However, if the movement is able to evolve its own selection machinery it will be possible for the Government also to rely on this selection rather than insist on its own officers being appointed to various posts.

The question of relations between the employee and the management has engaged the attention of the Cooperative Movement in the various parts of the world for a long time. The cordial relations between the two sections of the management are of vital importance to the running of Cooperative Societies. The question can be solved only if a proper division of functions between the two is affected. The tendency to encroach upon the spheres of others will have to be gradually checked. The managing committees will have to increasingly rely on the knowledge and advice of its trained and efficient personnel. It is also necessary in the interest of efficiency to delegate authority and powers to responsible officers within the Movement and to leave only the broad question of policy to the management for decision.

The Cooperative Movement suffers also from lack of initiative in recruiting personnel from the open market. Most of the commercial organisations recruit personnel from amongst the highly educated classes for manning various important positions in their organizations. They also concentrate on the training of these personnel after selection. The salaries given to the employees of private organisations are also comparatively higher than those given by the Cooperative Organisations. The Cooperative Movement will have to do some thinking in the matter of selection of proper personnel for its organisations. It is also necessary to insist on certain qualifications for recruitment.

The Cooperative Movement can achieve this objective only if it looks beyond the economic activity which is of immediate concern to all Cooperative Societies. The Cooperative Societies aim at increasing the standard of living of the people and at raising their status in society. This could be achieved only if the personnel working in the Cooperative Movement realised the true role of a Cooperative Organisation and helped the members in realising this aim by devoting themselves to the service of membership of the Movement as a whole. The Cooperative **Service** is something more than merely a bread-earning activity. The Cooperative Personnel should be taken into confidence within the Movement so that the artificial distinction between the members and employees of the societies gradually disappears and all persons working for the Movement are considered as equal partners in the cause which is so dear to us all.

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List of Subjects discussed at the Conference on
Cooperative Credit

1. Cooperative Credit Structure.
 - a. What should be the number of tiers in cooperative credit structure?
 - b. What should be composition of the apex and district central banks?
 - c. Should membership of apex and central banks be restricted to societies or may it include individuals also?
 - d. Whether the liability of shareholders at primary level should be limited or unlimited?
2. Loaning Policies of Cooperative Institutions at apex, secondary and primary levels.
 - a. Should secondary institutions (central cooperative banks) advance loans to individuals?
 - b. Should loans be advanced to non-members?
 - c. What should be the nature of Security?
3. Problems of recovery.
4. Relationship of credit cooperatives with other institutional credit agencies :-
 - a. Agricultural Development Bank
 - b. State Bank (Central Bank of the Country)
 - c. Government (Taccavi loans)
 - d. Other agencies
5. Role of Cooperative Credit in respect of : -
 - a. Settlers in new areas and colonies.
 - b. Tenants who become proprietors under land reforms.
6. Problems of Cooperative Credit in urban and industrial sector.
 - a. Organizational and functional
 - b. Size and area of operation of an urban bank
 - c. Credit for small and cottage industries and trade
 - d. Credit for housing.
7. What should be the nomenclature of the Cooperative institutions undertaking banking business.

Should the word "bank" or its derivative be used in any primary cooperative society e.g. urban and mercantile cooperative banks industrial cooperative banks, taluka and zamindari banks.

8. Rate of interest at various levels in a Cooperative Credit structure.
 - a. What should be the rate of interest on deposits
 - b. What rate of interest should be charged on individuals; should it vary with the nature of security?

9. Problems of personnel management.
 - a. Should cadres of service in cooperative credit institutions be integrated? If so, at what levels.

 - b. What measures should be adopted to ensure interest, efficiency and honesty of employees.

Presentation of country statements indicating existing systems with special mention of problems confronting them and their solutions.